

**Item 1. Cover Page**

**Consulting Services and Financial  
Planning Disclosure Brochure  
Form ADV Part 2A**

**SII INVESTMENTS, INC.®**

5555 W. Grande Market Drive

Appleton, WI 54913

(800) 426-5975

[www.siionline.com](http://www.siionline.com)

September 19, 2014

This brochure provides information about the qualifications and business practices of SII Investments, Inc.®. If you have any questions about the contents of this brochure, please contact us at the above phone number. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about SII Investments, Inc.® ("SII") is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

SII Investments, Inc.® is an SEC-registered investment advisor; however, registration itself does not imply a certain level of skill or training.

## **Item 2. Material Changes**

We may update this document at any time but are required to promptly send clients a copy of any material changes to our disclosures upon doing so. In addition, we will also deliver an annual summary of all material changes that occur to this brochure along with an offer to provide you with a current version.

You may request copies of this document by contacting us at (800) 426-5975, e-mailing us at [advisory@siionline.com](mailto:advisory@siionline.com), or downloading it from our website at [www.siionline.com](http://www.siionline.com) or the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## **Item 4. Advisory Business**

### **Overview of Firm**

SII Investments, Inc.<sup>®</sup> (“SII”) is an investment advisor registered with the SEC that provides a range of investment advisory services to clients through its licensed Investment Advisor Representatives (“Representatives”). SII and its Representative may be referred to as “us,” “we” or “our” in this document, and clients may be referred to as “you” and “your.” SII has been in business since 1969 and is a direct subsidiary of National Planning Holdings, Inc., which is a Delaware based holding company that itself is an indirect subsidiary of the Prudential plc, a company incorporated in England and Wales. Prudential plc and its affiliated companies constitute one of the world’s leading financial services groups. It provides insurance and financial services through its subsidiaries and affiliates throughout the world. Prudential plc is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

### **Overview of Consulting and Financial Services Program**

Although SII also offers brokerage and certain other investment advisory programs and related services, this document is limited to describing the consulting and financial planning services we provide to clients (collectively “Services”). These Services are intended to assist clients seeking (i) generalized investment “education” and guidance to assist in guiding investment decisions, (ii) specific investment “advice” and recommendations regarding your investments and (iii) preparation of a financial plan designed to assist clients in identifying specific long-term financial objectives and needs. The Services are not exclusive and may involve the provision of consulting services in conjunction with preparation of a financial plan depending upon the arrangement discussed with your Representative. We may also provide Services to retirement plans and plan participants, and in the case of certain qualified accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), we may either act as a fiduciary or non-fiduciary depending upon the particular Services provided and as expressly identified in our Consulting Services Agreements and our Financial Planning Services Agreement.

As noted above, the level of investment guidance provided through our consulting services will vary depending upon the particular arrangement. Services may consist of non-customized, general financial guidance delivered to a client without recommending or directing them to a specific investment option, and may include an explanation of investment concepts and strategies, asset allocation modeling, assistance with interpreting investment performance reports, and the use of interactive investment materials to assist with investment decisions. Representatives may also provide clients with specific investment product recommendations.

Services may involve a broader assessment of a clients overall financial situation and income needs and goals. Such may include focused planning arrangements in areas such as retirement planning, estate planning, college planning, cash flow analysis, or analysis with regard to investment of lump sum distributions from employer retirement and profit sharing plans. In the case of preparing a financial plan, a report will be delivered by the Representative analyzing the client’s financial information, such as their current assets and investments, liabilities, short and long-term capital and liquidity needs, risk tolerance, and short and long-term financial goals and objectives. If a client wishes to implement the

recommendations contained in a financial plan, SII suggests that the client work closely with his or her attorney, accountant, insurance agent and/or securities broker.

Although the scope of Services may include your Representative making recommendations with respect to specific investment products or services, the decision to implement any such recommendation rests exclusively with the client, and the client has no obligation to implement any such recommendation. Further, neither SII nor your Representative are permitted to effect any trades on your behalf with respect to any specific securities recommendations or Services outlined in this Brochure, and you will be required to initiate all purchases and sales of securities in your portfolio directly with the applicable third party custodian or trading platform.

As you should be aware, all investment programs involve risk and there is no guarantee that using our Services will produce favorable results. Please carefully review the information and statements contained in any investment related materials or the particular financial plan presented by our Representative, and be sure to ask them for assistance in clarifying any questions you may have regarding the information you receive.

#### **Individual Investment Approach; Investment Profile Information**

The investment Services we offer to each client will vary in type and complexity, depending on a client's individual investment goals and circumstances. Generally, our Services begin with the Representative gathering information from you regarding your financial circumstances, investment objectives and risk tolerance, which together we refer to as the "Investment Profile Information." This information assists the Representative in determining which Services and investments are most appropriate to recommend. It is important that you provide accurate and complete responses to the questions asked by the Representative in gathering your Investment Profile Information, and that you promptly inform the Representative of any subsequent changes to your Investment Profile Information.

#### **Assets Under Management**

SII has \$2,646,156,037 in discretionary assets under management and \$628,223,778 in non-discretionary assets under management, calculated as of December 31, 2013.

### **Item 5. Fees and Compensation**

The fees for our Services are negotiated between the Representative and client and will vary depending on the scope of the particular Services desired. Fees may be charged on an hourly basis or as a fixed fee for the Services. All fee arrangements are negotiable and SII and its Representatives may agree to waive certain fees either on an ongoing or a one-time basis. Your specific fees will be detailed in the fee schedule to your Consulting Services and/or Financial Planning Services Agreement, and any pre-paid fees will be reimbursed on a pro-rata basis upon its termination.

**Fee Payment.** Your Representative will assess and collect fee payments either from you directly via an itemized billing statement or from the applicable custodian of your investment account as may be authorized separately by you. Any fee payments to your Representative must be made payable to SII and should never name your Representative or

your Representative's business entity as the payee. Fees may be collected either in advance or after Services have been provided as negotiated between you and your Representative.

**Third Party Fees.** Certain investment products and programs may have separate or internal fees and costs which are not assessed or received by SII or your Representative. These include clearing firm fees, third party investment advisory fees, internal mutual fund operating expenses, and management fees assessed by sponsors of other types of investment products.. The prospectus or offering documents for mutual funds, annuities, REITs or other investments will detail the fees and charges assessed by the managers of those products. In addition, there may be tax effects relating to fund share redemptions or the cancellation of policies made by or on behalf of clients, as well as deferred sales charges or redemption fees where investment positions are sold prior to the expiration of a specified holding period.

- a. Compensation for Other Investment Products and Services.** In the course of providing our Services, Representatives may recommend other investment products and programs offered through SII for which we receive direct and indirect forms of compensation. Such compensation may be payable to us in the form of sales commissions, distribution fees or administrative servicing fees we receive from the sponsors of certain investment products, as well as separate fees we charge for enrollment in our other investment advisory programs. The receipt of this type of compensation presents a conflict of interest and gives us an incentive to recommend investment products and programs based on the compensation received, rather than on a client's needs. Please see Items 10 and 14 below for additional detail regarding our receipt of this type of compensation, the conflicts it creates, and how we address these conflicts.
- b. Compensation for Outside Business Activities.** In addition to providing Services on behalf of SII, certain Representatives may also recommend and provide additional services outside of SII through unrelated businesses with which they are associated, such as a separately registered investment advisor firms, accounting, tax preparation and other financial related services. These outside business activities typically involve separate charges from those fees payable to SII for our Services, and presents a conflict of interest to the extent that your Representative may have a financial incentive in recommending its separate services from those available through SII or other service providers. Please see Items 10 and 14 below for additional details about conflicts of interest, and review your Representative's Form ADV, Part 2B to verify whether they engage in any such outside business activities.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

SII does not assess fees based on the performance of assets for which your Representative is providing you with our Services.

## **Item 7. Types of Clients**

SII provides its advisory services to a variety of different client types, including individuals, corporate entities, trusts, and retirement plans and their participants. Representatives reserve the right to require minimum asset requirements they elect to service.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

Our Representatives may rely on a number of tools to assist in recommending or selecting an investment strategy to clients, including asset allocation and portfolio modeling software that assists with their analysis of investment options when recommending or purchasing investments for your portfolio. Although our Services are generally designed for long-term investing in which investment positions are maintained for a longer period of time (also referred to as “strategic” investing), short-term investment strategies which aim to take advantage of frequent market movements (also referred to as “tactical” investing) may also be recommended to accommodate certain circumstances. Investment returns, particularly over shorter time periods, are highly dependent on the value of securities within an investment portfolio which are impacted by trends in the various investment markets. As a result, our Services are generally more suited for investors seeking long-term investment objectives or strategies, rather than for short-term trading purposes, although short-term investment strategy recommendations may be made available by Representative to accommodate certain needs or circumstances.

SII may provide investment advice concerning various types of investments, including, equity securities (exchange-listed securities, securities traded over-the-counter, and foreign issuer securities trading as American Depositary Receipts), warrants, commercial paper, corporate debt securities (other than commercial paper), certificates of deposit, municipal securities, investment company securities, variable annuities, variable life insurance, U.S. Government securities, option contracts, fixed insurance, unit investment trusts, exchange-traded funds, interests in partnerships involving real estate, oil and gas, certain types of structured investment products, and other investments, depending upon a client’s Investment Profile Information.

Investing in securities and other investment products involves inherent risks, including the possible loss of the total principal amount invested. Although we seek to achieve the investment objectives and financial goals, past investment performance does not guarantee future results and we are unable to make any guarantees to clients with respect to avoiding monetary losses. These risks apply to both strategic long term and shorter term tactical approaches to investing. Clients should carefully read the terms of all agreements, product offering documents and related disclosures provided either by SII, third party investment advisors or product sponsors to better understand the risks associated with any investment programs or products under consideration.

## **Item 9. Disciplinary Information**

The disclosure requirements of this document require that SII disclose the following disciplinary information for your consideration:

**October 27, 2005 NASD Censure and Fine of \$20,000**—SII was deemed to have insufficient supervisory procedures in connection with preventing Representatives from engaging in private securities transactions.

**September 23, 2005 NASD Censure and Fine of \$658,500**—Between January 2001 and December 2003, SII received fees for providing certain mutual funds with enhanced marketing opportunities to our Representatives, although we did not actually execute any trades for these mutual funds.

**July 26, 2004 NASD Censure and Fine of \$25,000**—SII consented without admitting or denying the allegations that our supervisory policies and procedures and documentation of variable product sales were insufficient.

**July 14, 2004 Securities Commissioner of the State of Kansas Stipulation and Consent Censure Payment of \$50,000 Payment (not deemed a fine) to State's Investor Education Fund**—SII agreed to an allegation that we failed to reasonably supervise an individual Representative.

**May 26, 2004 NASD Censure and Fine of \$100,000**—SII consented to a finding without admitting or denying allegations that our supervisory system and written procedures were insufficient to ensure that mutual fund orders received after the close of the market were processed at the next day's net asset value.

## **Item 10. Other Financial Industry Activities and Affiliations**

SII is an indirect, wholly owned subsidiary of Prudential plc, an international financial services group with operations in the United Kingdom, Europe, Asia, and the United States. We are affiliated by common ownership with a variety of financial services companies, including the following:

### **Broker-Dealers**

Investment Centers of America, Inc. ("ICA"), IFC Holdings, Inc. d/b/a INVEST Financial Corporation ("IFC"), National Planning Corporation® ("NPC®") and Curian Clearing, LLC are each registered as a broker-dealer and/or an investment advisor with the SEC and various state securities agencies, and each is a member firm of the Financial Industry Regulatory Authority ("FINRA").

Jackson National Life Distributors LLC ("JNLD") is a broker-dealer registered with the SEC and member firm of FINRA. JNLD acts as principal underwriter of variable insurance products issued by Jackson National Life Insurance Company® ("JNL®") and Jackson National Life Insurance Company of New York® ("JNLNY"). See also "Insurance Companies/Investment Companies" below.

Certain of our executive officers and directors also serve as officers and/or directors of these affiliated entities.



**Insurance Companies/Investment Companies**

JNL® and JNLNY issue variable annuity and life insurance products that are registered under the Investment Company Act of 1940, as amended. The separate accounts of JNL® and JNLNY that issue variable products are similarly registered as investment companies.

Brooke Life Insurance Company® is an insurance company offering traditional life insurance and annuity products.

**Investment Advisors**

ICA, IFC, NPC®, and Curian Capital, LLC are each affiliated with SII and investment advisors registered with the SEC.

Jackson National Asset Management, LLC® (“JNAM”) is an investment advisor registered with the SEC that serves as investment advisor to: the JNL Series Trust, the JNL Investors Series Trust, the JNL Variable Fund, LLC, the JNL Variable Fund III, LLC, the JNL Variable Fund IV, LLC, and the JNL Variable Fund V, LLC and (with respect to JNLNY) the JNLNY Variable Fund I, LLC, and the JNLNY Variable Fund II, LLC.

PPM America, Inc. (“PPM”) is an investment advisor registered with the SEC that serves as the investment manager for the general accounts of JNL® and JNLNY and as a sub-advisor to certain series of the JNL Series Trust and JNL Investors Series Trust. M&G Investment Management Ltd. is also a registered investment advisor that offers advisory and investment management services to investors, institutions, trusts, and investment companies.

**Referrals to Other Investment Advisors; Conflicts of Interest**

In providing our Services, Representatives may recommend investment products and programs offered by our affiliates, Curian Capital, LLC and Jackson National Life Insurance. Representatives may also recommend services offered through investment advisory firms that are unaffiliated with SII from which we may receive direct and/or indirect compensation, including outside registered investment advisor firms with which your Representative may be separately associated. This presents a conflict of interest where we have a financial incentive to recommend certain investment products or programs that result in increased compensation versus other similar offerings that may be available.

SII monitors the sales practices and all forms of direct and indirect compensation received by our Representatives when acting on our behalf to ensure they are acting in compliance with SII’s policies and procedures, which are designed to prevent abuses, and to ensure that any recommendations or compensation are within industry standards and compliant with securities laws, rules and regulations. As noted, certain Representatives may also be associated with outside investment advisor firms or other businesses that are separate from SII, and we encourage you to review their Form ADV, Part 2A brochure (where applicable for outside investment advisor firms) and to otherwise discuss the presence and handling of any potential conflicts of interest with them.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

SII maintains a Code of Ethics in compliance with SEC requirements that is available upon request from SII or your Representative. The Code of Ethics applies to all SII Representatives and covered personnel and is designed to ensure we fulfill our fiduciary duty to clients by always acting in their best interest, avoiding conflicts of interest, and maintaining a strong culture of compliance by following all securities laws, rules and regulations. Among the specific areas addressed by our Code of Ethics as it relates to our Representatives and covered personnel are:

- Pre-approval and reporting of personal securities transactions;
- Restrictions on initial public offering and private placement purchases to prevent unfair investment advantage;
- Insider trading prohibitions to prevent use of non-public information for unfair investment advantage;
- Reporting of gifts and business entertainment; and
- Penalties assessed for Code of Ethics violations to ensure its enforcement.

We may recommend investment advisory services offered by our affiliate, Curian Capital, LLC, or certain insurance products which are sponsored by another affiliate, Jackson National Life Insurance. This may present a conflict of interest since we have a financial incentive to recommend affiliated investment offerings that result in increased compensation versus other similar offerings that may be available. We may also engage transactions for our accounts or the accounts of others involving the same investments we recommend for our clients. SII monitors the sales practices and all forms of direct and indirect compensation received by our Representatives when acting on our behalf to ensure they are acting in compliance with SII's policies and procedures, which are designed to prevent abuses, and to ensure that any recommendations or compensation are within industry standards and compliant with securities laws, rules and regulations.

SII, Representatives and our affiliates may have a conflict in our role as an investment advisor for other clients and our own accounts to the extent we may initiate competing securities transactions for these clients or our accounts. The investment actions taken may also differ from the recommendations or selections we provide to you. We are not obligated to acquire for your account any investments that may be purchased on behalf of other clients or our own accounts, and you shall have no first refusal, co-investment, or other rights in any such investment. However, we strive to act in good faith and attempt to allocate investment opportunities to you over a period of time on a fair and reasonable basis relative to other clients and our own accounts, and based on your Investment Information Profile.

Please refer to Items 5(a) – (b), 10 and 14 for more detailed information on these and various other potential conflicts of interest and how we address them.

## **Item 12. Brokerage Practices**

The Services outlined in this Brochure typically involve pre-existing arrangements between you and a third party custodian where your assets are maintained. Accordingly, SII does not provide brokerage services and its Representatives are prohibited from effecting any securities purchases or sales on your behalf. Please note that your clearing firm may assess various charges for its services, including without limitation, brokerage transaction fees, cashiering fees, account maintenance fees and such other fees set forth in its fee schedule. In the course of providing the Services, Representatives may recommend separate investment products and programs available through our trading platform where we do provide brokerage services, the details of which will be addressed separately in the respective Form ADV, Part 2A brochure for these programs where applicable.

## **Item 13. Review of Accounts**

Depending upon the scope of Services negotiated with your Representative, SII's home office personnel, our Office of Supervisory Jurisdiction Branch Managers (referred to as "OSJs"), and our Representatives may review a client's Investment Profile and portfolio to identify situations that may warrant either a more detailed review or specific action on behalf of our clients. These reviews typically occur at the outset of our relationship with you and remain limited given our lack of access to transaction and portfolio information for accounts maintained through third party investment platforms.

Your Representative may also provide you with a financial plan, performance reports or aggregated holdings reports using third party software applications or tools. SII does not verify performance data or the accuracy of information contained in such third party reports.

You should receive periodic account statements directly from the third party qualified custodian of your assets, as applicable. These are your official account statements for valuation, tax and all other purposes. We encourage you to review the transactions, positions and valuations for accuracy, and to compare this information with any reports you may receive from SII or your Representative. The information contained in your official custodial account statements may vary slightly with that contained in other statements or performance reports you receive, due to differences in the computing method, timing of calculation, and source of valuations.

## **Item 14. Client Referrals and Other Compensation**

Clients need to be aware of and consider potential conflicts of interest related to direct and indirect forms of compensation and benefits SII and our Representatives may receive from third parties in connection with the sale of investment products and services to clients. These forms of compensation are in addition to client consulting fees we receive for the Services and create an incentive to recommend certain investment products based on the potential compensation received rather than on a client's needs.

SII maintains a Code of Ethics (see Item 11 above) and policies and procedures that are designed to ensure our Representatives act in the best interest of clients at all times.

Representatives are limited in their ability to receive both an advisory fee and asset-based sales compensation or commissions (also referred to as “double-dipping”), and we closely monitor our Representatives’ sales practices and all forms of direct and indirect compensation received to ensure they act in compliance with our policies and procedures, industry standards, and all securities laws, rules and regulations governing sales compensation practices. As noted previously, we encourage you to discuss their practices with respect to any outside business activities they are engaged which are unrelated to SII and fall outside the scope of our supervision.

In addition to providing advisory services through the Consulting Services Program, our Representatives may also sell clients securities products and other investment and insurance products in their capacity as SII registered broker-dealer Representatives and as licensed insurance agents. We receive additional compensation in connection with this activity and the amount of compensation will depend on the type of product purchased. Representatives acting on behalf of SII in a broker-dealer capacity (as opposed to investment advisor) and/or an insurance agency will have a greater financial incentive to sell certain products as opposed to others (for example, a product issued by an affiliate and in the case of mutual funds those that have a higher 12b-1 fee than others). While securities sales effected through SII are reviewed to confirm they are suitable for a client’s Investment Profile Information by an appointed supervisor of SII, clients should be aware of these incentives.

**Other Investment Products and Programs.** In the course of providing Services, Representatives may recommend certain investment products or other services for which we receive direct and indirect compensation. This may occur if our Representative recommends other investment advisory programs or brokerage services offered through SII for which they may earn additional fees or commissions. As noted, Representatives may also be engaged or affiliated with outside business activities unrelated and unsupervised by SII, including outside registered investment advisor firms, accounting, tax preparation, and other financial related services. We encourage you to review your Representative’s Form ADV, Part 2B to verify whether they are engaged in any outside business activities, and to discuss with them the handling of any potential conflicts of interest that may exist outside of SII. Please also review Items 5(a) – (b), 10 and 11 above.

**Payments to Solicitors.** SII may utilize the services of approved individuals who act as solicitors for purposes of referring clients to us in accordance with SEC regulations and applicable state securities law. These solicitors will generally be paid a portion of the ongoing consulting fee charged to the client by SII. Clients referred to SII by a solicitor will not be charged a referral fee and shall remain subject to the same advisory fee schedule as non-referred clients, as set forth above. These solicitation arrangements are required to be disclosed to clients at the time of the referral in a document outlining SII’s solicitation compensation arrangement with the particular solicitor.

## **Item 15. Custody**

SII does not provide or arrange for custody of client investment assets with respect to the Services outlined in this Brochure.

## **Item 16. Investment Discretion**

SII and its Representatives do not have any investment discretion and are prohibited from purchasing or selling any securities or other investments on behalf of clients with respect to the Services outlined in this Brochure.

## **Item 17. Voting Client Securities**

When a client owns stock, they become a shareholder of that company that issues the stock. As a shareholder, clients may have the right to exercise a vote with respect to various corporate matters involving the management of the company in which they hold shares. Rather than doing so directly, clients may grant a “proxy” to enable another person or entity to vote on such matters on their behalf.

SII and its Representatives will not (a) vote proxies related to any investments held client accounts or (b) participate in any legal proceedings involving investments held in client accounts, or that involve the sponsors or issuers of any investments (including bankruptcy proceedings). In the event SII or your Representative receive any such materials on behalf of a client, we will send all proxy and legal proceeding related documents received to the client or, as applicable, designee so that the client may act upon the materials.

## **Item 18. Financial Information**

Attached for your review is SII’s balance sheet outlining its financial condition.

**SII INVESTMENTS, INC.**

(An Indirect, Wholly Owned Subsidiary of Prudential plc)

(SEC Identification No. 8-13963)

Statement of Financial Condition

December 31, 2013

(With Report of Independent Registered Public Accounting Firm Thereon)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	March 31, 2016
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8- 13963

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 January 1, 2013 AND ENDING December 31, 2013  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: SII Investments, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

5555 Grande Market Drive

(No. and Street)

Appleton, WI 54913

(City)

(State)

(Zip Code)

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

Vanessa Lambrechts 310-899-8672

(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.

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)

## OATH OR AFFIRMATION

I, Vanessa Lambrechts, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SII Investments, Inc., as of December 31, 2013, 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:

\_\_\_\_\_

\_\_\_\_\_

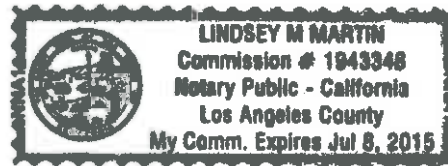
\_\_\_\_\_

  
Signature

VP, Controller

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).**



**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

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

## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder  
SII Investments, Inc.:

We have audited the accompanying statement of financial condition of SII Investments, Inc. (an indirect, wholly owned subsidiary of Prudential plc) as of December 31, 2013, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 of the Commodity Exchange Act, and the related notes to the statement of financial condition (the financial statement).

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on the 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 financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statement referred to above presents fairly in all material respects, the financial position of SII Investments, Inc. as of December 31, 2013, in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

February 21, 2014

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Statement of Financial Condition

December 31, 2013

**Assets**

Cash and cash equivalents	\$ 18,696,440
Marketable securities	11,940
Commissions receivable	7,601,877
Investment advisory receivable	1,613,044
Forgivable notes receivable, net of accumulated amortization of \$7,055,401	6,919,068
Other receivables	1,096,050
Receivables from registered representatives, net of allowance of \$916,274	979,539
Income taxes receivable	725,580
Deferred tax assets	13,391,330
Fixed assets, net of accumulated depreciation of \$2,177,885	114,467
Prepaid expenses and other assets	693,077
Goodwill	7,658,095
	<hr/>
Total assets	\$ 59,500,507
	<hr/> <hr/>

**Liabilities and Stockholder's Equity**

Liabilities:	
Drafts payable	\$ 181,474
Commissions payable	7,480,773
Investment advisory payable	1,509,203
Accounts payable and other accrued expenses	2,875,501
Due to affiliates	40,634
	<hr/>
Total liabilities	12,087,585
Stockholder's equity	47,412,922
	<hr/>
Total liabilities and stockholder's equity	\$ 59,500,507
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See accompanying notes to the statement of financial condition.

**SII INVESTMENTS, INC.**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to the Statement of Financial Condition

December 31, 2013

**(1) Organization**

SII Investments, Inc. (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 and investment advisor with the Securities and Exchange Commission (SEC), a registered broker-dealer with 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.

The Company has evaluated events occurring after the balance sheet date (subsequent events) through February 21, 2014, the date the statement of financial condition was available to be issued, to determine whether any subsequent events necessitated adjustment to or disclosure in the statement of financial condition. No such events were identified.

**(2) Significant Accounting Policies**

**(a) *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 \$17,660,327 in money market accounts and \$234,500 in money market funds. Cash held in banks periodically exceeds the Federal Deposit Insurance Corporation's (FDIC) insurance coverage of \$250,000, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage.

**(b) *Marketable Securities***

Securities are carried at fair value based on quoted market prices and are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date, and interest is recorded on the accrual basis.

**(c) *Drafts Payable***

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

**(d) *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 equipment, leasehold improvements, and computer hardware and software, which are depreciated over three to seven years. Leasehold improvements are depreciated over the shorter of the estimated useful life or the lease term.

**(e) *Goodwill***

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination. Goodwill is reviewed for impairment at least annually. An entity has the option to perform a qualitative assessment to determine whether it is more likely

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than not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required. If the two-step goodwill impairment test is required, first, the fair value of the enterprise is compared with its carrying value (including goodwill). If the fair value of the enterprise is less than its carrying value, an indication of goodwill impairment exists and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the enterprise's goodwill over the fair value of that goodwill. The fair value of goodwill is determined by allocating the fair value of the enterprise in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the enterprise's goodwill.

During 2013, the Company performed a qualitative assessment of goodwill and determined that it is not more likely than not that the fair value of the Company is less than the carrying amount. Accordingly, no impairment was recorded in 2013.

**(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. 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 Holdco 1 Inc. (BH1), an indirect, wholly owned subsidiary of Prudential plc. The Company's tax-sharing agreement with BH1 is based on the separate return method and intercompany income taxes are settled on an annual basis. The Company files combined state tax returns in approximately 20 states and separate state income tax returns for the other states that the Company is required to file income tax returns. The Company does not have a right to reimbursement for the utilization of its losses in the federal consolidated tax return.

**(g) *Receivable from Registered Representatives***

Receivable from registered representatives relates to outstanding balances from representatives and forgivable notes offered to registered representatives who have not achieved a predetermined percentage of the agreed-upon gross dealer concessions and must pay down a portion of the note. 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 representative. Upon

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Notes to the Statement of Financial Condition

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reclassification, the receivable accrues interest at the stated rate of the note. The Company has not and does not intend to sell these receivables.

The allowance for doubtful accounts is the Company's best estimate of the amount of credit losses in the Company's existing receivable from registered representatives. The allowance is determined on an individual receivable basis upon review of the probability that a registered representative will not repay all principal and interest contractually due. A receivable is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, including contractual interest payments. The Company does not accrue interest when a receivable is considered impaired. When ultimate collectability of the principal balance of the impaired receivable is in doubt, all cash receipts on impaired receivables are applied to reduce the principal amount of such receivables until principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance. Receivables are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

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

The preparation of the accompanying statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and the accompanying notes. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate.

**(i) *Fair Value Measurements***

The financial instruments of the Company are reported in the statement of financial condition at fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments. The Company has determined the fair value of money market funds and marketable securities using the market approach as these financial instruments trade in an active market.

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Notes to the Statement of Financial Condition

December 31, 2013

**(3) Income Taxes**

The tax effects of 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 loans	\$ 1,895,331
Allowance for doubtful accounts	348,748
Depreciation	91,393
Deferred compensation	10,864,916
Accrued vacation	75,095
Accrued rent	13,937
Accrued bonus	111,954
Commission held	21,033
Other	93,536
Total deferred tax assets	<u>13,515,943</u>
Deferred tax liabilities:	
Prepays	(121,148)
Unrealized gain on marketable securities	<u>(3,465)</u>
Total deferred tax liabilities	<u>(124,613)</u>
Net deferred tax assets	<u>\$ 13,391,330</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.

To date, the Company has generated a Michigan net operating loss of \$19,329. A valuation allowance has been placed against the state net operating loss deferred asset as of December 31, 2013 due to the uncertainty of its ultimate realization.

The Company has a state tax receivable of \$198,438 and a federal income tax receivable of \$527,142. As of December 31, 2013, there are no unrecognized tax benefits.

The federal income tax returns for tax years 2009 and 2010 are under examination by the Internal Revenue Service. The federal income tax returns for 2011 and 2012 remain open to examination. The Company does not believe it is probable that a significant change will occur within the coming year to its unrecognized tax benefits.

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**(4) Fair Value Measurements**

The Company's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with Accounting Standards Codification (ASC) 820-10, *Fair Value Measurement*. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

ASC 820-10 established a three-level hierarchy for fair value measurements that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The hierarchy level assigned to each security held by the Company is based on the assessment of the transparency and reliability of the inputs used in the valuation of such security at the measurement date. The three hierarchy levels are defined as follows:

- Level 1 – Valuations based on unadjusted quoted market prices in active markets for identical securities
- Level 2 – Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment

The Company has evaluated its investments in money market funds and marketable securities and determined that based on the unadjusted quoted market prices in active markets used to determine fair value that these are classified as Level 1 investments.

**(5) 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.

**(6) 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 a minimum "net capital" equivalent of \$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. As of December 31, 2013, the Company had net capital of \$14,496,779, which was \$14,246,779 in excess of its requirement.



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**(7) Forgivable Notes Receivable**

The Company holds forgivable notes from certain registered representatives. Under the terms of the forgivable notes, the principal is forgiven over a period of time, generally five to seven years. 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. Typically, when the representative does not achieve the minimum gross dealer concessions, but does achieve a predetermined percentage of the agreed-upon production levels, the term of the forgivable note may be extended. Under such circumstances, the unamortized balance of the note is amortized over the remaining term. Typically, 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.

The activity in the forgivable notes receivable balance comprises the following:

Balance as of December 31, 2012	\$ 7,741,702
Granted	2,526,750
Amended notes	(2,027,283)
Amortization	<u>(1,322,101)</u>
Balance as of December 31, 2013	<u><u>\$ 6,919,068</u></u>

During 2013, forgivable notes receivable totaling \$2,813,151 became fully amortized and were forgiven by the Company.

**(8) Receivables from Registered Representatives and Allowance for Doubtful Accounts**

Receivables from registered representatives with interest rates ranging from 3.0% to 4.7%. The receivables mature from March 20, 2014 through February 20, 2016	\$ 789,428
Other receivables from registered representatives	<u>190,111</u>
Receivables from registered representatives, net	<u><u>\$ 979,539</u></u>

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The activity in the allowance for doubtful accounts for receivables from registered representatives for the year ended December 31, 2013 comprises the following:

Allowance for doubtful accounts as of beginning of year	\$ 570,814
Additions charged to bad debt expense	355,460
Adjustments to the allowance	<u>(10,000)</u>
Allowance for doubtful accounts as of end of year	\$ <u><u>916,274</u></u>

**(9) Fixed Assets**

The major classifications of fixed assets are as follows:

Leasehold improvements	\$ 569,245
Office equipment, furniture, and fixtures	874,563
Computer hardware and software	<u>848,544</u>
Total fixed assets	2,292,352
Less accumulated depreciation	<u>(2,177,885)</u>
Fixed assets, net	\$ <u><u>114,467</u></u>

**(10) Defined Contribution Plans**

The Company participates with Jackson National Life Insurance Company (Jackson) (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.

**(11) Related-Party Transactions**

Jackson, an affiliate of NPH, allocates a portion of its leased office space to the Company based on the proportionate share that the Company utilizes for operations. The Company has committed to pay Jackson based on its proportionate share of leased office space through the term of Jackson's lease, and its current commitments are \$568,633 in years 2014 through 2016, and \$236,930 in 2017.

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 \$5,685,000 for federal income taxes for the year ended December 31, 2013.

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Notes to the Statement of Financial Condition

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**(12) Representative Deferred Compensation Program**

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

**(13) 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 or liquidity.