

CONSOLIDATED STATEMENT OF  
FINANCIAL CONDITION

Lincoln Investment Planning, Inc. and Subsidiaries  
December 31, 2009

With Report of Independent Registered Public  
Accounting Firm (*Pursuant to Rule 17a-5(e)(3)*)

Lincoln Investment Planning, Inc. and Subsidiaries

Consolidated Statement of Financial Condition

December 31, 2009

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## Report of Independent Registered Public Accounting Firm

Management  
Lincoln Investment Planning, Inc. and Subsidiaries

We have audited the accompanying consolidated statement of financial condition of Lincoln Investment Planning, Inc. and Subsidiaries (the Company) as of December 31, 2009. The statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on the statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included 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 the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, and evaluating the overall statement of financial condition presentation. We believe that our audit 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 consolidated financial position of Lincoln Investment Planning, Inc. and Subsidiaries at December 31, 2009, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

February 24, 2010

Lincoln Investment Planning, Inc. and Subsidiaries

Consolidated Statement of Financial Condition

December 31, 2009

**Assets**

Cash and cash equivalents	\$ 11,497,893
Cash – segregated under federal and other regulations	7,230,974
Securities owned, at market value (cost \$3,299,059)	3,364,094
Commissions receivable	1,915,642
Fees receivable	128,021
Advances to financial representatives, net of allowance for doubtful accounts of \$149,169	1,852,800
Receivables from providers	49,738
Receivables from customers	13,663
Prepaid expenses	424,818
Notes receivable, net of allowance for doubtful accounts of \$7,652	3,211,098
Furniture and fixtures, net of accumulated depreciation of \$63,132	15,315
Deposits with clearing organizations and others	54,491
Goodwill and other intangible assets, net of accumulated amortization	2,838,229
Other assets	545,616
Total assets	<u>\$ 33,142,392</u>

**Liabilities and stockholders' equity**

Liabilities:

Payables to customers	\$ 3,756,402
Commissions payable	1,993,137
Payables to retirement plan	462,722
Accounts payable and accrued expenses	4,308,857
Income taxes payable	62,272
Note payable	85,946
Deferred advisory revenue	65,322
Subchapter S distributions payable	678,400
Total liabilities	<u>11,413,058</u>

Stockholders' equity:

Capital stock:	
Voting; authorized 10,000 shares at \$.001 par; issued – 1,204 shares	1
Nonvoting; authorized 1,000,000 shares at \$.001 par; issued – 119,254 shares	119
Additional paid-in capital	570,306
Retained earnings	21,372,554
Less: Treasury stock – 12,511 shares at cost	(213,646)
Total stockholders' equity	<u>21,729,334</u>
Total liabilities and stockholders' equity	<u>\$ 33,142,392</u>

*See accompanying notes.*

# Lincoln Investment Planning, Inc. and Subsidiaries

## Notes to Consolidated Statement of Financial Condition

December 31, 2009

### **1. Organization**

Lincoln Investment Planning, Inc. and Subsidiaries (the Company) is in the business of providing financial services. Lincoln Investment Planning, Inc. (Lincoln) is a broker/dealer registered with the Financial Industry Regulatory Authority (FINRA) and an investment advisor registered with the U.S. Securities and Exchange Commission (SEC) and was incorporated in November 1968. The Company specializes in the sale of mutual funds to its retail investors with a particular focus on its clients' retirement needs. The Company's investment advisory services include strategic and tactical asset allocation programs. Customers are geographically located throughout the United States, with a primary concentration in the Eastern and Central regions.

LIP Holding, Inc. (LIPH) is a wholly owned subsidiary of Lincoln. The main business activities of LIPH include managing securities owned and collecting the income derived from those assets.

Linjersey, Inc. is a wholly owned subsidiary of Lincoln formed in January 2008. Linjersey, Inc. purchased the assets of a New Jersey-based financial services provider specializing in 403(b) retirement plans and individual IRAs.

Lingren, Inc. is a wholly owned subsidiary of Lincoln formed in February 2009. Lingren, Inc. purchased the assets of a Washington State-based financial services provider specializing in 403(b) retirement plans and individual IRAs.

Lincoln Acquisition Corporation (LAC) is a wholly owned subsidiary of Lincoln. LAC owns 100% of the stock of both Linmass, Inc. and Linchic, Inc. Linmass, Inc. acquired the assets of a Massachusetts-based broker/dealer and the book of business of that broker/dealer's majority shareholder. Linchic, Inc. purchased the assets of a Chicago-based financial services provider which was transacting securities business through Lincoln.

All securities business of Linmass, Inc., Linchic, Inc., Linjersey, Inc., and Lingren, Inc. is transacted through financial representatives registered with Lincoln.

### **2. Significant Accounting Policies**

#### **Basis of Presentation**

The consolidated statement of financial condition includes the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### **2. Significant Accounting Policies (continued)**

##### **Use of Estimates**

The preparation of consolidated statement of financial condition in conformity with U.S. generally accepted accounting principles 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 consolidated statement of financial condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Revenue Recognition**

Commission revenue is recognized on a trade-date basis as securities transactions occur.

Investment advisory fees, plan sponsor fees and related expenses are recognized ratably over the associated period for which the services are performed.

Administrative service fees are received from product sponsors to compensate the Company for making investment information available to Financial Representatives and investors and for providing certain shareholder communications. The Company receives the required information from the funds through NSCC networking arrangements. Such fees are recognized as the related services are provided. The Company also receives administrative fees from investors for the administration of 403(b) loans and certain salary reduction contributions.

Other income consists primarily of sales and marketing support received from certain product sponsors. Such amounts are recognized as revenue during the period in which the related sponsorship or marketing program occurs. Amounts receivable related to these services are included in fees receivable on the accompanying consolidated statement of financial condition.

##### **Cash and Cash Equivalents**

The Company has defined cash and cash equivalents as highly liquid investments with original maturities of less than 90 days.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### **2. Significant Accounting Policies (continued)**

##### **New Accounting Pronouncements**

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162*. The FASB Accounting Standards Codification (ASC) will be the single source of authoritative nongovernmental U.S. generally accepted accounting principles. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards are superseded as described in SFAS No. 168. All other accounting literature not included in the ASC is nonauthoritative. The Company has included references to authoritative accounting literature in accordance with the ASC. There are no other changes to the content of the Company's financial statements or disclosures as a result of implementing the ASC.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R) or ASC 805-10), which replaces SFAS No. 141. This statement requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and makes various modification in regard to the accounting for contingent consideration, pre-acquisition contingencies, purchased in-process research and development, acquisition-related transaction and restructuring costs and changes in tax valuation allowances and uncertainty as to income tax accruals. ASC 805-10 is effective for the fiscal year ended December 31, 2009 (see Footnote 3 for disclosure of the impact of this requirement).

##### **Income Taxes**

The Company has elected, with the consent of its stockholders, to be taxed under the provisions of Subchapter S of the Internal Revenue Code and Pennsylvania Revenue Code. Under these provisions, the Company does not pay federal or Pennsylvania corporate income taxes on its taxable income. Instead, the stockholders are liable for individual federal and Pennsylvania income taxes on their share of the Company's taxable income. The Company pays taxes in certain states where Subchapter S is not recognized. Distributions are made to shareholders to enable them to pay their taxes on the income of the Company.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### **2. Significant Accounting Policies (continued)**

In July 2006, the FASB issued FAS Interpretation (FIN) No. 48, *Accounting for Uncertainty in Incomes Taxes – an interpretation of FASB Statement No. 109* (FIN 48 or ASC 740-10). Under ASC 740-10, which became effective for the Company during the current year, recognition of a tax benefit occurs when a tax position is more-likely-than-not to be sustained upon examination, based solely on its technical merits. The recognized benefit is measured as the largest amount of benefit which is more-likely-than-not to be realized on ultimate settlement, based on a cumulative probability basis. A tax position failing to qualify for initial recognition is recognized in the first interim period in which it meets the ASC 740-10 statute of limitations. De-recognition of a previously recognized tax position would occur if it is subsequently determined that the tax position no longer meets the more-likely-than-not threshold of being sustained. The Company does not have any tax positions for which a liability has been established or is otherwise unrecognized.

#### **Fixed Assets**

Fixed assets include furniture and fixtures which are depreciated over the straight-line method over the estimated useful life of the assets of five years.

#### **Goodwill and Intangible Assets**

The Company accounts for goodwill and other intangible assets in accordance with the requirements of ASC 350-10 (pre-codification Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*). Goodwill is tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change, which would more likely than not reduce the fair value of the Company below its carrying value. The Company performed an annual impairment evaluation as of December 31, 2009 and noted there was no impairment to any of its intangible assets.

Customer lists are amortized over eight years. The Company performs periodic analyses and adjusts, through accelerated amortization, any impairment of customer lists. Covenants not to compete are amortized over the related contract term.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### 2. Significant Accounting Policies (continued)

##### Allowance for Doubtful Accounts

The Company provides for an allowance for doubtful accounts for advances to financial representatives and notes receivable based on experience and specifically identified risks. Advances to financial representatives and notes receivable are considered delinquent when management determines recovery is unlikely and the Company ceases collection efforts.

#### 3. Business Combination

On February 1, 2009, the Company, through its wholly owned subsidiary, Lingren, Inc., acquired certain of the assets of a financial services firm based in the State of Washington (the Seller) for total cash consideration of \$1,759,000. The Seller operated a branch office of a broker/dealer and provided financial services throughout the State of Washington through a network of approximately 50 financial representatives. A meaningful portion of the Seller's business was with school districts and included offering 403(b) retirement plans and other financial services to the employees of the school districts. Lincoln has specialized in serving the investment needs of employees of school districts and other nonprofit employers. The Seller acquisition expanded Lincoln's geographic coverage with a highly respected branch office in the State of Washington. In conjunction with the acquisition, the financial representatives and principals became licensed with Lincoln and the principals formed a management company which Lincoln hired to manage the branch office.

The purchase included the fixed assets, noncompete agreements with the Seller and its three principals, and goodwill related to both the principals and the Seller. The goodwill is based on the relationships with employers and financial representatives, who joined Lincoln. The acquisition date fair value was:

Fixed assets	\$ 3,447
Noncompete agreement	351,800
Financial representatives relationships	1,089,254
Other goodwill	314,499
Total	<u>\$ 1,759,000</u>

The Seller could receive additional consideration in the event certain branch income and broker/dealer revenue targets are met during any six-month period ending prior to February 1, 2011. In the event the contingent payment is made, the branch income threshold that is required prior to

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### **3. Business Combination (continued)**

paying compensation to the manager will be increased. If both targets are met or exceeded, the sellers will receive \$491,000 and the annual threshold for the paying manager compensation will be increased by \$80,000. If both thresholds are not met in full, there will be no additional purchase payment to the sellers. The Company evaluated the fair value of this contingent payment at the time of purchase and as of December 31, 2009, has not recorded a liability as the Company deemed it not to have value.

During 2009, the income resulting from the acquisition included \$170,000 in branch-level income and additional income at the broker/dealer level. The broker/dealer activity of the Seller has been combined with all other activity of the broker/dealer and as a result, it is impracticable to accurately measure the income solely from the Seller's activity.

#### **4. Cash – Segregated Under Federal Regulations**

Cash of \$7,230,974 is segregated for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.

#### **5. Retirement Plan**

The Company has a defined contribution profit-sharing and Section 401(k) salary deferral plan which covers employees who have attained the age of 18. Employees are eligible for the 401(k) salary deferral plan on the first day of employment and enroll on a quarterly basis. Employees are eligible for the profit-sharing component once they have completed 1,000 hours of service. The employee must also be employed on the last day of the plan year to receive the profit-sharing component.

Under the plan, eligible participating employees may elect to contribute up to the lesser of 75% of their salaries or \$16,500 with an opportunity for participants 50 years of age or older during the plan year to contribute an additional \$5,500. The Company contributes an amount equal to 50% to 100% of the participant's contribution up to 5% of compensation based on years of service. Participants are at all times fully vested in their contributions and Company contributions become fully vested to the participants after six years of continued employment.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### 6. Deferred Compensation Plan

In 2005, the Company adopted a deferred compensation plan for certain executives. This plan entitles certain eligible executives to a percentage of the appreciation in the estimated fair value of the Company as determined by a formula for periods subsequent to each participant's initial eligibility date. Such amounts are generally payable upon the retirement of the executive over a payment schedule ranging from 5 to 10 years, depending on the age of the executive upon termination. The total amount accrued for such plan was \$1,531,146 at December 31, 2009, which is included in accounts payable and other accrued expenses on the accompanying consolidated statement of financial condition.

#### 7. Goodwill and Other Intangible Assets

Goodwill and other intangible assets is comprised of the following:

Goodwill	\$ 676,860
Customer list and rep relationships	2,390,254
Covenant not to compete	551,800
Total	<u>3,618,914</u>
Less: accumulated amortization	<u>(780,685)</u>
Net	<u>\$ 2,838,229</u>

Goodwill is related to an acquisition of a business in the New England area in 2000 and a Washington State-based financial services provider during 2009 and is not amortized. The customer lists are related to the acquisition of a Chicago-based financial services provider during 2005 and a New Jersey-based financial services provider during 2008, and are being amortized over eight years. The Rep Relationship is related to the acquisition of the Washington State-based financial services provider and is not amortized. Non-amortized intangible assets are subject to periodic review for impairment, and are written down as applicable. The covenant not to compete is related to the acquisition of the Chicago-based financial services provider, the New Jersey-based financial services provider, and the Washington State-based financial services provider and is being amortized over 5 years.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### 8. Fair Value Measurements

The inputs and valuation techniques used to measure fair values of the Company's investments are summarized into three levels as described in the hierarchy below:

- Level 1 – Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Company has the ability to access at the measurement date;
- Level 2 – Quoted prices which are not active, or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3 – Prices, inputs or exotic modeling techniques that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those securities. The table that follows sets forth information about the level within the fair value hierarchy at which the Company's investments are measured at December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity Mutual Funds	\$ 3,303,058	\$ –	\$ –	\$ 3,303,058
Money Market Mutual Funds	61,036	–	–	61,036
Total	<u>\$ 3,364,094</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 3,364,094</u>

There were no Level 3 investments held at December 31, 2009 or December 31, 2008.

#### 9. Commissions and Other Fees Receivable

Commissions and other fees receivable arise from selling mutual fund shares and providing services to investors. Overall, the Company believes the concentration of credit risk is limited due to the number of funds in which their customers invest.

Securities owned by customers are held as collateral for receivables from customers. Such collateral is not reflected in the consolidated statement of financial condition.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### 10. Payables to Customers

Payables to customers include amounts due on cash transactions.

#### 11. Commitments and Contingencies

The Company conducts its operations in leased facilities under leases that expire at various dates. The Company's headquarters are in Wyncote, Pennsylvania. Sales offices are maintained in several other locations.

Future minimum rental commitments under lease agreements in effect at December 31, 2009 are as follows:

2010	\$ 1,377,877
2011	1,233,075
2012	1,059,496
2013	833,371
2014	443,598
2015 and thereafter	810,000
	<u>\$ 5,757,417</u>

The Company is involved in litigation arising from time to time in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of such litigation will not have a materially adverse effect on the Company's financial position or results of operations.

In the normal course of business, the Company has entered into agreements which provide for a variety of general indemnifications. Any exposure to the Company under these arrangements would involve future claims that may be made against the Company. Such claims are not expected to occur. Therefore, the Company has not accrued any liability in connection with such indemnifications.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### **12. Agreements with Carrying Broker**

The Company has entered into an agreement with a broker (the Carrying Broker) to execute certain securities transactions on behalf of its customers. The Company discloses these arrangements to its customers. The Company is subject to off-balance-sheet risk in that it may be responsible for losses incurred by the Carrying Broker that result from a customer's failure to complete securities transactions as provided for in the agreements.

#### **13. Related Party Transactions**

The Company leases its headquarters under an operating lease with 218 Glenside Partnership, Ltd. (the Partnership). Certain stockholders of the Company own the Partnership.

The Company rents computer equipment, other equipment and furniture and fixtures for its headquarters and other offices from For Lease, Inc., owned by certain stockholders. At December 31, 2009, the Company had a receivable for amounts due from For Lease, Inc. for \$315,000, which is reflected in other assets on the consolidated statement of financial condition.

The Company received administrative service fees from Lincoln Investment Planning Insurance Agency, Inc., corporations owned by the Company's president and stockholder.

#### **14. Subordinated Debt**

A subsidiary of the Company has issued a collateralized secured demand note and received subordinated debt in the amount of \$1,300,000. The subordinated liability has been approved by the FINRA for inclusion in the Company's net capital computations. The subordinated debt bears interest at 8% and has a scheduled maturity date of December 31, 2009. There were no changes in these balances during 2009.

## Lincoln Investment Planning, Inc. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

#### **15. Net Capital Requirements**

The Company is subject to the U.S. Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions. At December 31, 2009, the Company had net capital of \$6,633,971, which was 48,554% of aggregate debit balances and \$6,383,971 in excess of the minimum net capital requirement.

Subchapter S distribution payments and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule and other regulatory bodies.

#### **16. Subsequent Events**

Management has evaluated whether any events or transactions occurred subsequent to December 31, 2009 through February 24, 2010, the date of issuance of the Company's consolidated statement of financial condition. Effective January 1, 2010, the Company increased its subordinated debt amount to \$2,300,000. The new subordinated liability has been approved by FINRA. There are no other material events or transactions that would require recognition or disclosure in the Company's consolidated statement of financial condition.