

Statement of Financial Condition

WEDBUSH SECURITIES INC.

March 31, 2013

Contents

	Page
Statement of Financial Condition	3
Notes to Statement of Financial Condition	4

WEDBUSH SECURITIES INC.
Statement of Financial Condition

	As of March 31,
	2013
Assets	
Cash and cash equivalents	\$ 64,587,000
Cash and securities segregated for the benefit of clients	1,765,299,000
Receivables	
Brokers, dealers, and clearing organizations	139,315,000
Clients, less reserves of \$6,201,000	432,659,000
Other	81,505,000
Securities borrowed	920,167,000
Securities purchased under agreements to resell	70,894,000
Securities owned, at fair value	311,153,000
Deferred tax assets	4,495,000
Other assets	1,229,000
Total assets	\$ 3,791,303,000
Liabilities and shareholder's equity	
Bank loan payable	\$ —
Payables	
Brokers, dealers, and clearing organizations	25,712,000
Clients	2,261,943,000
Securities loaned	826,541,000
Securities sold under repurchase agreements	109,190,000
Securities sold, not yet purchased, at fair value	244,868,000
Accounts payable and accrued liabilities	62,906,000
Total liabilities	3,531,160,000
Commitments and contingent liabilities	
Shareholder's equity	
Common shares, \$0.10 stated value. Authorized 20,000,000 shares; 7,000,000 shares issued and outstanding	700,000
Additional paid-in capital	10,654,000
Retained earnings	250,511,000
Parent treasury shares, 102,646 shares	(1,722,000)
Total shareholder's equity	260,143,000
Total liabilities and shareholder's equity	\$ 3,791,303,000

See accompanying notes to financial condition.

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION
March 31, 2013

(1) Summary of Significant Accounting Policies

Wedbush Securities Inc. (the Company) is an investment bank registered with the U.S. Securities and Exchange Commission as a securities broker-dealer. The Company changed its name from Wedbush Morgan Securities Inc. on February 16, 2010. The Company is wholly owned by WEDBUSH, Inc.

A summary of significant accounting policies is either discussed below or included in the following footnotes.

(a) Use of Estimates

In preparing the financial statements, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, revenues, and expenses during the reported period. The most important of these estimates and assumptions relate to fair value measurements. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

(b) Securities Transactions

The Company records its securities transactions on a trade date basis.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds.

(d) Resell and Repurchase Agreements

Resell and repurchase agreements are collateralized financing transactions and are recorded at their contracted amounts, with accrued interest. Contract values approximate fair market value. It is the policy of the Company to obtain collateral with a fair value equal to, or in excess of, the principal amount loaned under repurchase transactions.

The following table summarizes the fair market value of the securities obtained from or given to counterparties as collateral on the resell and repurchase transactions:

Resell agreements	
Securities purchased under agreements to resell - segregated	\$ 1,612,764,000
Securities purchased under agreements to resell	71,714,000
Repurchase agreements	
Securities sold under repurchase agreements	109,430,000

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

(e) Accounting Developments

The following Accounting Standards Update (ASU) is not expected to have any material impact on the Company's financial statements.

In November 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities* (Topic 210). This update affects the netting of financial instruments on the statement of financial condition. The ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective application of the disclosures is required for all periods presented within the financial statements. The Company does not expect this update will impact its financial statements.

(2) Cash and Securities Segregated for the Benefit of Clients

The Company segregates cash, certificates of deposit, short-term investments purchased under an agreement to resell, and securities owned according to the regulatory standards of 15c3-3 of the Securities and Exchange Act of 1934. These assets are held in segregated accounts exclusively for the benefit of clients. Cash is held in money market deposit accounts at banks. Short-term investments are purchased under agreements to resell and are carried at the amounts at which the securities will subsequently be resold, as specified in the related agreements, and consist of U.S. treasuries and securities guaranteed by the U.S. government. Securities segregated consist of securities guaranteed by the U.S. government.

Cash	\$	100,148,000
Certificate of deposit		50,000,000
Short-term investments purchased under agreements to resell		1,591,000,000
Securities owned		24,151,000
Total cash and securities segregated for regulatory purposes	\$	1,765,299,000

(3) Clients Receivable and Clients Payable

Amounts receivable from and payable to clients include amounts due or held in cash and on margin transactions. Receivables from clients are generally fully secured by securities held in the clients' accounts. The value of securities owned by clients and held as collateral for the receivables is not reflected in the statement of financial condition.

A reserve is established for amounts due from clients and others to the degree to which the receivable is unsecured. The Company also establishes a general reserve against accounts receivable for amounts that it determines in its best estimate may become uncollectible. Factors considered by management in determining the amount of the allowance include past experience, degree of concentration and quality of collateral. Receivables are presented net of uncollectible reserves. The reserve as of March 31, 2013 was \$6,201,000.

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

(4) Receivables from and Payables to Brokers, Dealers, and Clearing Organizations

Amounts receivable from and payable to brokers, dealers, and clearing organizations result from the Company's normal trading activities and consist of the following:

Securities failed to deliver	\$	14,860,000
Amounts due from brokers and dealers through clearing organizations		104,130,000
Deposits with clearing organizations		20,325,000
Total receivables from brokers, dealers, and clearing organizations	\$	139,315,000
Securities failed to receive	\$	19,664,000
Other		6,048,000
Total payables to brokers, dealers, and clearing organizations	\$	25,712,000

Fails to deliver and fails to receive represent the contractual value of securities that have not been delivered or received on or before the settlement date.

(5) Securities Borrowed and Securities Loaned Transactions

Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Collateral in the form of cash or securities is exchanged for securities borrowed and is received for securities loaned based on the approximate fair value of the related securities. The collateral is adjusted daily to reflect changes in the current market value of the underlying securities. Contract values approximate fair market value.

(6) Financial Instruments

The Company's financial instruments that are carried at fair value include securities owned, securities segregated, and securities sold, not yet purchased.

(a) Fair Value of Financial Instruments

Fair value is defined under Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, as the price which would be received to sell an asset or would be paid to settle a liability (i.e. "the exit price") in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to the use of observable inputs and lowest priority to the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are based on market pricing data obtained from sources independent of the Company. Unobservable inputs reflect the Company's judgment about the assumptions market participants would use in pricing the asset or liability. The three levels of the fair value hierarchy based on observability of inputs are as follows:

Level 1 – Valuations based on quoted prices available in active markets for identical assets or liabilities.

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

Level 2 – Valuations based on quoted prices in markets that are not active, or for which all significant inputs are considered observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

(b) Valuation Technique

Securities owned and securities sold, not yet purchased that are reported as Level 1 are based on quotes for closing prices from national securities exchanges as well as reported bid and offer quotes from parties trading the security. If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques, and are reported as Level 2.

During the period ended March 31, 2013, there were no changes to the valuation techniques employed by the Company in determining fair value.

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

(c) Detail of Financial Instruments

The following table presents financial instruments at fair value on a recurring basis as of March 31, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets				
Securities owned				
U.S. government securities	\$ 105,634,000	\$ —	\$ —	\$ 105,634,000
U.S. agency and municipal securities	—	36,758,000	—	36,758,000
Corporate debt	—	20,483,000	—	20,483,000
Mortgage-backed securities	—	—	13,873,000	13,873,000
Corporate equities				
Business services	6,752,000	—	—	6,752,000
Consumer products	11,487,000	—	—	11,487,000
Financials	26,121,000	—	—	26,121,000
Industrials	3,178,000	—	—	3,178,000
Life sciences	2,851,000	—	—	2,851,000
Technology	11,588,000	—	—	11,588,000
Other industries	52,170,000	—	—	52,170,000
Listed options	20,258,000	—	—	20,258,000
Total trading securities	240,039,000	57,241,000	13,873,000	311,153,000
Securities segregated for the benefit of clients				
U.S. government securities	24,151,000	—	—	24,151,000
Total securities segregated for the benefit of clients	24,151,000	—	—	24,151,000
Liabilities				
Securities sold, not yet purchased				
U.S. government securities	59,445,000	—	—	59,445,000
U.S. agency and municipal securities	—	64,000	—	64,000
Corporate debt securities	—	44,000	—	44,000
Corporate equities				
Business services	44,821,000	—	—	44,821,000
Consumer products	9,664,000	—	—	9,664,000
Financials	59,118,000	—	—	59,118,000
Industrials	3,389,000	—	—	3,389,000
Life sciences	946,000	—	—	946,000
Technology	17,991,000	—	—	17,991,000
Other industries	15,826,000	—	—	15,826,000
Listed options	33,560,000	—	—	33,560,000
Total securities sold, not yet purchased	\$ 244,760,000	\$ 108,000	\$ —	\$ 244,868,000

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

Transfers between fair value classifications occur when there are changes in pricing observability levels. There were no transfers from Level 2 to Level 3 classified instruments during the period ended March 31, 2013.

Certain assets and liabilities, including cash and cash equivalents, cash and securities segregated, client receivables and payables, securities borrowed and loaned, securities purchased under agreements to resell, securities sold under repurchase agreements, accounts payable, and receivables and payables from and to other brokers, dealers, and clearing organizations have a carrying value that approximates fair market value as of March 31, 2013.

(d) Risks Related to Financial Instruments

In the normal course of business, the Company is involved in the execution, settlement and financing of various client and principal securities transactions. Client activities are transacted on a cash, margin, or delivery-versus-payment basis. Securities transactions are subject to the risk of counterparty or client non-performance. However, transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the fair value of the security through settlement date, or to the extent of margin balances.

The Company also has contractual commitments arising in the ordinary course of business for securities loaned, securities sold, not yet purchased, repurchase agreements, securities transactions on a when-issued basis and underwritings. Each of these financial instruments contains varying degrees of risk, whereby the fair values of the securities underlying the financial instruments may be in excess of the contract amount. The settlement of these transactions is not expected to have a material effect upon the Company's financial condition.

(7) Derivatives

The Company uses box-spread option positions as a source of cash financing. As of March 31, 2013, there were option positions for the purpose of firm financing with a June 2013 expiration date that have a cash settlement liability of \$25,000,000 and a fair value of \$24,961,000.

The Company also trades listed and over-the-counter options as derivatives for speculative purposes. Options are contracts in which the option purchaser has the right, but not the obligation, to purchase from or sell to the option writer financial instruments within a defined time period for a specified price. All options are at fair value and are presented as both gross assets and liabilities in securities owned and securities sold, not yet purchased, in the statement of financial condition.

(8) Intangibles

Intangible assets, which are included as components of other assets on the statement of financial condition, consist of investment executive relationships and non-compete agreements which are amortized on a straight-line basis over four years. The intangibles are subject to evaluations for impairment on an annual basis unless circumstances warrant a more frequent assessment. There were no impairments recorded during the period ended March 31, 2013.

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

The following is a summary of intangibles as of March 31, 2013:

Investment executive relationships	\$	3,648,000
Non-compete agreements		2,469,000
Total intangibles		6,117,000
Less accumulated amortization		(6,117,000)
Net intangibles	\$	0

On October 24, 2008, the Company acquired certain assets of a broker-dealer, including \$2,322,000 of intangible investment executive relationships with clients and non-compete agreements. In addition to the initial consideration, the asset acquisition agreement also provided for incremental consideration to be paid in stock in the amount of \$150,000 per year over the following years. The terms of the asset acquisition agreement also provided for contingent payments for the three years following the acquisition, if certain revenue thresholds are met and client account levels are maintained. Incremental consideration and contingent payments are additional purchase considerations and are reflected in intangibles when such contingencies are achieved.

On December 31, 2008, the Company acquired certain assets of another broker-dealer which included \$2,570,000 in intangible investment executive relationships with clients.

(9) Share-Based Compensation – Options and Awards

The parent company, WEDBUSH, Inc., has a stock options and awards plan, under which the Company is authorized to issue up to 1,392,000 shares and options to acquire common shares of the parent company. The plan's terms and conditions, including vesting, are determined by the parent's board of directors, and restrictions may be applied to awards under the plan. Options are issued at the fair value of the underlying parent shares on the grant date and generally become exercisable ratably over four years and expire five years after the option becomes exercisable. Restricted awards in parent common shares are also granted and may vest over periods ranging up to four years. The parent company issues new shares upon the vesting of share-based awards and upon the exercise of options.

As of March 31, 2013, there were 215,803 options and 15,051 restricted awards outstanding related to parent company shares. The weighted average remaining life of the options until expiration was 3.5 years.

(10) Income Taxes

The Company is included in the filing of a consolidated tax return for federal tax purposes and in combined returns for certain states where such filing is required or permitted. The Company is also a party to a tax allocation agreement with its parent WEDBUSH, Inc., whereby its tax liabilities are allocated based on its share of the consolidated or combined tax obligations.

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

The Company assesses its tax positions for all open tax years and determines whether there are any material unrecognized liabilities in accordance with applicable accounting guidelines on accounting for uncertain income taxes. Liabilities are recorded to the extent they are deemed incurred.

(a) Federal and State Income Taxes

With a few exceptions, the Company is no longer subject to U.S. federal tax examinations for the years before June 30, 2009, and to state and local tax examinations for years before June 30, 2008.

The net income taxes receivable of \$14,499,000 at March 31, 2013, is included in other receivables on the statement of financial condition.

(b) Deferred Tax Assets and Liabilities

The Company recognizes deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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.

Temporary differences and carryforwards, which give rise to deferred tax assets and liabilities, consist of the following:

Deferred tax assets		
Allowance for doubtful receivables	\$	2,527,000
Legal reserves		1,884,000
Other		3,844,000
Total deferred tax assets		8,255,000
Deferred tax liabilities		
Unrealized gains not taxable		(3,390,000)
Allowance for expenses not yet incurred		(370,000)
Total deferred tax liabilities		(3,760,000)
Net deferred tax assets	\$	4,495,000

The Company has reviewed all of its deferred tax assets to assess whether a valuation allowance should be established for those tax assets. The firm recognizes tax positions in the financial statement only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. The Company's management believes it is more likely than not the deferred tax assets will be realized.

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

(11) Net Capital Requirement

The Company is subject to the 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 the maintenance of minimum net capital, as defined, equal to the greater of \$1,000,000 or 2% of aggregate debit balances arising from client transactions, as defined.

The alternative method prohibits withdrawal of equity capital or payment of cash dividends if net capital does not exceed 5% of aggregate debit items, and also prohibits withdrawal of subordinated capital if net capital does not exceed 4% of aggregate debit items. At March 31, 2013, the Company had net capital of \$137,650,000 that was 27% of aggregate debit items and \$127,405,000 in excess of the \$10,245,000 required minimum net capital at that date.

(12) Bank Credit Lines

The Company has the ability, through arrangements with multiple banks, to obtain secured and unsecured short-term borrowings primarily through the issuance of promissory notes. Under these agreements, the Company can borrow on demand up to a maximum of \$45,000,000 unsecured and \$250,000,000 secured at interest rates determined on the date of each borrowing, and reset daily. At March 31, 2013, there were no borrowings outstanding under these credit lines.

(13) Profit-Sharing Retirement Plans

At March 31, 2013, the Company had two trustee-directed defined contribution retirement plans that are qualified under Section 401(k) of the Internal Revenue Code. The Commissioned Employees' PS Retirement Plan covers eligible colleagues compensated on a transaction fees and/or incentive basis. The Company's annual contributions are a specified percentage of the voluntary colleague contributions and are not required if earnings do not exceed defined levels.

The Employees' PS Retirement Plan covers substantially all salaried colleagues. The Company's annual contributions under the plan are determined by the board of directors and are based on a percentage of colleague compensation.

(14) Commitments and Contingent Liabilities

(a) Legal and Regulatory Matters

The Company is subject to various proceedings and claims arising primarily from securities business activities, including lawsuits, arbitration claims, and regulatory matters. The Company is also involved in other reviews, investigations, and proceedings by governmental and self-regulatory organizations regarding the business, which may result in adverse judgments, settlements, fines, penalties, injunctions, and other relief. Matters in which the Company is currently involved include cases related to financial advisor and investment banking activities, and employment. The Company is contesting the allegations in these claims, and believes there are meritorious defenses in each of these arbitrations, lawsuits, and regulatory investigations. Management accrues for a settlement when a liability is deemed probable and estimable. Costs incurred in responding to potential litigation and regulatory actions are expensed when incurred. In the opinion of management, the resolution of these legal and regulatory matters

WEDBUSH SECURITIES INC.
NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
March 31, 2013

will not have a material impact beyond accrued settlements on the Company's statement of financial condition.

(b) Lease Commitments

The Company has contractual obligations under long-term, non-cancelable lease agreements, principally for office space, requiring minimum annual payments as follows:

Fiscal year ending		
2013	\$	7,108,000
2014		5,033,000
2015		3,565,000
2016		3,598,000
2017		3,288,000
Thereafter		12,546,000
Total	\$	35,138,000

Some of these leases have escalation clauses and renewal options.

(15) Related-Party Transactions

In the normal course of business, colleagues, officers, directors, and affiliates may buy and sell securities through the Company. At March 31, 2013, included in receivables from clients and payables to clients on the statement of financial condition were receivables of \$13,691,000 from officers and directors and \$0 from affiliates, and \$31,151,000 in payables to officers and directors and \$23,907,000 to affiliates on client transactions. Management believes receivables from officers, directors, and affiliates to be at market terms and rates of interest, and they are collateralized by securities. Company shares of \$3,847,000 were used as collateral on receivables from officers and directors for the years ended March 31, 2013.

Notes receivable from colleagues are generally from recruiting activities, non-interest bearing, and forgiven over a period of three to eight years. Notes receivable from colleagues totaled \$6,173,000 as of March 31, 2013, and are included in other receivables on the statement of financial condition.

Receivables from affiliates related to intercompany transactions totaled \$10,884,000 at March 31, 2013. Receivables from affiliates are included in other receivables on the statement of financial condition.

Lime Brokerage, an affiliate broker-dealer, had a clearing deposit of \$250,000 and a receivable balance of \$349,000 with the Company at March 31, 2013.