

Statement of Financial Condition

WEDBUSH SECURITIES INC.

September 30, 2015

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Wedbush Securities Inc.
Statement of Financial Condition
As of September 30, 2015

Assets	
Cash and cash equivalents	\$ 10,704,000
Cash and securities segregated for the benefit of clients	2,301,043,000
Receivables	
Brokers, dealers, and clearing organizations	297,803,000
Clients, less reserves of \$4,979,000	410,833,000
Securities borrowed	636,444,000
Income taxes	12,523,000
Other	29,877,000
Securities purchased under agreements to resell	81,054,000
Securities owned, at fair value	405,894,000
Deferred tax assets	13,309,000
Exchange memberships and other assets	7,103,000
Assets from discontinued operations	10,449,000
Total assets	\$ 4,217,036,000
Liabilities and shareholder's equity	
Short-term financing	\$ 182,100,000
Payables	
Brokers, dealers, and clearing organizations	25,003,000
Clients	3,266,758,000
Securities loaned	298,573,000
Securities sold under repurchase agreements	96,866,000
Securities sold, not yet purchased, at fair value	33,040,000
Accounts payable and accrued liabilities	66,007,000
Liabilities from discontinued operations	3,794,000
Total liabilities	\$ 3,972,141,000
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	11,607,000
Retained earnings	234,473,000
Parent treasury shares, 109,651 shares	(1,885,000)
Total shareholder's equity	244,895,000
Total liabilities and shareholder's equity	\$ 4,217,036,000

See accompanying notes to financial condition

Wedbush Securities Inc.
Notes to Statement of Financial Condition
June 30, 2015

(1) Summary of Significant Accounting Policies

Wedbush Securities Inc. (the Company) is dually registered as a securities broker-dealer with the U.S. Securities and Exchange Commission (SEC) and a futures commission merchant with the Commodity Futures Trading Commission (CFTC). The Company is a clearing member of the New York Stock Exchange (NYSE) and Chicago Mercantile Exchange (CME), as well as other stock and commodity exchanges. The Company is a registered investment advisor with the SEC and a foreign exchange broker with the CFTC. 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) Basis of Presentation

The Company follows accounting principles generally accepted in the United States of America (U.S. GAAP), as established by the Financial Accounting Standards Board (FASB), to ensure consistent reporting of financial condition, results of earnings and cash flows.

(b) 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.

(c) Fair Value

Assets and liabilities are stated at fair value. Certain assets and liabilities, including cash and cash equivalents, cash and securities segregated for the benefit of clients, client receivables and payables, securities borrowed and loaned, securities purchased under agreements to resell, securities sold under repurchase agreements, accounts payable, and receivables from and payables to other brokers, dealers, and clearing organizations, have a carrying value that approximates fair value as of September 30, 2015.

(d) Securities transactions

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

(e) Cash and Cash Equivalents

The Company maintains cash in accounts held by major banks and financial institutions, which at times, exceed the amounts insured by the U.S. government. The Company has not experienced any losses related to these balances.

Wedbush Securities Inc.
Notes to Statement of Financial Condition - continued
September 30, 2015

(f) Resell and repurchase agreements

Resell and repurchase agreements are collateralized financing transactions and are recorded at their contracted amounts, with accrued interest. 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 contract value and fair value of the securities obtained from or given to counterparties as collateral on the resell and repurchase transactions:

	Contract Value	Fair Value
Resell Agreements		
Securities purchased under agreements to resell	\$ 81,054,000	\$ 80,232,000
Repurchase Agreements		
Securities sold under repurchase agreements	\$ 96,866,000	\$ 110,800,000

(g) Exchange Memberships

The Company's exchange memberships, which represent ownership interests in the exchanges and provide the Company with the right to conduct business on the exchanges, are recorded at cost or, if other than temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment. There were no exchange membership impairments at September 30, 2015. At September 30, 2015, the fair value of exchange memberships was \$2,907,000 and is included in exchange memberships and other assets in the statements of financial condition.

(h) Accounting Developments

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

In June 2014, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-11, *Transfers and Servicing – Repurchase-to-Maturity Transactions, Repurchase Financing, and Disclosures* (ASU 2014-11), to eliminate diversity in practice. The amendments in this update require two accounting changes. First, the amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments in this update require disclosures for certain transactions comprising a transfer of a financial asset accounted for as a sale and an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. The Company does not expect that the adoption of this ASU will have a material effect on the Company's financial statements.

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In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), to clarify the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company is evaluating the impact this ASU will have on future 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	\$	493,762,000
Certificates of deposit		155,010,000
U.S. government securities		151,168,000
Short-term investments purchased under agreements to resell		1,501,103,000
Total cash and securities segregated for the benefit of clients	\$	2,301,043,000

Clients' funds, regulated under the Commodity Exchange Act, as amended (the CEAct), are required to be segregated from the funds of the Company and its employees. Customers' segregated funds and equities in customers' regulated trading accounts, as shown in the statement of financial condition, do not reflect the market value of options positions owned by customers and securities owned by customers and held by the Company as collateral or as margin.

Wedbush Securities Inc.
Notes to Statement of Financial Condition - continued
September 30, 2015

At September 30, 2015, assets segregated or held in separate accounts under Commodity Exchange Act regulations included in total cash and securities segregated for the benefit of clients are as follows:

Segregated for clients trading on U.S. futures exchanges	
Cash	\$ 220,031,000
Deposits with clearing organizations	371,780,000
Receivable from clearing organizations	277,000
Total cash and securities segregated for the benefit of clients	\$ 592,088,000

Held in separate accounts for foreign futures and options clients	
Cash	7,614,000
Receivable from clearing brokers	7,025,000
Deposits with clearing organizations	8,983,000
Total held in separate accounts for foreign futures and options clients	\$ 23,622,000

Balances in the table above, with the exception of cash, are included in receivables-brokers, dealers, and clearing organizations in the statement of financial condition, whereas cash is included in cash and securities segregated for the benefit of clients in the statement of financial condition.

(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, cash commodities, and options on futures contracts owned by clients and held as collateral or as margin 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 September 30, 2015 was \$4,979,000.

(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	\$ 7,360,000
Amounts due from brokers and dealers through clearing organizations	250,510,000
Deposits with clearing organizations	39,933,000
Total receivables from brokers, dealers, and clearing organizations	\$ 297,803,000
Securities failed to receive	\$ 10,278,000
Amount due to brokers and dealers through clearing organizations	\$ 14,725,000
Total payables to brokers, dealers, and clearing organizations	\$ 25,003,000

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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.

Net payables related to unsettled trades are included in payables to brokers, dealers, and clearing organizations in the statement of financial condition.

(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 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.

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 have little to no market activity. Significant judgment by management is required for valuation of these financial instruments.

(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. Valuations of Level 3 mortgage-backed securities are calculated using a discounted cash flow model. The discounted cash flow model is based on a number of factors, including but not limited to voluntary

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prepayment rate, constant default rate, severity, modification, delinquency, and recoveries. Factors including recent trading price and activity of comparable bonds are also considered.

During the year ended September 30, 2015, there were no changes to the valuation techniques employed by the Company in determining fair value.

(c) Detail of Financial Instruments

The following table presents financial instruments at fair value:

	Level 1	Level 2	Level 3	Balance at September 30, 2015
Assets				
Securities owned				
U.S. government securities	\$ 94,311,000	\$ -	\$ -	\$ 94,311,000
U.S. agency and municipal securities	-	55,849,000	-	55,849,000
Corporate debt securities	-	769,000	-	769,000
Mortgage-backed securities	-	-	751,000	751,000
Corporate equities				
Business services	607,000	-	-	607,000
Consumer products	4,979,000	-	-	4,979,000
Financials	3,769,000	-	-	3,769,000
Industrials	2,447,000	-	-	2,447,000
Health care	1,577,000	-	-	1,577,000
Technology	176,000	-	-	176,000
Other industries	1,560,000	-	-	1,560,000
Listed options	1,361,000	-	-	1,361,000
Money market funds	237,738,000	-	-	237,738,000
Total securities owned	348,525,000	56,618,000	751,000	405,894,000
Securities segregated for the benefit of clients				
U.S. agency securities	-	151,168,000	-	151,168,000
Total securities segregated for the benefit of clients	-	151,168,000	-	151,168,000
Liabilities				
Securities sold, not yet purchased				
U.S. government securities	28,429,000	-	-	28,429,000
U.S. agency and municipal securities	-	3,000	-	3,000
Corporate debt securities	-	139,000	-	139,000
Corporate equities				
Business services	9,000	-	-	9,000
Consumer products	242,000	-	-	242,000
Financials	1,430,000	-	-	1,430,000
Industrials	90,000	-	-	90,000
Health care	159,000	-	-	159,000
Technology	50,000	-	-	50,000
Other industries	2,240,000	-	-	2,240,000
Listed options	249,000	-	-	249,000
Total securities sold, not yet purchased	\$ 32,898,000	\$ 142,000	\$ -	\$ 33,040,000

Transfers between fair value classifications occur when there are changes in pricing observability levels. There were no transfers during the year ended September 30, 2015.

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The following is a summary of changes in fair value of financial assets that have been classified as Level 3 for the year ended September 30, 2015:

	Balance June 30, 2015	Total Gains/(Losses)	Purchases, Sales, Settlements, and Issuances	Transfers Into (Out of) Level 3	Balance September 30, 2015
Assets					
Securities owned					
Mortgage-backed securities	\$ 389,000	\$ (10,000)	\$ 372,000	\$ -	\$ 751,000
Total securities owned	\$ 389,000	\$ (10,000)	\$ 372,000	\$ -	\$ 751,000

(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 executes customer transactions in the purchase and sale of commodity futures contracts (including options on futures contracts), substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell futures contracts at prevailing market prices in order to fulfill the customer's obligations. The Company controls this risk by monitoring margin collateral levels on a daily basis for compliance with regulatory and internal guidelines and requires additional collateral when necessary. The Company requires a customer to deposit additional margin collateral, or reduce positions, if it is determined that the customer's activities may be subject to above normal market risks.

(7) Offsetting of Financial Assets and Liabilities

The Company has securities borrowed and securities loaned that are subject to master netting arrangements. Under GAAP, in certain circumstances the Company may elect to present certain financial assets, liabilities, and related collateral subject to master netting arrangements in a net position on the statement of financial condition. However, the Company does not report any of these financial assets or liabilities on a net basis, and instead presents them on a gross basis on the statement of financial condition. Additionally, the Company does not report derivative positions on a net basis.

Wedbush Securities Inc.
Notes to Statement of Financial Condition - continued
September 30, 2015

The following table presents the gross asset and gross liability amount for securities purchased under repurchase agreements, securities sold under repurchase agreements, securities borrowed, and securities loaned together corresponding collateral received or pledged at September 30, 2015.

(8) Credit Risk

The Company is engaged in securities and commodity clearing activities in which counterparties primarily include clearing organizations, broker-dealers, other futures commission merchants and other brokers. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

(9) Derivatives

Accounting Standards Codification Topic (ASC) 815, *Derivatives and Hedging*, requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit risk-related contingent features in derivative agreements. The disclosure requirements of ASC 815 distinguish between derivatives, which are accounted for as "hedges", and those that do not qualify for such accounting. The Company reflects derivatives at fair value and recognizes changes in fair value through the statement of earnings, and as such do not qualify for ASC 815 hedge accounting treatment.

The Company 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 financial instruments to the option writer within a defined time period for a specified price.

The Company enters into futures contracts and equity options to hedge a portion of its trading inventory, or for its own account. The majority of these derivative positions are executed in the over-the-counter market with financial institutions.

The below table details the notional and fair value of the Company's derivative positions as of September 30, 2015.

Asset Derivatives	Notional Value		Fair Value	
Futures	\$	583,000	\$	23,000
Equity options	\$	53,407,000	\$	331,000

Liability Derivatives	Notional Value		Fair Value	
Futures	\$	11,800,000	\$	42,000
Equity options	\$	5,739,000	\$	308,000

(10) Intangible Assets

Intangible assets are included as components of exchange memberships and other assets on the statement of financial condition. The intangible assets are subject to evaluations for impairment on an annual basis unless circumstances warrant a more frequent assessment. There were no impairments recorded during the fiscal year ended September 30, 2015.

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In July of 2014, the Company acquired select assets of Crossland LLC, including its futures execution and clearing operations, in addition to \$1,544,000 of non-compete agreements. The transaction will provide a more expansive range of centralized services across the equities, fixed income, options, and futures markets for the Company's combined client base. The intangible assets are being amortized over a period of two to five years.

In December of 2014, the Company acquired select assets of KCG Americas LLC related to its agency futures operations, previously doing business as KCG Futures, including \$298,000 of non-compete agreements. In addition to the initial consideration, the acquisition agreement also provides for additional consideration to be paid in amounts ranging from \$500,000 to \$1,500,000 over the next four years if certain performance conditions are met. The transaction continues to build the Company's offerings and enhances the Company's service by expanding its futures, foreign exchange and cross asset class margin clearing, execution and custody capabilities. The intangible assets are being amortized over a period of four years.

The results of Crossland's and KCG's operations are included in the statements of earnings from the date of acquisition. In connection with the acquisition, the assets acquired and the liabilities assumed were as follows:

	Crossland	KCG
Assets acquired		
Cash	\$ 193,000	\$ 20,311,000
Cash and securities segregated for the benefit of clients	62,825,000	244,718,000
Receivables from brokers, dealers, and clearing organizations	25,734,000	316,939,000
Receivables from clients	1,736,000	491,000
Other receivables	275,000	26,720,000
Fixed assets	248,000	1,324,000
Exchange memberships	2,443,000	378,000
Total assets acquired	\$ 93,454,000	\$ 610,881,000
Liabilities assumed		
Accounts payable	\$ 3,348,000	\$ 7,160,000
Payables to clients	90,346,000	602,019,000
Total liabilities assumed	\$ 93,694,000	\$ 609,179,000

Non-compete agreements are amortized on a straight-line basis over a period of two to five years. Amortization on the intangibles is to be recorded in subsequent periods as follows:

Non-compete agreements	\$ 1,477,000
Less accumulated amortization	(401,000)
Net intangibles	\$ 1,076,000

(11) Share-Based Compensation – Options and Awards

The parent company, WEDBUSH, Inc., established a stock options and awards plan in 2014 that replaced the expired 2003 plan. The 2014 plan is authorized to issue up to 950,000 shares and options to acquire common shares of the parent company. This is in addition to the 1,040,000 shares authorized under the original plan.

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Both plans' 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.

Under the preexisting plan, there were 103,791 options and 2,663 restricted awards outstanding related to parent company shares as of September 30, 2015. The weighted average remaining life of the options until expiration was 2.3 years. There were no restricted and non-restricted share awards for parent company securities issued during the year ended September 30, 2015. As of September 30, 2015, there was \$57,000 in share based-compensation related to non-vested options and share awards which will be recognized over a weighted average period of 0.9 years.

As of September 30, 2015, there were 12,500 options and 12,256 restricted awards outstanding related to parent company shares granted under the 2014 plan. The weighted average remaining life of the options until expiration was 4.4 years.

(12) 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, whereby the Company calculates its corresponding tax amounts on a separate return basis utilizing current enacted tax laws and rates while also considering those tax attributes that are realized or realizable by the parent and corresponding consolidated group.

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. In accordance with FASB ASC 740, *Income Taxes*, the Company recognizes and measures the financial statement benefit of a tax position after determining that the relevant authority would more likely than not uphold the position following an audit. There are no uncertain tax positions recorded in the financial statements.

(a) Federal and State Income Taxes

The Company reports interest on income taxes, if any, in interest expense and penalties on income taxes in other income (expense) on the accompanying statement of earnings.

For federal and most state jurisdictions, the earliest tax period that remains subject to examination is the year ended June 30, 2011.

Included in receivables on the statement of financial condition are net income taxes receivable from the parent company of \$12,540,000 at September 30, 2015.

(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

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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 carry forwards, which give rise to deferred tax assets and liabilities, consist of the following:

Deferred tax assets	
Allowance for doubtful receivables	\$ 4,066,000
Legal reserves	1,238,000
Accrued expenses not yet deductible	15,000
Amortization of book-tax difference	1,395,000
Other	
Accrued reserve	4,800,000
Allowance for expenses not yet incurred	2,255,000
Deferred rent credit	1,613,000
Total deferred tax assets	15,382,000
Deferred tax liabilities	
Unrealized gains not taxable	(2,073,000)
Total deferred tax liabilities	(2,073,000)
Net deferred tax assets	\$ 13,309,000

The Company has reviewed all of its deferred tax assets to assess whether a valuation allowance should be established for those tax assets. The Company 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. Utilization of the deferred tax asset is dependent on generating sufficient taxable income at WEDBUSH Inc.

(13) Net Capital Requirement

The Company is subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). The Company is also subject to the net capital requirements of the CFTC Regulation 1.17 and requirements of the National Futures Association, and is required to maintain "adjusted net capital", equivalent to the greater of \$20,000,000 or 8% of customer and noncustomer risk maintenance margin requirements on all positions, as these terms are 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 and also subjects the Company to certain notification provisions. At September 30, 2015, the Company had net capital of \$126,366,000 that was 17% of aggregate debit items and \$104,716,000 in excess of the \$21,650,000 required minimum net capital at that date.

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(14) Short-Term Financing

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 \$365,000,000 secured at interest rates determined on the date of each borrowing, and reset daily. At September 30, 2015, there was \$137,100,000 of short-term borrowings outstanding under these secured credit lines. In addition, the Company can borrow on demand up to a maximum of \$45,000,000 unsecured at interest rates determined on the date of each borrowing, and reset daily. At September 30, 2015, there was \$44,900,000 of short-term borrowings outstanding under these unsecured credit lines. All short-term financing arrangements have a de minimis committed revolver fee.

(15) Profit-Sharing Retirement Plans

At September 30, 2015, 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.

(16) 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 activities and market access regulations. 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 will not have a material impact beyond accrued settlements on the Company's statement of financial condition.

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(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:

<u>Fiscal year ending</u>		
2016	\$	7,423,000
2017		7,111,000
2018		7,007,000
2019		6,649,000
2020		4,804,000
Thereafter		13,453,000
Total	\$	46,447,000

Certain leases have escalation clauses and renewal options.

(17) Related-Party Transactions

In the normal course of business, colleagues, officers, directors, and affiliates may buy and sell securities through the Company. At September 30, 2015, included in receivables from clients and payables to clients on the statement of financial condition were receivables of \$9,476,000 from officers and directors and \$0 from affiliates, and \$14,394,000 in payables to officers and directors and \$57,469,000 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 \$6,775,000 were used as collateral on receivables from officers and directors for the year ended September 30, 2015.

Notes receivable from colleagues are generally from recruiting activities, non-interest bearing. They are typically forgiven over a period of three to eight years, with a weighted average of 5.2 years. Notes receivable from colleagues totaled \$7,436,000 as of September 30, 2015.

Receivables from affiliates related to intercompany transactions totaled \$3,940,000 at September 30, 2015. Both notes receivable from colleagues and receivables from affiliates are included in other receivables on the statement of financial condition.

Lime Brokerage, a broker-dealer affiliated through common ownership, had a clearing deposit of \$250,000 a commission receivable balance of \$175,000, and a clearing account balance of \$1,566,000 with the Company at September 30, 2015.

The parent company engages in repurchase agreement transactions with the Company in order to finance its fixed income securities portfolio. In such transactions, the parent company sells the fixed income securities to the Company, under an agreement to repurchase them at a later date, in exchange for cash in an amount equal to the market value of the securities, with the securities serving as collateral on the loan. The interest rate on the loan is set at the prevailing repurchase agreement market rates for the type of securities involved in the transaction. On the repurchase date, the parent company returns the borrowed cash plus interest to the Company in exchange for the fixed income securities. At September 30, 2015, the parent company had a repurchase agreement with the Company in an amount of \$3,573,000, with a fair value of \$6,402,000, including accrued interest.

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(18) Guarantees and Indemnifications

Accounting Standards Codification Topic (ASC) 460, *Guarantees*, requires the Company to disclose information about its obligations under certain guarantee arrangements. ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying factor (such as interest rate or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others.

The Company is a member of various clearing organizations that clear derivative contracts. Associated with its memberships, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company's guarantee obligations would arise only if the exchange or clearinghouse had previously exhausted its resources. The maximum potential payout under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the statement of financial condition for these agreements and believes that any potential requirement to make payments under these agreements is remote.

(19) Subsequent Events

The Company has evaluated all events subsequent to September 30, 2015, up until the date of financial statement issuance and has determined there were no events or transactions during said period that would require recognition or disclosure in the financial statements.

