

Statement of Financial Condition

WEDBUSH SECURITIES INC.

March 31, 2014

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Statement of Financial Condition

| | As of March 31, |
|---|-------------------------|
| | 2014 |
| Assets | |
| Cash and cash equivalents | \$ 12,002,000 |
| Cash and securities segregated for the benefit of clients | 2,054,917,000 |
| Receivables | |
| Brokers, dealers, and clearing organizations | 54,490,000 |
| Clients, less reserves of \$6,165,000 | 358,610,000 |
| Other | 61,198,000 |
| Securities borrowed | 672,101,000 |
| Securities purchased under agreements to resell | 103,470,000 |
| Securities owned, at fair value | 353,805,000 |
| Deferred tax assets | 6,509,000 |
| Other assets | 631,000 |
| Total assets | \$ 3,677,733,000 |
| Liabilities and shareholder's equity | |
| Bank loan payable | \$ 14,000,000 |
| Payables | |
| Brokers, dealers, and clearing organizations | 18,120,000 |
| Clients | 2,439,872,000 |
| Securities loaned | 545,256,000 |
| Securities sold under repurchase agreements | 98,565,000 |
| Securities sold, not yet purchased, at fair value | 256,066,000 |
| Accounts payable and accrued liabilities | 45,739,000 |
| Total liabilities | 3,417,618,000 |
| 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 | 11,056,000 |
| Retained earnings | 250,081,000 |
| Parent treasury shares, 102,381 shares | (1,722,000) |
| Total shareholder's equity | 260,115,000 |
| Total liabilities and shareholder's equity | \$ 3,677,733,000 |

See accompanying notes to financial condition.

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(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 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) Fair Market Value

Assets and liabilities are stated at fair market value. 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 from and payables to other brokers, dealers, and clearing organizations have a carrying value that approximates fair market value as of March 31, 2014.

(c) Securities Transactions

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include investments in money market funds.

(e) 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 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.

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The following table summarizes the contract value and fair market 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 | \$ 1,981,469,844 | \$ 2,002,090,000 |
| Repurchase agreements | | |
| Securities sold under repurchase agreements | 98,565,000 | 103,101,000 |

(f) Accounting Developments

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

In July 2013, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11) to eliminate diversity in practice. The guidance requires an entity to net their unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements against a deferred tax asset for a net operating loss carryforward, a similar tax loss or tax credit carryforward, unless such tax loss or credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes resulting from the disallowance of a tax position. In the event that the tax position is disallowed or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit shall be presented in the financial statements as a liability and shall not be combined with deferred tax assets. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The Company does not expect that the adoption of this ASU will have a material effect on our 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 | \$ 60,759,000 |
| Certificates of deposit | 100,000,000 |
| Short-term investments purchased under agreements to resell | 1,878,000,000 |

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| | |
|--|-------------------------|
| Securities owned | 16,158,000 |
| Total cash and securities segregated for the benefit of clients | \$ 2,054,917,000 |

(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, 2014 was \$6,165,000.

(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 | \$ 14,470,000 |
| Amounts due from brokers and dealers through clearing organizations | 24,307,000 |
| Deposits with clearing organizations | 15,713,000 |
| Total receivables from brokers, dealers, and clearing organizations | \$ 54,490,000 |
| Securities failed to receive | \$ 13,557,000 |
| Amount due to brokers and dealers through clearing organizations | 4,289,000 |
| Total payables to brokers, dealers, and clearing organizations | \$ 17,846,000 |

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.

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NOTES TO STATEMENT OF FINANCIAL CONDITION - CONTINUED
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(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, available-for-sale securities, 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 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 period ended March 31, 2014, there were no changes to the valuation techniques employed by the Company in determining fair value.

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(c) Detail of Financial Instruments

The following table presents financial instruments at fair value on a recurring basis as of March 31, 2014:

| | 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. agency and municipal securities | \$ — | \$ 142,614,000 | \$ — | \$ 142,614,000 |
| Corporate debt | — | 15,005,000 | — | 15,005,000 |
| Mortgage-backed securities | — | — | 16,938,000 | 16,938,000 |
| Corporate equities | | | | |
| Business services | 18,626,000 | — | — | 18,626,000 |
| Consumer products | 30,481,000 | — | — | 30,481,000 |
| Financials | 47,050,000 | — | — | 47,050,000 |
| Industrials | 9,165,000 | — | — | 9,165,000 |
| Life sciences | 3,114,000 | — | — | 3,114,000 |
| Technology | 22,733,000 | — | — | 22,733,000 |
| Other industries | 29,890,000 | — | — | 29,890,000 |
| Listed options | 18,190,000 | — | — | 18,190,000 |
| Total trading securities | 179,249,000 | 157,619,000 | 16,938,000 | 353,806,000 |
| Securities segregated for the benefit of clients | | | | |
| U.S. agency securities | — | 16,158,000 | — | 16,158,000 |
| Total securities segregated for the benefit of clients | — | 16,158,000 | — | 16,158,000 |
| Liabilities | | | | |
| Securities sold, not yet purchased | | | | |
| U.S. government securities | 54,213,000 | — | — | 54,213,000 |
| U.S. agency and municipal securities | — | 39,182,000 | — | 39,182,000 |
| Corporate debt securities | — | 2,000 | — | 2,000 |
| Corporate equities | | | | |
| Business services | 8,427,000 | — | — | 8,427,000 |
| Consumer products | 12,255,000 | — | — | 12,255,000 |
| Financials | 67,365,000 | — | — | 67,365,000 |
| Industrials | 4,201,000 | — | — | 4,201,000 |
| Life sciences | 1,692,000 | — | — | 1,692,000 |
| Technology | 21,298,000 | — | — | 21,298,000 |
| Other industries | 17,333,000 | — | — | 17,333,000 |
| Listed options | 30,099,000 | — | — | 30,099,000 |
| Total securities sold, not yet purchased | \$ 216,883,000 | \$ 39,184,000 | \$ — | \$ 256,067,000 |

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Transfers between fair value classifications occur when there are changes in pricing observability levels. There were no transfers during the period ended March 31, 2014.

The following is a summary of changes in fair value of financial assets that have been classified as Level 3 for the year ended March 31, 2014:

| | Balance December 31, 2013 | Total Gains/(Losses) (Realized and Unrealized) | Purchases, Sales, Settlements, and Issuances | Transfers Into (Out of) Level 3 | Balance March 31, 2014 |
|-------------------------------|---------------------------------|---|--|---------------------------------------|------------------------------|
| Assets | | | | | |
| Securities owned | | | | | |
| Mortgage-backed securities | \$ 24,516,000 | \$ (923,000) | \$ (6,655,000) | \$ — | \$ 16,938,000 |
| Total securities owned | \$ 24,516,000 | \$ (923,000) | \$ (6,655,000) | \$ — | \$ 16,938,000 |

(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 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 option positions as a source of cash financing. As of March 31, 2014 there were option positions for the purpose of firm financing with an April 2014 expiration date that have a cash settlement liability of \$24,993,000 and a fair value of \$24,993,000.

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. Options are presented as both gross assets and liabilities in securities owned and securities sold, not yet purchased, at fair value in the statement of financial condition.

(8) 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

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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, 2014, there were 152,843 options and 14,445 restricted awards outstanding related to parent company shares. The weighted average remaining life of the options until expiration was 3.1 years.

(9) 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 the Company calculates its corresponding tax amounts by looking at the Company's separate return method 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.

The Company has adopted the FASB interpretation 48, Accounting for Uncertainty in Income Taxes. As required by the uncertain tax position guidance, the Company recognizes the financial statement benefit of a tax position only 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

For federal and most state jurisdictions, the earliest tax period that remains subject to examination is the year ended June 30, 2010.

Included in other receivables on the statement of financial condition is net income taxes receivable from the parent company of \$10,175,000 at March 31, 2014.

(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.

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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 | \$ | 2,512,000 |
| Legal reserves | | 1,380,000 |
| Other | | 8,091,000 |
| Total deferred tax assets | | 11,983,000 |
| Deferred tax liabilities | | |
| Unrealized gains not taxable | | (3,354,000) |
| Allowance for expenses not yet incurred | | (2,120,000) |
| Total deferred tax liabilities | | (5,474,000) |
| Net deferred tax assets | \$ | 6,509,000 |

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.

(10) 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, 2014, the Company had net capital of \$129,279,000 that was 27% of aggregate debit items and \$119,653,000 in excess of the \$9,626,000 required minimum net capital at that date.

(11) 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 \$225,000,000 secured at interest rates determined on the date of each borrowing, and reset daily. As of January 2, 2014, no unsecured credit lines exist. At March 31, 2014, there were \$14,000,000 borrowings outstanding under these credit lines.

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(12) Profit-Sharing Retirement Plans

At March 31, 2014, 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.

(13) 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.

(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 | | |
|--------------------|-----------|-------------------|
| 2014 | \$ | 5,965,000 |
| 2015 | | 5,019,000 |
| 2016 | | 4,571,000 |
| 2017 | | 4,271,000 |
| 2018 | | 3,932,000 |
| Thereafter | | 18,894,000 |
| Total | \$ | 42,653,000 |

Some of these leases have escalation clauses and renewal options.

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(14) 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, 2014, included in receivables from clients and payables to clients on the statement of financial condition were receivables of \$13,778,000 from officers and directors and \$0 from affiliates, and \$40,988,000 in payables to officers and directors and \$43,497,000 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 \$4,461,000 were used as collateral on receivables from officers and directors for the years ended March 31, 2014.

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 3.6 years. Notes receivable from colleagues totaled \$6,717,000 as of March 31, 2014.

Receivables from affiliates related to intercompany transactions totaled \$17,512,000 at March 31, 2014.

Both notes receivable from colleagues and 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 \$406,000 with the Company at March 31, 2014.