Statement of Financial Condition

(Unaudited)

Wedbush Securities Inc.

(SEC Identification No. 8-12987)

December 31, 2022

Wedbush Securities Inc.

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Statement of Financial Condition

As of December 31, 2022

(In thousands, except share data)		
Assets		
Cash and cash equivalents	$	66,920
Cash and securities segregated for the benefit of clients		3,439,733
Receivables		
Brokers, dealers and clearing organizations		589,383
Clients, net		462,126
Other		45,254
Collateralized agreements		
Securities borrowed		2,504,638
Securities purchased under agreements to resell		795,933
Financial instruments owned, at fair value		276,458
Other assets		57,791
Total assets	**$**	**8,238,236**
Liabilities and shareholder's equity		
Short-term financing	$	202,250
Payables		
Brokers, dealers and clearing organizations		27,045
Clients		4,336,790
Collateralized financing		
Securities loaned		2,402,003
Securities sold under repurchase agreements		766,537
Financial instruments sold, not yet purchased, at fair value		3,410
Other liabilities		140,795
Subordinated loans		45,000
Total liabilities		**7,923,830**
Shareholder's equity		
Common shares, $0.10 stated value; authorized 20,000,000 shares;		
7,000,000 shares issued and outstanding		700
Additional paid-in capital		19,418
Retained earnings		294,288
Total shareholder's equity		**314,406**
Total liabilities and shareholder's equity	**$**	**8,238,236**

See accompanying notes to statement of financial condition

(1) Organization

Wedbush Securities Inc. (the Company) is an investment firm headquartered in Los Angeles, California, that provides brokerage, clearing, investment banking, equity research, public finance, fixed income, futures and commodities, sales and trading, and asset management services to individual and institutional clients predominately located in the United States of America. The Company is dually registered as a securities broker-dealer with the U.S. Securities and Exchange Commission (SEC) and a futures commission merchant (FCM) with the Commodity Futures Trading Commission (CFTC). The Company is a clearing member of the New York Stock Exchange and Chicago Mercantile Exchange, as well as other stock and commodity exchanges. The Company is also a registered investment advisor with the SEC and is a member of the Financial Industry Regulatory Authority (FINRA). The Company's direct parent and sole shareholder is Wedbush Financial Services, LLC (WFS), a Delaware limited liability company. WFS is majority owned by Wedbush Capital (WedCap).

(2) Summary of Significant Accounting Policies

(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. The U.S. dollar is the functional currency of the Company.

(b) Use of Estimates

In preparing the Statement of Financial Condition, 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 Statement of Financial Condition 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 differ materially from these estimates.

(c) Fair Value

The Company accounts for its financial instruments at fair value in accordance with FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements* (ASC 820). The Company's financial instruments owned and financial instruments sold, not yet purchased are carried at fair value and recorded on a trade-date basis. All other financial assets and liabilities have a carrying value that approximates fair value. These financial instruments are short term in nature, bear interest at current market rates or are subject to daily repricing.

(d) Cash and Cash Equivalents

Cash and cash equivalents are comprised of on demand deposits and highly liquid investments with original maturities of 90 days or less at the date of origination. Cash on deposit with financial institutions, may, at times, exceed federal insurance limits.

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

Cash and securities segregated for the benefit of clients consist of cash, cash equivalents, and securities segregated under the Commodity Exchange Act (CEA) and in special reserve bank accounts for the exclusive benefit of customers and proprietary accounts of broker dealers under Rule 15c3-3 of the Securities and Exchange Act of 1934.

(f) Collateralized Agreements and Financings

Collateralized agreements consist of securities borrowed and securities purchased under agreements to resell (resale agreements). Collateralized financings consist of securities loaned and securities sold under agreements to repurchase (repurchase agreements). Where the requirements of ASC 210-20, *Balance Sheet Offsetting* (ASC 210-20), are met, collateralized agreements and collateralized financings are presented on a net-by-counterparty basis in the Statement of Financial Condition.

Securities Borrowed and Securities Loaned Transactions

Securities borrowed and securities loaned transactions are recorded at the contract value of cash collateral advanced or received, plus accrued interest. Contract values approximate fair value as they are subject to daily repricing. If recorded at fair value under ASC 820, Securities borrowed and securities loaned would be reported within either Level 1 or Level 2. Refer to Note 6 “Financial Instruments” for Level 1 and Level 2 classification. Collateral in the form of cash is exchanged for securities borrowed, and is received for securities loaned, based on the approximate fair value of the related securities. The cash collateral is adjusted daily to reflect changes in the current value of the underlying securities.

Resale and Repurchase Agreements

Resale and repurchase agreements are recorded at their contract amounts. Contract values approximate fair value as they are subject to daily repricing. If recorded at fair value under ASC 820, Resale and repurchase agreements would be reported within either Level 1 or Level 2. Refer to Note 6 “Financial Instruments” for Level 1 and Level 2 classification. Resale agreements require the Company to deposit cash with the seller and to take possession of the purchased securities. Repurchase agreements require the buyer to deposit cash with the Company and to take possession of the sold securities. The fair value of the securities sold or purchased plus accrued coupon is generally in excess of the cash received or provided. The Company monitors the fair value of resale and repurchase agreements on a daily basis, with additional cash or securities obtained or posted as necessary.

(g) Receivables from and Payables to Clients

Receivables from and payables to clients include amounts due or held on cash and margin transactions. Receivables from clients are generally fully secured by securities held in the clients’ accounts. Collateral is required to be maintained at specified minimum levels at all times. The collateral is not reflected in the Statement of Financial Condition.

The Company establishes an allowance for credit losses against receivables when collectability is not reasonably assured. Factors considered by management in determining the amount of the allowance include past experience, future expectations of performance, degree of concentration and quality of collateral. Receivables are presented net of allowance. The allowance as of December 31, 2022 was $1.3 million.

(h) Credit Losses

The Company accounts for credit losses on financial assets measured at an amortized cost basis in accordance with FASB ASC 326-20, *Financial Instruments – Credit Losses* (ASC 326). ASC 326 requires the Company to estimate expected credit losses over the life of its financial assets as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. Management monitors the adequacy of these estimates through periodic evaluations against actual trends experienced.

The Company determined that the financial assets in scope were primarily related to notes receivable from employees. The Company reviews charge-off experience factors, contractual delinquency, historical collection rates, and other information to make the necessary judgments as to credit losses expected. The Company's charge-off policy is based on a note-by-note review. Refer to Note 17 "Related Party Transactions" for additional allowance information.

In evaluating secured financing receivables (resale agreements and securities borrowed transactions), the Company applies the practical expedient based on the collateral maintenance provisions in estimating an allowance for credit losses. Credit losses are not recognized for secured financing receivables where the underlying collateral's fair value is equal to or exceeds the asset's amortized cost basis. In cases where the collateral's fair value does not equal or exceed the amortized cost basis, the allowance for credit losses, if any, is limited to the difference between the fair value of the collateral at the reporting date and the amortized cost basis of the financial assets. As such, generally, no allowance for credit losses is held against these secured financing receivables.

The Company's receivables from brokers, dealers, and clearing organizations generally do not give rise to material credit risk and have a remote probability of default either because of their short-term nature or due to the credit protection framework inherent in the design and operations of brokers, dealers and clearing organizations. As such, generally, no allowance for credit losses is held against these receivables.

(i) Exchange Memberships

The Company's exchange memberships, which 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 December 31, 2022. Exchange memberships are included in Other assets in the Statement of Financial Condition.

(j) Leases

The Company determines if an arrangement is a lease or contains a lease at inception. Under ASC 842, *Leases* (ASC 842), the Company recognizes in the Statement of Financial Condition a liability to make lease payments and a right-to-use asset representing its right to use the underlying asset for the lease term. ROU assets and lease liabilities for leases with a lease term greater than 12 months are included in Other assets and Other liabilities, respectively, on the Statement of Financial Condition.

The ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As the Company's leases do not provide an implicit rate, the Company uses an incremental borrowing rate (IBR) based on the information available at commencement date to calculate the present value of lease payments. The IBR approximates the rate of interest on a collateralized borrowing over a similar term, an amount equal to the lease payments in a similar economic environment.

(k) Revenue Recognition

Commissions and other fees revenues and related expenses are recorded on a trade-date basis as transactions occur and primarily include commissions earned from wealth management, correspondent, futures, and institutional clients.

Under clearing agreements, the Company clears trades for clients and retains a portion of the commission for its services. Commissions and remittal to the client are recorded on a net basis.

The Company recognizes interest income on an accrual basis.

Revenues from investment banking are recognized when the services related to the underlying transaction are completed under the terms of the engagement. Underwriting revenues are presented gross of related expenses.

Asset management fees are recognized monthly as earned and are based on the fair value of the assets in the clients' accounts at the end of the prior quarter.

Securities services revenues include correspondent trading and equity research fees. Additionally, securities services include per account fees such as revenues from fee-based accounts and IRA fees, which are recognized into income as earned over the term of the contract.

The Company's financial instruments are carried at fair value and recorded on a trade-date basis.

Additional information regarding revenue recognition is included in Note 8 "Revenue from Contracts with Customers."

(l) Income Taxes

The Company computes tax provisions in accordance with ASC 740, *Income Taxes* (ASC 740), on a modified separate return method. Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax basis of the Company's assets and liabilities. Deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in the period during which such changes are enacted.

The Company follows guidance under ASC 740, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. Under ASC 740, the

Company determines whether it is more likely than not that an income tax position will be sustained upon examination by tax authorities.

ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Sustainable income tax positions are measured to determine the amount of benefit to be recognized in the Statement of Financial Condition based on the largest amount of benefit that is more likely than not to be realized upon ultimate settlement.

(m) Foreign Currency Translation

Assets and liabilities denominated in non-U.S. dollar currencies are translated at exchange rates at the end of a period.

(n) Recent Accounting Developments

Compensation – Stock Compensation

In October 2021, the FASB issued ASU 2021-07, *Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*. The amendments provide a practical expedient that allows nonpublic entities to determine the current price of an underlying share for valuing equity-classified share-based payment awards by using the application of a reasonable valuation method.

Factors to be considered under a reasonable valuation method include: (1) the value of the nonpublic entity's tangible and intangible assets; (2) the present value of the entity's anticipated future cash flows; (3) the market value of stock or equity interests in similar entities engaged in substantially similar trades or businesses; (4) recent arm's-length transactions involving the sale or transfer of the entity's stock or equity interests; (5) other relevant factors, such as control premiums or discounts for lack of marketability; (6) the entity's consistent use of a particular valuation method to determine the value of stock or assets for other purposes. The ASU is effective prospectively for all qualifying awards granted or modified during fiscal years beginning after December 15, 2021. The Company adopted the provisions as of July 1, 2022 on a prospective basis. The adoption of the amendments did not have a material impact to the Company's Statement of Financial Condition.

Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security, and therefore, is not considered in measuring fair value. The guidance further prohibits an entity from recognizing a contractual sale restriction as a separate unit of account and requires specific disclosures related to the fair value; the nature and duration of the restrictions; and circumstances that could cause the restrictions to lapse on such an equity security. The ASU is effective prospectively for fiscal years beginning after December 15, 2023 with early adoption permitted. The Company is currently evaluating the impact of the new guidance but does not expect a material impact.

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

The following is a disaggregation of Cash and securities segregated for the benefit of clients as of December 31, 2022 under 15c3-3 (in thousands):

Cash segregated for regulatory purposes	$	1,191,155
Securities purchased under agreements to resell		75,000
Securities segregated for regulatory purposes		10,736
Total cash and securities segregated for the benefit of clients under SEC rule 15c3-3	**$**	**1,276,891**

At December 31, 2022, assets segregated or held in separate accounts under CEA regulations are as follows (in thousands):

Cash segregated for regulatory purposes	$	1,120,707
Securities segregated for regulatory purposes		1,042,135
Receivables from brokers, dealers and clearing organizations		388,100
Total assets segregated or held in separate accounts under CEA	**$**	**2,550,942**

(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 and clearing activities and consist of the following as of December 31, 2022 (in thousands):

Securities failed to deliver	$	2,251
Amounts due from brokers, dealers and clearing organizations		525,937
Deposits with clearing organizations		51,169
Trade date settlement receivable, net		10,026
Total receivables from brokers, dealers and clearing organizations	**$**	**589,383**

Securities failed to receive	$	2,544
Amount due to brokers, dealers and clearing organizations		24,501
Total payables to brokers, dealers and clearing organizations	**$**	**27,045**

Securities failed to deliver and failed to receive represent the contractual value of securities that have not been delivered or received on or after the settlement date.

(5) Collateralized Agreements and Financing

The Company enters into collateralized agreements and financing transactions in order to, among other things, finance client activities, acquire securities to cover short positions and finance certain of the Company's assets. In many cases, the Company is permitted to deliver, repledge or otherwise use these financial instruments as collateral for repurchase agreements, securities lending transactions, to meet margin requirements at clearing organizations or to facilitate short sales of clients and the Company.

At December 31, 2022, the approximate value, excluding the impact of netting, of financial instruments received as collateral by the Company, in connection with resale agreements and securities borrowed, that the Company was permitted to sell or repledge was $3.4 billion.

Securities financing transactions are exposed to credit and liquidity risk. To manage these risks, the Company monitors the fair value of the underlying securities on a daily basis, with additional cash or securities obtained or posted as collateral as necessary.

Additionally, the Company, where appropriate, enters into master netting agreements with counterparties that provide the Company, in the event of a counterparty default, with the right to net the counterparty's rights and obligations under such agreements and liquidate and set off collateral held by the Company against the net amount owed by the counterparty.

The following table summarizes the contract value and fair value of the securities obtained from or given to counterparties as collateral on collateralized agreements and financing as of December 31, 2022 (in thousands):

	Contract Value	Fair Value
Collateralized agreements		
Securities segregated for the benefit of clients	$ 75,000	$ 75,180
Securities borrowed	$ 2,504,638	$ 2,383,539
Securities purchased under agreements to resell	$ 795,933	$ 796,350
Collateralized financing		
Securities loaned	$ 2,402,003	$ 2,290,324
Securities sold under repurchase agreements	$ 766,537	$ 765,843

The following tables present the carrying value of collateralized financings by class of collateral pledged and remaining contractual maturity as of December 31, 2022 (in thousands):

	Repurchase agreements	Securities loaned
U.S. government and agency securities	$ 766,537	$ 340
Municipal securities	-	20,695
Corporate debt securities	-	52,558
Equity securities	-	2,328,410
Total	**$ 766,537**	**$ 2,402,003**

	Repurchase agreements	Securities loaned
Overnight and open	$ 766,537	$ 2,402,003
Total	**$ 766,537**	**$ 2,402,003**

In accordance with ASC 210-20, the Company offsets financial assets and financial liabilities in the Statement of Financial Condition where there is a legally enforceable right to set off the recognized amounts and other offsetting requirements are met.

The following table presents information about the offsetting of these instruments and related collateral amounts as of December 31, 2022 (in thousands):

	Gross Amount	Amounts Offset in the Statement of Financial Condition (a)	Net Amounts Presented in the Statement of Financial Condition	Collateral Received or Pledged (b)	Net Amount (c)
Collateralized agreements					
Securities segregated for the benefit of clients	$ 75,000	$ -	$ 75,000	$ 75,180	$ -
Securities borrowed	$ 2,504,638	$ -	$ 2,504,638	$ 2,383,539	$ 121,099
Securities purchased under agreements to resell	$ 830,486	$ 34,554	$ 795,932	$ 796,350	$ -
Collateralized financing					
Securities loaned	$ 2,402,003	$ -	$ 2,402,003	$ 2,290,324	$ 111,679
Securities sold under repurchase agreements	$ 801,091	$ 34,554	$ 766,537	$ 765,843	$ 694

(a) Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance. There are no amounts which were eligible for netting pursuant to ASC Subtopic 210-20 that the Company did not net.

(b) Securities collateral is reflected at fair value, but has been limited to the net exposure on the Statement of Financial Condition in order to exclude any over-collateralization.

(c) Includes amounts subject to enforceable master netting agreements that have not met the requirements for offsetting in accordance with applicable accounting guidance but are eligible for offsetting to the extent an event of default has occurred.

(6) Financial Instruments

The Company's financial instruments that are carried at fair value include Financial instruments owned, Securities segregated for the benefit of clients and Financial instruments sold, not yet purchased.

(a) Fair Value of Financial Instruments

Fair value is defined under ASC 820 as the price that 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 that are significant to the determination of the fair value of the asset or liability 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 unadjusted 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.

In some instances, an instrument may fall into more than one level of the fair value hierarchy. In such instances, the instrument's level within the fair value hierarchy is based on the lowest of the three levels (with Level 3 being the lowest) that is significant to the fair value measurement. The Company's assessment of the significance of an input requires judgment and considers factors specific to the instrument.

(b) *Valuation Technique*

Financial instruments owned, Financial instruments sold, not yet purchased, and securities segregated that are reported as Level 1 are based on unadjusted 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 or broker quotes, and are reported as Level 2.

Other securities reported as Level 3 are initially valued at the transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, the Company uses other methodologies to determine fair value, such as due diligence reviews, other analytical procedures and earnings-based measures.

During the year ended December 31, 2022, 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 as of December 31, 2022 (in thousands):

	Level 1	Level 2	Level 3	Balance at December 31, 2022
Assets				
Financial instruments owned				
U.S. government and agency securities	$ -	$ 550	$ -	$ 550
Municipal securities	-	45,008	-	45,008
Corporate debt securities	-	163	-	163
Equity securities	21,763	-	-	21,763
Derivatives	3,974	-	-	3,974
Money Market Securities	205,000			205,000
Total financial instruments owned	**$ 230,737**	**$ 45,721**	**$ -**	**$ 276,458**
Securities segregated for the benefit of clients				
U.S. government securities	$ 1,052,871	$ -	$ -	$ 1,052,871
Total securities segregated for the benefit of clients	**$ 1,052,871**	**$ -**	**$ -**	**$ 1,052,871**
Liabilities				
Financial instruments sold, not yet purchased				
U.S. government and agency securities	$ 2,343	$ -	$ -	$ 2,343
Corporate debt securities	-	26	-	26
Equity securities	589	-	-	589
Derivatives	452	-	-	452
Total financial instruments sold, not yet purchased	**$ 3,384**	**$ 26**	**$ -**	**$ 3,410**

There were no securities pledged as collateral included in Financial instruments owned as of December 31, 2022.

Transfers between fair value classifications occur when there are changes in pricing observability levels. There were no transfers between levels during the period ended December 31, 2022.

(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 nonperformance. 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 has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the Statement of Financial Condition at December 31, 2022, at fair values of the related securities and will incur a loss if the fair values of the related securities increase subsequent to December 31, 2022.

The Company also executes client 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 clients may incur. In the event the client 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 client's obligations. The Company controls the risk by monitoring margin collateral levels on a daily basis for compliance with regulatory and Company guidelines, and requires additional collateral when necessary. The Company requires a client to deposit additional margin collateral, or reduce positions, if it is determined that the client's activities may be subject to above-normal market risks.

(7) Credit Risk

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

(8) Revenues from Contracts with Customers

The timing of revenue recognition may differ from the timing of payment by customers. The Company records a receivable when revenue is recognized prior to payment and the Company has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied.

The Company had receivables, primarily investment banking receivables, related to revenues from contracts with customers of $7.1 million and $11.1 million at December 31, 2022 and June 30, 2022, respectively, in Other receivables in the Statement of Financial Condition. The Company had no significant allowance related to these receivables during the year ended December 31, 2022. The Company had deferred revenue from contracts with customers of $0.3 million at December 31, 2022 and $0.6 million at June 30, 2022, respectively, in Other liabilities in the Statement of Financial Condition.

(9) Leases

The Company has operating leases mainly related to rental premises with remaining lease terms expiring in the years ranging from 2023 to 2032, exclusive of renewal and termination options. Some of the leases include renewal options and tenant improvement allowances. The Company's measurement of the ROU assets and operating lease liabilities does not include payments associated with those options since it is not reasonably certain that the Company will exercise those options. The lease agreements do not contain material variable lease payments, buyout options, residual value guarantees or restrictive covenants. The Company also has equipment finance leases expiring in the years ranging from 2023 to 2024.

The following table provides the amounts of lease assets and liabilities on the Statement of Financial Condition for the year ended December 31, 2022 (in thousands):

Assets		
Operating lease assets	$	28,278
Finance lease assets		101
Total lease assets	**$**	**28,379**
Liabilities		
Operating lease liabilities	$	33,154
Finance lease liabilities		111
Total lease liabilities	**$**	**33,265**

The following table presents the supplemental cash flow information related to leases for the year ended December 31, 2022 (in thousands):

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$	3,646
Financing cash flows for finance leases	$	131

The following table presents maturity of the Company's operating and finance lease liabilities as of December 31, 2022 (in thousands, except for weighted averages):

	Operating Leases	Finance Leases
Remainder of 2023	$ 4,352	$ 85
2024	8,751	20
2025	7,448	-
2026	5,041	-
2027	3,258	-
Thereafter	12,359	-
Total lease payments	**$ 41,209**	**$ 105**
Less: imputed interest	(8,055)	6
Present value of lease liabilities	**$ 33,154**	**$ 111**
Weighted average remaining lease term (in years)	6.4	0.5
Weighted average discount rate	7.0%	2.6%

(10) Equity-based Compensation

WFS established an equity compensation plan to issue restricted unit value grants (RUVG) to eligible employees and non-employee directors as a form of compensation. Under this plan, up to 1 million of WFS's Class B units are authorized to be used for grants of awards. Each RUVG unit represents the right of the holder to receive a Class B unit of WFS on a specific date generally upon vesting. These awards may vest at the grant date or over three to five years. The fair value of the RUVG is determined on the date of grant. Certain RUVGs will be settled in cash that subject these awards to variable accounting whereby compensation expense is adjusted to fair value based on changes in the unit price of WFS's Class B unit up to the settlement date. Dividends are accrued during the vesting period and paid at the time of vesting.

The following table presents the activities of the Company's unit-settled RUVGs for the year ended December 31, 2022:

	Units	Weighted-Average Grant Date Fair Value
Outstanding, July 1, 2022	221,860	$ 19.10
Granted	209,377	24.00
Vested	(6,792)	24.00
Forfeited	(500)	24.00
Outstanding, December 31, 2022	**423,945**	**$ 21.85**

The total fair value of RUVGs that vested for the period ended December 31, 2022 was $0.2 million.

Cash-settled Restricted Unit Value Grant

At December 31, 2022, there were no material cash-settled RUVGs outstanding. For the period ended December 31, 2022, the amount of cash paid to settle the RUVGs was $0.4 million.

(11) Income Taxes

The Company is included in the filing of WedCap's consolidated tax return for federal tax purposes and in WedCap's combined returns for certain states where such filing is required or permitted. The Company is also a party to a tax allocation agreement with WedCap. The Company has adopted the modified separate return approach, whereby the Company calculates its corresponding tax amounts in accordance with the current enacted tax laws and rates while also considering those tax attributes that are realized or realizable by WedCap and corresponding consolidated or combined group. The Company believes its adopted modified separate return approach is systematic and rational and has been consistently applied.

The Company had no material unrecognized tax benefits.

WedCap is no longer subject to U.S. federal examinations for the years before June 30, 2019, and, with a few exceptions, to state and local tax examinations for the years before June 30, 2018.

Included in Other receivables in the Statement of Financial Condition are federal and state tax receivable from WFS of $3.4 million at December 31, 2022.

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 basis. 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.

Temporary differences and carryforwards, which give rise to deferred tax assets and liabilities, consist of the following as of December 31, 2022 (in thousands):

Deferred tax assets		
Accrued expenses not yet deductible	$	7,643
Deferred rent credit and other		1,077
Amortization of book-tax difference		631
Other		413
Total deferred tax assets	**$**	**9,764**
Deferred tax liabilities		
Unrealized gains	$	(583)
Depreciation		(26)
Total deferred tax liabilities		(609)
Net deferred tax assets	**$**	**9,155**

Net deferred tax assets are included in Other assets in the Statement of Financial Condition. The Company has reviewed its deferred tax assets to assess whether a valuation allowance should be established. Management believes that it is more likely than not that the deferred tax assets will be realized. Accordingly, no valuation allowance has been established. Utilization of the deferred tax asset is dependent on generating sufficient taxable income at the Company and WedCap.

(12) Net Capital Requirement

The Company is subject to the SEC’s Uniform Net Capital 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 equal to the greater of $1.0 million or 2% of aggregate debit balances arising from client transactions.

As an FCM, 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 8% of customer and noncustomer risk maintenance margin requirements on all positions. These CFTC regulations also prohibit a broker-dealer from repaying subordinated borrowings, paying cash dividends, making loans to its affiliates or employees, or otherwise entering into transactions, which would result in a reduction of its total net capital to less than 150% of its required minimum capital.

The Company's ability to make capital and certain other distributions is subject to the rules and regulations of various exchanges, clearing organizations and other regulatory agencies, which may have capital requirements that are greater than the applicable self-regulatory organizations.

The Company, as a dually registered broker-dealer and FCM, is required to maintain net capital in excess of the greater of the SEC or CFTC minimum net capital requirements. At December 31, 2022, the Company had net capital of $246.8 million that was 37% of aggregate debit items and $153.8 million in excess of the $93.0 million required minimum net capital at that date.

(13) Short-Term Financing

The Company has the ability to obtain committed 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 $202.3 million unsecured at interest rates determined on the date of each borrowing, and reset daily. At December 31, 2022, there were $202.3 million of short-term borrowings outstanding under this credit line at an interest rate of 7.85%.

The Company also has the ability, through arrangements with multiple banks, to obtain uncommitted short-term borrowings. Under these agreements, the Company can borrow on demand up to a maximum of $390.0 million secured and $10.0 million unsecured at interest rates determined on the date of each borrowing, and reset daily. At December 31, 2022, there were no short-term borrowings outstanding under these credit lines.

The Company has an additional uncommitted secured credit line at interest rates determined on the date of each borrowing, and reset daily. At December 31, 2022, there were no short-term borrowings outstanding under this secured credit line.

The loan agreements contain various financial covenants. The Company was in compliance with all such covenants for the year ended December 31, 2022.

(14) Subordinated Loans

At December 31, 2022, The Company has Subordinated debt with WFS for $45.0 million. Of which, $25.0 million bears interest at a rate of 5.5% and will mature on January 29, 2024; $20.0 million bears interest at a rate of 3.5% and will mature on March 31, 2023. The Subordinated debt is approved by FINRA as a satisfactory subordination agreement which is allowable in the computation of Net Capital.

(15) Benefit Plan

The Company has a trustee-directed defined contribution retirement plan qualified under Section 401(k) of the Internal Revenue Code that also covers employees of affiliated companies. Annual employer discretionary contributions vest on a graduated scale based on completed years of service. At December 31, 2022, employer contributions payable to the plan were $6.0 million and are included in Other liabilities in the Statement of Financial Condition.

(16) Contingencies and Guarantees

(a) Contingencies

Employee Classification Matter

This matter is a class action complaint for damages, injunctive relief and restitution initially brought by a former employee. The class includes generally all current and former California commissioned based employees, paid once per month, who, in the period within four years of the filing of the complaint in 2015, were allegedly misclassified as exempt employees under the California Labor Code. The Company previously prevailed in a court trial. In November 2020, the court of appeals reversed the trial court decision. The Supreme Court declined review, and the case was remanded back to the trial court in February 2021. A trial date has been scheduled for May, 2023.

Although the outcome of the matter is uncertain, the Company has accrued a loss contingency based on an analysis of commission the damages claims asserted on behalf of the class, and the Company's assessment of the likelihood of prevailing in all aspects of the complaint.

Other 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 bodies and self-regulatory organizations regarding its business, which may result in adverse judgments, settlements, fines, penalties, injunctions and other relief. The Company is contesting the allegations in these claims, and believes there are meritorious defenses in each of these arbitrations, lawsuits and regulatory investigations. The Company accrues for a settlement when a liability is deemed probable and estimable in Other liabilities in the Statement of Financial Condition.

At the present time, the Company does not expect the ultimate resolution of the matters described above to have a material adverse effect, beyond accrued loss contingencies, on the Company's Statement of Financial Condition.

(b) Guarantees

FASB ASC 460, *Guarantees* (ASC 460), 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 liabilities in the Statement of Financial Condition for these agreements and believes that any potential requirement to make payments under these agreements is remote and not material to the financial statement.

The Company utilizes Fixed Income Clearing Corporation (FICC) for trade comparison, netting and settlement of fixed income securities. On November 15, 2018, a SEC rule change became effective providing FICC with a committed liquidity resource, Capped Contingency Liquidity Facility (CCLF). FICC will use a rule-based approach to allocate CCLF obligations, with those netting members that place a higher liquidity burden on FICC responsible for a larger share of the CCLF. FICC apprises the Company of its share of the maximum funding need for CCLF on a monthly basis. The Company believes that it is unlikely it will have to be counterparty to potential CCLF repurchase transactions under this agreement and has not recorded any contingent liability in the Statement of Financial Condition for this SEC rule change. As of December 31, 2022, the Company had a current CCLF requirement, of $15.1 million. The Company believes that it is unlikely it will have to be counterparty to potential CCLF repurchase transactions under this agreement and has not recorded any contingent liability in the Statement of Financial Condition for this SEC rule change.

(17) Related-Party Transactions

The Company enters into securities transactions and other transactions with related parties. At December 31, 2022, balances with such related parties were included in the Statement of Financial Condition as follows (in thousands):

Assets		
Receivables from clients, net	$	6,718
Other receivables		28,257
Total assets	**$**	**34,975**
Liabilities		
Payables to clients	$	5,688
Other liabilities		2,291
Subordinated loans		45,000
Total liabilities	**$**	**52,979**

In the normal course of business, officers, directors, relatives of officers and directors, and affiliates may buy and sell securities through the Company. Receivables from and payables to affiliates, officers, directors and relatives are recorded within Receivables from clients, net and Payables to clients, respectively, in the Statement of Financial Condition.

The Company has agreements with affiliates for other activities, including a tax sharing agreement with WedCap as described in Note 11 "Income Taxes." Unsettled amounts for these activities are recorded within Other receivables in the Statement of Financial Condition.

Notes receivable from employees are generally from recruiting activities and are noninterest-bearing. The notes are typically forgiven over a period of three to eight years. Notes receivable from employees are included in Other receivables in the Statement of Financial Condition. Notes receivable from employees totaled $21.5 million, net of allowance of $2.8 million, at December 31, 2022. The following table presents the roll forward of the allowance for the year ended December 31, 2022 (in thousands):

	Balance at June 30, 2022	**Provision**	**Charge-offs**	**Balance at December 31, 2022**
Other receivables	$ (5,008)	$ 138	$ 2,023	$ (2,847)

The Company remitted $11.4 million of its excess distributable retained earnings as dividends during the period ended December 31, 2022, which included cash dividends of $9.9 million and non-cash dividends of $1.5 million. The non-cash dividends were in the form of related party receivables.

(18) Subsequent Events

The Company has evaluated all events subsequent to December 31, 2022, up until the date the Statement of Financial Condition were issued, and, except as disclosed, has determined there were no events or transactions during said period that would require recognition or disclosure in the Statement of Financial Condition.