

Benjamin F. Edwards & Company, Inc.

(A Wholly Owned Subsidiary of Benjamin
Edwards, Inc.)

(SEC ID: 8-68023)

Balance Sheet and Notes to Balance Sheet as of
December 31, 2016, and Report of Independent
Registered Public Accounting Firm

Filed in accordance with Rule 17a-5(e)(3) as a PUBLIC DOCUMENT

BENJAMIN F. EDWARDS & COMPANY, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
Benjamin F. Edwards & Company, Inc.
St. Louis, Missouri

We have audited the accompanying balance sheet of Benjamin F. Edwards & Company, Inc. (the "Company") (a wholly-owned subsidiary of Benjamin Edwards, Inc.) as of December 31, 2016, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such balance sheet presents fairly, in all material respects, the financial position of Benjamin F. Edwards & Company, Inc. as of December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.



February 28, 2017

BENJAMIN F. EDWARDS & COMPANY, INC.

BALANCE SHEET AS OF DECEMBER 31, 2016

ASSETS

Cash and cash equivalents	\$ 14,021,289
Certificate of deposit	100,000
Clearing deposit	100,000
Securities owned, at fair value	646,193
Due from clearing firm	4,416,301
Property and equipment — net of accumulated depreciation and amortization of \$9,054,191	6,211,458
Transition bonus receivable — net of allowance for doubtful accounts of \$51,428	13,545,817
Receivable from affiliates	86,903
Other	<u>5,277,066</u>
TOTAL	<u>\$ 44,405,027</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES:

Accounts payable	\$ 1,575,706
Compensation and benefits payable	9,475,427
Deferred revenue	137,500
Deferred rent	1,607,597
Securities sold not yet purchased, at fair value	249,054
Other taxes payable	<u>3,947</u>
Total liabilities	<u>13,049,231</u>

STOCKHOLDER'S EQUITY:

Common stock (par value \$1 per share, 30,000 shares authorized, 100 shares issued and outstanding)	100
Paid-in capital	76,043,693
Deficit	<u>(44,687,997)</u>
Total stockholder's equity	<u>31,355,796</u>

TOTAL	<u>\$ 44,405,027</u>
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See notes to balance sheet.

BENJAMIN F. EDWARDS & COMPANY, INC.

NOTES TO BALANCE SHEET AS OF DECEMBER 31, 2016

1. ORGANIZATION AND NATURE OF BUSINESS

Benjamin F. Edwards & Company, Inc. (the “Company”), is a wholly owned subsidiary of Benjamin Edwards, Inc. (the “Parent”). The Company is engaged in a single line of business as a securities broker-dealer, which comprises several classes of services, including riskless principal transactions, agency transactions and investment advisory businesses. The Company is an introducing broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company clears on a fully-disclosed basis through Pershing, LLC (“Pershing”).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The balance sheet has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates — The preparation of the balance sheet in conformity with GAAP requires the use of estimates and assumptions by management that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Therefore, actual results could differ from those estimates and could have a material impact on the balance sheet and it is possible that such changes could occur in the near term.

Cash and Cash Equivalents — Cash and cash equivalents consist of cash and highly liquid investments with original maturity dates of 90 days or less at the date of purchase. Due to the short-term nature of these financial instruments, fair value approximates their carrying value.

Certificate of Deposit — The Company has a certificate of deposit which is assigned as collateral to a bank for credit cards issued to certain employees. The certificate of deposit’s original maturity is less than 90 days, which is carried at the face amount of the certificate, which approximates fair value.

Securities Owned and Securities Sold not yet Purchased - The Company’s securities owned and securities sold, not yet purchased are carried at fair value as determined using quoted market or dealer prices. Unrealized and realized gains and losses are included in net income (loss).

Property and Equipment — Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is calculated on a straight-line basis using estimated useful lives as follows: 10 years for furniture and fixtures; 5 years for information technology equipment; and for leasehold improvements, the life of the lease if five years or greater or if less than five years, the combination of the life of the lease plus any renewal options up to a total of 5 years.

Transition Bonus Receivable — Financial consultants and certain other employees are eligible to receive an advance towards a transition bonus upon joining the firm. The financial consultant signs a promissory note, which is typically amortized through a bonus award to the financial consultant or other employee over a 57-month period beginning 3 months after the financial consultant’s start

date. The transition bonus receivable notes are carried at net realizable value. The allowance for doubtful accounts is management's estimate of the losses inherent within the receivables as of the balance sheet date based on individual analysis of the collectability of each loan. As of December 31, 2016, the allowance for losses is \$51,428.

Compensation and Benefits Payable — Commissions to brokers are accrued in the month they are earned and paid on the 15th of the following month. In addition, the portion of wages and benefits earned by salaried and hourly employees in the current month, but not paid until the following month, are accrued.

Deferred Rent — Tenant improvements are recorded as leasehold improvements in property and equipment with an offset to deferred rent on the balance sheet. The deferred rent portion is amortized over the life of the lease.

Deferred Revenue — Deferred revenue relates to the Company's clearing agreement with Pershing. The remaining balance is being amortized ratably over the term of the agreement that expires in September of 2019.

Income Taxes — The Company is included in the federal income tax return filed by the Parent. The Company uses the asset and liability method to record deferred income taxes. Accordingly, deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using enacted tax rates. The Company records a valuation allowance to reduce deferred tax assets to the amount that will more likely than not be realized by the Company. Under the Company's tax sharing arrangement with the Parent, for consolidated tax returns, tax is allocated on a separate return approach.

Recent Accounting Standards — In February 2016, the FASB issued Accounting Standards Update No. 2016-02 – *Leases*. The amendment will require lessees to recognize a right-of-use asset and lease liability for nearly all of their leases (other than leases that meet the definition of a short-term lease). The value of the asset and liability will be based on the present value of lease payments. The amendment also requires certain disclosures, including significant judgements made by management. The accounting changes are effective for fiscal periods beginning after December 15, 2018. The Company is currently evaluating the impact this standard will have on its balance sheet.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. This pronouncement will require companies to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The pronouncement will require a disclosure of a reconciliation between the statement of financial position and the statement of cash flows when the balance sheet includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. Entities with material restricted cash and restricted cash equivalents balances will be required to disclose the nature of the restrictions. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact this standard will have on its balance sheet.

3. STOCK INCENTIVE PLAN

The Parent adopted a Stock Incentive Plan ("Plan") to assist in recruiting, retaining and rewarding employees, directors and financial consultants. The Plan allows the Parent to award stock options,

stock appreciation rights and other stock-based awards, including, but not limited to, restricted stock. Two million shares have been authorized under the Plan. The Parent has entered into commitments to grant stock under the Plan. The service period and vesting requirements for each stock grant commitment is determined by a committee that is comprised of the Parent's Board of Directors and appointees of the Board of Directors. Compensation expense for these stock awards is based on the fair value of the shares to be issued which is the offering price to investors at the time of the grant. If no offering is open at the time of the grant, compensation expense would be based on the independent valuation of the Parent's stock.

The 2016 share awards have vesting periods from one to five years and the expense is recognized ratably over a service period of three or five years. As of December 31, 2016, the Parent has unrecognized compensation expense of \$5,270,534 relating to these awards. The weighted-average period over which the unrecognized compensation expense will be recognized is 2.16 years.

4. PROPERTY AND EQUIPMENT

At December 31, 2016, property and equipment consisted of:

Leasehold improvements	\$ 8,919,815
Furniture and fixtures	3,956,436
Information technology equipment	2,264,916
Fixed assets not placed in service	<u>124,482</u>
Total	15,265,649
Less accumulated depreciation and amortization	<u>(9,054,191)</u>
Total property and equipment — net	<u>\$ 6,211,458</u>

5. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company may use various valuation approaches, including market, income and/or cost approaches. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. Accordingly, even when market assumptions are not readily available, the Company's own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. The fair value measurement accounting guidance describes the following three levels used to classify fair value measurements:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 — Unobservable inputs that are significant to the fair value of the assets or liabilities and rely on management's own assumptions.

The availability of observable inputs can vary and in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to a fair value measurement requires judgment and consideration of factors specific to the asset or liability.

The following is a description of the valuation methodologies used for securities measured at fair value, based on statement of financial condition classification.

Securities Owned and Securities Sold, not yet Purchased — Securities owned and securities sold, not yet purchased consists of exchange-traded equity securities such as mutual funds and exchange traded funds. Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, they are classified as level 1 of the fair value hierarchy, or otherwise they are classified as level 2. The Company's definition of actively traded is based on average daily volume and other market trading statistics.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Company's net assets as of December 31, 2016 is as follows:

	Valuation Inputs			
	Level 1	Level 2	Level 3	Total
Securities Owned:				
Municipal Bonds	\$ -	\$ 423,989	\$ -	\$ 423,989
Government Bonds	-	3,823	-	3,823
Mutual Funds	5,493	-	-	5,493
Common Stock	210,191	-	-	210,191
Unit Investment Trusts	-	2,697	-	2,697
Total	<u>\$ 215,684</u>	<u>\$ 430,509</u>	<u>\$ -</u>	<u>\$ 646,193</u>

	Valuation Inputs			
	Level 1	Level 2	Level 3	Total
Securities Sold, Not Yet Purchased:				
Mutual Funds	\$ 341	\$ -	\$ -	\$ 341
Common Stock	248,643	-	-	248,643
Unit Investment Trusts	-	70	-	70
Total	<u>\$ 248,984</u>	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ 249,054</u>

The Company did not have any liabilities that were measured at fair value on a recurring basis at December 31, 2016, other than securities sold, not yet purchased. During the year ended December 31, 2016, no transfer of securities between levels 1 through level 3 occurred.

6. INCOME TAXES

Net deferred tax assets consist of the following as of December 31, 2016:

Deferred tax assets:	
Net operating loss carryforward	\$ 15,027,000
Deferred revenue	55,000
Deferred rent	643,000
Amortization of restricted stock	2,493,000
Intangible start-up costs	139,000
Other	26,000
	<u>18,383,000</u>
Less valuation allowance	<u>(17,868,000)</u>
Total deferred tax assets — net	<u>515,000</u>
Deferred tax liabilities:	
Prepaid expenses	<u>(515,000)</u>
Total deferred liabilities	<u>(515,000)</u>
Total deferred taxes — net	<u>\$ -</u>

As of December 31, 2016, the Company recorded a valuation allowance of \$17,868,000 to reduce the total net deferred tax assets to an amount that management estimates will more likely than not be realized.

Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to reduce taxable income. The net operating losses for federal filings will expire in varying amounts if not utilized starting 2029 through 2036.

As of December 31, 2016, the Company did not have any unrecognized tax benefits.

The Company is included in its Parent's federal consolidated tax return and various state consolidated income tax returns. The Company also files several state income tax returns separate from its Parent. All required initial tax returns were filed for the period ended December 31, 2009. Subsequent returns have been appropriately filed for all periods thereafter. Such returns, if selected, could be subject to Federal and various state tax examinations. As of December 31, 2016, there were no outstanding tax-related balances due to or due from Parent.

7. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has obligations under operating leases with initial non-cancelable lease terms in excess of one year and expiring in various years through 2024. Minimum rental commitments for office space and office equipment at December 31, 2016, are as follows:

2017	\$ 4,516,478
2018	4,069,091
2019	3,269,324
2020	2,351,272
2021	1,274,359
Later years	<u>583,095</u>
Total	<u>\$ 16,063,619</u>

As a securities broker and dealer, the Company is engaged in various securities trading activities. The Company's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets, which may impair the customers' ability to satisfy their obligations to the Company. The Company manages its risk in this area through Pershing's monitoring of customer position and credit limits and collateral. Additional collateral is required from customers where appropriate.

The Company's principal transactions relate only to matched principal transactions. In matched principal transactions, the Company is interposed between buyers and sellers and the transactions. In the event of counterparty nonperformance, the Company may be required to purchase or sell financial instruments at unfavorable market prices, which may result in a loss to the Company. These unmatched positions are held short-term.

The Company has provided a guarantee to Pershing. Under the agreement, the Company has agreed to indemnify Pershing for customers introduced by the Company that are unable to satisfy the terms of their contracts. The Company's liability under these arrangements is not quantifiable. However, management believes the potential for the Company to be required to make payments under this agreement is remote. Accordingly, no amounts are recorded on the balance sheet for these contingent liabilities.

The Company has obtained letters of credit in favor of various lessors related to certain of the Company's branch office locations in lieu of security deposits. As of December 31, 2016, there were \$342,919 of undrawn outstanding bank letters of credit.

In the normal course of business, there are various legal actions and proceedings pending against the Company. In management's opinion, after consultation with outside counsel, the ultimate liability, if any, resulting from these legal actions will not have a material adverse effect on the Company's financial position.

8. RECEIVABLE TO AFFILIATES AND RELATED PARTY TRANSACTIONS

The Company incurs certain expenses on behalf of affiliates which are included in receivable from affiliates on the balance sheet. At December 31, 2016, the balance includes a receivable of \$91,080 due from its Parent and a payable of \$4,177 due to its affiliate, B. F. Edwards and Company, LLC, a

wholly owned subsidiary of the Parent. The receivable from Parent relates to expenses paid by the Company on behalf of the Parent during 2013-2016. Payable to affiliate relates to the transfer of property and equipment, at book value, to the Company during 2009.

Benjamin F. Edwards IV, Chief Executive Officer of the Company and a member of the Benjamin Edwards, Inc. Board of Directors are on the Board of Directors of Cass Commercial Bank where the Company has cash on deposit in a money market demand account of \$3,100,448 as of December 31, 2016.

A member of the Benjamin Edwards, Inc. Board of Directors is the Chief Executive Officer and Chief Investment Officer of an investment management firm that Benjamin F. Edwards, Inc. utilizes.

9. NET CAPITAL REQUIREMENTS

The Company is subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1) under the Securities and Exchange Act of 1934, which requires the maintenance of minimum net capital of \$250,000. The Rule also requires that equity capital may not be withdrawn or distributions paid to the Parent if the Company's net capital is less than 120% of minimum net capital or \$300,000. At December 31, 2016, the Company had net capital of \$7,089,004, of which \$6,839,004 was in excess of the minimum required. The Company has a proprietary account of brokers and dealers agreement with Pershing which allows the Company to treat the balance with Pershing as an allowable asset under SEC Rule 15c3-1.

10. SUBSEQUENT EVENTS

The Company determined there were no subsequent events that would require disclosure or adjustments to the accompanying balance sheet through the date the balance sheet was issued.
