



13010353

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

| OMB APPROVAL  |                |
|---|----------------|
| OMB Number:   | 3235-0123      |
| Expires:  | April 30, 2013 |
| Estimated average burden<br>hours per response..... | 12.00          |

KA  
3/2/13

**ANNUAL AUDITED REPORT**  
**FORM X-17A-5**  
**PART III**

SEC  
Mail Processing  
Section

FEB 27 2013

| SEC FILE NUMBER |
|-----------------|
| 8-44088         |

FACING PAGE

**Information Required of Brokers and Dealers in Washington, DC Section 17 of the  
Securities Exchange Act of 1934 and Rule 1702 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/12 AND ENDING 12/31/12  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: World Equity Group, Inc.

| OFFICIAL USE ONLY |
|-------------------|
| FIRM I.D. NO.     |

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1650 N. Arlington Heights Rd., Suite 100  
(No. and Street)

Arlington Heights IL 60004-3984  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Richard S. Babjak (847) 342-1700  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Frost, Ruttenberg & Rothblatt, P.C.

(Name - if individual, state last, first, middle name)

111 S. Pfingsten Rd, Ste 300 Deerfield IL 60015  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

| FOR OFFICIAL USE ONLY |
|-----------------------|
|                       |

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

EM  
3/5/13

OATH OR AFFIRMATION

I, Richard S. Babjak, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of World Equity Group, Inc. of December 31, 2012, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None

[Handwritten Signature]

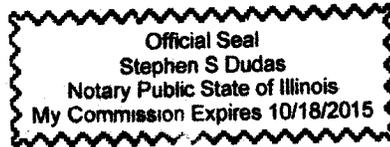
Signature

President

Title

[Handwritten Signature]

Notary Public February 22, 2013



This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



Frost  
Rittenberg &  
Rothblatt PC

*CPAs & Business Advisors*

**World Equity Group, Inc.**

**Financial Statement  
and Auditor's Report**

**December 31, 2012**

**World Equity Group, Inc.**  
**December 31, 2012**

| <b>Table of Contents</b>                       | <b>Page</b> |
|--|-------------|
| Independent Auditor's Report.....              | 1           |
| Statement of Financial Condition.....          | 2           |
| Notes to Statement of Financial Condition..... | 3-8         |



## Independent Auditor's Report

**Board of Directors  
World Equity Group, Inc.**

### Report on the Financial Statements

We have audited the accompanying statement of financial condition of World Equity Group, Inc. (the "Company") as of December 31, 2012, that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to statement of financial condition.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of World Equity Group, Inc. as of December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

*Frost Rittenberg and Rothblatt, P.C.*

February 22, 2013  
Deerfield, Illinois

## **Financial Statements**

**World Equity Group, Inc.**  
**Statement of Financial Condition**  
**December 31, 2012**

**ASSETS**

|   |                                   |
|---|-----------------------------------|
| Cash and cash equivalents   | \$ 1,014,533                      |
| Receivable from and deposits with clearing broker-dealer                                      | 640,252                           |
| Securities owned, at fair value   | 60,101                            |
| Commissions receivable  | 227,832                           |
| Prepaid expenses  | 83,085                            |
| Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$171,583 | 90,425                            |
| Other assets  | <u>107,596</u>                    |
| <b>TOTAL ASSETS</b>   | <b><u><u>\$ 2,223,824</u></u></b> |

**LIABILITIES AND EQUITY**

|                                       |                                   |
|---------------------------------------|-----------------------------------|
| Accounts payable and accrued expenses | \$ 209,820                        |
| Accrued commissions                   | 1,076,805                         |
| Deferred clearance fee credit         | <u>300,000</u>                    |
| <b>TOTAL LIABILITIES</b>              | <b>1,586,625</b>                  |
| <b>EQUITY</b>                         | <b><u>637,199</u></b>             |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b><u><u>\$ 2,223,824</u></u></b> |

See accompanying notes.

**World Equity Group, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

**Note (1) Nature of Operations and Summary of Significant Accounting Policies**

---

**A. Nature of Operations**

World Equity Group, Inc. (the "Company") is a registered securities broker-dealer and investment advisor. The Company provides brokerage, investment advisory and venture capital advisory services to retail customers primarily in the Midwest region of the United States. Customer transactions are cleared through other clearing brokers on a fully disclosed basis.

The Company operates under the provisions of Paragraph (k)(2)(ii) of Rule 15c3-3 of the Securities Exchange Act of 1934 and, accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions on a fully disclosed basis with a clearing broker-dealer, and promptly transmit all customer funds and securities to the clearing broker-dealer. The clearing broker-dealer carries all the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker-dealer.

**B. Cash Flows**

The Company considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

**C. Cash Balances in Excess of Insured Amounts**

The Company maintains its cash in accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses due to these limits.

**D. Revenue Recognition**

Customers' securities transactions and the related commission income and commission and clearing expense are recorded on trade date. Investment advisory fees are recognized when earned.

**E. Securities Owned**

Securities owned consist of money market funds and equity securities. Securities transactions and related revenue and expenses are recorded on a trade-date basis as if they had settled. Securities are stated at fair value with the related changes in unrealized appreciation or depreciation reflected in other income.

Securities owned are recorded at fair value in accordance with the fair value measurements and disclosures topic.

**World Equity Group, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

**Note (1) Nature of Operations and Summary of Significant Accounting Policies – Continued**

**F. Furniture, Equipment and Leasehold Improvements**

Furniture, equipment and leasehold improvements are carried at cost. Depreciation is provided using the straight-line method over their estimated useful lives.

The Company reviews the recoverability of long-lived assets when circumstances dictate that the carrying amount may not be recoverable. The carrying amount of assets held and used is generally not recoverable if it exceeds the undiscounted sum of cash flows expected to result from the use and eventual disposition of the asset, or for assets held for sale if it exceeds market value. If the Company identifies impairment for long-lived assets to be held and used, the Company compares the assets' current carrying value to the assets' fair value. Fair value is based on current market values or discounted future cash flows. The Company records impairment when the carrying value exceeds fair value. There were no impairment indicators during the year ended December 31, 2012.

**G. Deferred Clearance Fee Credit**

Clearing broker incentive fees are recognized as deferred clearing fee credits, amortized on a straight line basis over the amended agreement term, and netted against brokerage, exchange and clearance fees in the statement of operations.

**H. Advertising**

The Company expenses advertising as incurred. Advertising expense was \$67,216 for the year ended December 31, 2012.

**I. Income Taxes**

The Company accounts for income taxes under the liability method as prescribed by accounting principles generally accepted in the United States of America. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, including net operating losses. Future tax benefits are recognized only to the extent that realization of such benefits, in the opinion of management, is more likely than not. As of December 31, 2012, the Company has a deferred tax asset of \$103,291 arising primarily from net operating loss carry forwards (approximately \$88,000 at December 31, 2012), which is included in other assets on the statement of financial condition and there is no valuation allowance.

The Company accounts for any potential interest or penalties related to the possible future liabilities for unrecognized income tax benefits as appropriate. The Company is no longer subject to examination by tax authorities for federal, state or local income taxes for periods before 2008.

**World Equity Group, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

**Note (1) Nature of Operations and Summary of Significant Accounting Policies – Continued**

---

**J. Subsequent Events**

The Company evaluated all significant events or transactions that occurred through February 22, 2013, the date these financial statements were available to be issued.

**K. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results may differ from those estimates, management does not expect the differences, if any, to have a material effect on the financial statements.

**Note (2) Fair Value of Financial Instruments**

---

The fair value measurements and disclosures topic defines fair value 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. It describes three approaches to measuring the fair value of assets and liabilities: 1) the market approach, 2) the income approach and 3) the cost approach. Each of these approaches includes multiple valuation techniques. It does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumption about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based upon the nature of the inputs to the valuation technique used:

- Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 – Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

**World Equity Group, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

**Note (2) Fair Value of Financial Instruments – Continued**

The following table sets forth, by level within the fair value hierarchy, the Company's assets that were accounted for at fair value on a recurring basis as of December 31, 2012. As required by the fair value measurements and disclosures topic, these assets are classified in their entirety based on the lowest level input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

| Description                       | Fair Values as of<br>December 31,<br>2012 | Fair Value Measurements at Reporting Date Using                            |  |  |
|-----------------------------------|---|--|--|--|
|                                   |   | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Securities Owned</b>           |   |  |  |  |
| Money market<br>funds             | \$ 60,076                                 | \$ 60,076  | \$ 0                                     | \$ 0   |
| Corporate stocks                  | 25  | 0  | 25                                       | 0  |
| <b>Total Securities<br/>Owned</b> | <b>\$ 60,101</b>                          | <b>\$ 60,076</b>   | <b>\$ 25</b>                             | <b>\$ 0</b>  |

**Note (3) Receivable From Broker-Dealers and Clearing Organizations**

The Company clears its proprietary and customer transactions through another broker-dealer on a fully disclosed basis. At December 31, 2012, the Company had amounts due from these broker-dealers and clearing organizations totaling \$510,136.

**Note (4) Net Capital Requirement**

The Company is subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). At December 31, 2012, the Company had net capital of \$347,000, which was \$261,225 in excess of its required net capital of \$85,775. The Company's net capital ratio was 3.71 to 1.

**World Equity Group, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

**Note (5) Lease**

---

The Company leases its office space through April 30, 2014 from an affiliated entity related through common ownership.

Future minimum rental payments to be paid by the Company, in the aggregate and for each of the next two years, are as follows:

|              |           |                |
|--------------|-----------|----------------|
| 2013         | \$        | 136,584        |
| 2014         |           | 45,528         |
| <b>Total</b> | <b>\$</b> | <b>182,112</b> |

Rent expense was \$144,477 for the year ended December 31, 2012.

**Note (6) Employee Benefit Plan**

---

The Company maintains a 401(k) plan for qualified employees. The Company matches 25 percent of participant contributions of up to 1 percent, and may make discretionary contributions to the plan, subject to certain limitations as set forth in the plan agreement. The Company's aggregate contribution to the plan for the year ended December 31, 2012 is \$16,000, and is included in accounts payable and accrued expenses in the statement of financial condition.

The Company also has a separate profit sharing plan, making discretionary contributions as defined in the plan, subject to certain limitations set forth in the plan agreement. The Company did not contribute to the profit sharing plan for the year ended December 31, 2012.

**Note (7) Off Balance Sheet Risk and Concentrations of Credit Risk**

---

The Company clears all of its trades through two clearing brokers on a fully disclosed basis. In the event these counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

Under the terms of its clearing agreements, the Company is required to guarantee the performance of its customers in meeting contracted obligations. In conjunction with the clearing brokers, the Company seeks to control the risks associated with its customer activities by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines. Compliance with the various guidelines is monitored daily and, pursuant to such guidelines, customers may be required to deposit additional collateral, or reduce positions, where necessary.

One representative accounted for approximately 13% of total revenue for the year ended December 31, 2012.

**World Equity Group, Inc.**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

**Note (8) Indemnifications**

---

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties that provide indemnifications under certain circumstances. The Company's maximum exposure under these arrangements is unknown and the risk of loss is remote, as it would require future claims that may be made against the Company that have not occurred.

**Note (9) Contingencies**

---

In the normal course of business, the Company is subject to litigation, arbitration and regulatory matters. The Company vigorously defends against these claims and, in the opinion of management as of December 31, 2012, the resolution of these matters will not result in any material adverse effect upon the Company's financial position, results of operations, or cash flows.