

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 82630 / February 5, 2018

INVESTMENT ADVISERS ACT OF 1940
Release No. 4852 / February 5, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18357

In the Matter of

**WEDBUSH SECURITIES
INC.**

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 15(b) AND 21C
OF THE SECURITIES EXCHANGE ACT OF
1934 AND SECTION 203(e) OF THE
INVESTMENT ADVISERS ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 203(e) of the Investment Advisers Act of 1940 (“Advisers Act”) against Wedbush Securities Inc. (“Wedbush” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting

Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 and Section 203(e) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

Summary

1. These proceedings involve Wedbush’s violations of Exchange Act Rule 15c3-3, known as the Customer Protection Rule (“Rule”). The Customer Protection Rule requires broker-dealers to safeguard both the cash and securities of their customers so that customer assets can be promptly returned if the firm fails. In order to do so, a broker-dealer is required to periodically (daily, weekly, or monthly depending on the firm) calculate the net amount of cash it owes its customers, and deposit that amount into a segregated bank account known as the “Reserve Account.”

2. Between September 2014 and January 2015, Wedbush’s weekly Rule 15c3-3 calculations to determine the net amount that should have been deposited into the Reserve Account included a significant error, resulting in weekly Reserve Account deficiencies ranging from approximately \$10 million to \$193 million out of a total Reserve Account requirement that ranged between \$1.5 billion and \$1.7 billion. When the error was uncovered, Wedbush was required to immediately deposit an additional \$133 million into its Reserve Account, which created a significant liquidity challenge for Wedbush. Wedbush’s failure to properly fund its Reserve Account also caused it to violate Section 17(a)(1) of the Exchange Act and Rule 17a-5(a) thereunder, because it included inaccurate information in its Financial and Operational Combined Uniform Single Reports (“FOCUS Reports”).

Respondent

3. **Wedbush Securities Inc.** (“Wedbush”) is a California corporation headquartered in Los Angeles, CA. Wedbush was founded in 1955 and has been registered with the Commission as a broker-dealer since 1966 and as an investment adviser since 1970. Wedbush is a privately held company and a wholly-owned subsidiary of Wedbush, Inc. (“Parent Company”). As of July 2017, Wedbush had 99 offices and more than 70 correspondent offices. During the relevant period, Wedbush was ranked as one of the five largest clearing firms based on the number of broker-dealer

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

customers served. Wedbush has an extensive disciplinary history involving failures to comply with federal securities laws in multiple areas.

The Customer Protection Rule

4. Rule 15c3-3 under the Exchange Act (“Rule”) is designed to protect broker-dealer customers in the event a broker-dealer becomes insolvent. The intent and objective of the Rule is:

the elimination of the use by broker-dealers of customer funds and securities to finance firm overhead and such firm activities as trading and underwriting through the separation of customer related activities from other broker-dealer operations.

Rule 15c3-3 Adopting Release, Exch. Act Rel. No. 9775, 1972 WL 125434, at *1 (Sept. 14, 1972). The Rule requires a broker-dealer that maintains custody of customer securities and cash (a “carrying broker-dealer”) to safeguard these assets by segregating customer securities and cash from the broker-dealer’s proprietary business activities. If the broker-dealer fails financially, the securities and cash should be readily available to be returned to the customers. In addition, if the failed broker-dealer is liquidated in a formal proceeding under the Securities Investor Protection Act, the securities and cash should be isolated and readily identifiable as “customer property” and, consequently, available to be distributed to customers ahead of other creditors. *See* 15 U.S.C. 78aaa *et seq.*

5. The Rule requires a carrying broker-dealer to maintain a reserve of funds or qualified securities in a separate account at a bank (the “Reserve Account”) that is at least equal in value to the net cash owed to customers. 17 CFR 240.15c3-3(e). The amount of net cash owed to customers is computed pursuant to a formula set forth in Exhibit A to Rule 15c3-3 (“Reserve Formula”), which most carrying broker-dealers calculate on a weekly basis. 17 CFR 240.15c3-3a. Under the Reserve Formula, the carrying broker-dealer adds up customer credit items that it owes its customers (*e.g.*, cash in customer securities accounts) and then subtracts from that amount customer debit items that its customers owe it (*e.g.*, margin loans). *See id.* If credit items exceed debit items, that net amount must be on deposit in the Reserve Account in the form of cash and/or qualified securities.² 17 CFR 240.15c3-3(e). A broker-dealer cannot make a withdrawal from the

² Customer cash is a balance sheet item of the carrying broker-dealer (*i.e.*, the amount of cash received from a customer increases the amount of the carrying broker-dealer’s assets and creates a corresponding liability to the customer). The Reserve Formula is designed to isolate these broker-dealer assets so that an amount equal to the net liabilities to customers is held as a reserve in the form of cash or U.S. government securities. The requirement to establish this reserve is designed to effectively prevent the carrying broker-dealer from using customer funds for proprietary business activities such as investing in securities. The goal is to put the carrying broker-dealer in a position to be able to readily meet its cash obligations to customers by requiring the firm to make deposits of cash and/or U.S. government securities into the Reserve Account in the amount of the net cash owed to customers.

Reserve Account until the next computation and even then only if the computation shows that the reserve requirement has decreased. 17 CFR 240.15c3-3(e). The broker-dealer must make a deposit into the Reserve Account if the computation shows an increase in the reserve requirement. While the formula itself is somewhat complex, it is based on a simple concept: if a broker-dealer owes more to its customers than its customers owe to it, the broker-dealer must set aside at least an amount equal to that difference so that it is readily available to repay customers.

Wedbush Underfunded Its Reserve Account

6. In summer 2014, Wedbush began engaging in large reverse repurchase transactions (the “Repos”) with its parent company, Wedbush, Inc. The systems Wedbush had in place to capture all relevant securities transactions and accurately input them into the Reserve Formula failed with respect to the Repos. As a result, Wedbush underfunded its Reserve Account from September 2014 through January 2015, in amounts ranging from \$10 million to \$193 million on a weekly basis. Underfunding the Reserve Account allowed Wedbush to avoid approximately \$275,851 in financing costs it would have incurred without the benefit of the cash that should have been put in the Reserve Account.

The Repos

7. In 2014, Wedbush held a large group of Ginnie Mae bonds considered “qualified securities” that could be deposited into the Reserve Account. Wedbush executives decided to sell the bonds to the Parent Company to reduce certain expenses associated with bonds.

8. In order to continue having access to the bonds for deposit into the Reserve Account, Wedbush planned to enter into reverse repurchase agreements with its Parent Company, whereby Wedbush would borrow the bonds from the Parent Company in order to deposit them into the Reserve Account.

9. In July and August 2014, Wedbush began doing a limited amount of Repos, in amounts up to \$21 million, and began to slowly increase the amount of Repos in September and October, up to about \$41 million. In late October, Wedbush sold the last large block of Ginnie Mae bonds to the Parent Company, and the total amount of Repos with the Parent Company went from approximately \$41 million to \$169 million in one week, staying at the higher level until January 2015.

The Calculation Error

10. Due to a coding error, the Repos were not accurately reflected in Wedbush’s Reserve Formula calculation. For purposes of the Reserve Formula, Wedbush’s systems automatically netted debits and credits in the same customer’s account. Therefore, in the Parent Company’s brokerage account at Wedbush, the Repos were being netted to zero because they included a debit (the bond), and a corresponding credit (the amount Wedbush owed for the bond). This part of the calculation was correct. However, based on a securities coding error, Wedbush’s

systems erroneously tagged the same Repos as belonging to the allocation, Firm Long vs. Customer Short (“FLCS”).

11. Wedbush’s systems erroneously applied all amounts in the FLCS allocation as a reduction to credits in the Reserve Formula. As a result, while the Repos should have had no effect on the Reserve Formula due to the netting that occurred in the Parent Company’s account, Wedbush’s systems incorrectly reduced total credits (the “Calculation Error”). This meant that each week, the Reserve Formula calculation resulted in a final deposit amount that was smaller than it should have been by the approximate amount of the Repos, resulting in deficiencies in the Reserve Account.

12. Wedbush typically overfunded its Reserve Account to provide a “cushion” in the event of minor calculation errors (the “Reserve Cushion”). In July, August, and early September, the size of the Repos were small enough that the Reserve Cushion covered the additional amounts that should have been deposited into the Reserve Account. However, beginning in mid-September, the Repos exceeded the Reserve Cushion and Reserve Account deficiencies occurred almost every week.

13. The only exception was a two-week period in November during which a newly-launched securities accounting system caught and corrected the Calculation Error. Specifically, the new system did not include the Repos in the FLCS allocation, which resulted in Wedbush correctly funding its Reserve Account. However, because the amounts due to be deposited in the Reserve Account increased so significantly at the same time a new securities accounting system was implemented, the Wedbush accounting staff assumed that the problem was with the new system as opposed to the old calculation methodology, and reversed the (accurate) correction. As a result, Wedbush correctly funded its Reserve Account for two weeks in November 2014, and then went back to underfunding the Reserve Account due to the Calculation Error. During the relevant time, Wedbush lacked adequate resources and expertise in its regulatory accounting group to identify and correct this error.

14. As a result of the Calculation Error, Wedbush included inaccurate information in monthly FOCUS Reports it filed with the Commission. Specifically, the FOCUS Reports had a section requiring specific numerical amounts related to the Reserve Calculation, and due to the Calculation Error, Wedbush included inaccurate numbers.

The Resulting Liquidity Problem

15. In late January 2015, a FINRA examination team began asking Wedbush why its FLCS allocation had grown so significantly in the last few months. When Wedbush began looking into the issue, it uncovered the Calculation Error.

16. On January 29, 2015, Wedbush sent a “Notification of Hindsight Deficiency – Reserve Deposit SEA Rule 15c3-3” to the Commission and was forced to immediately deposit approximately \$133 million into the Reserve Account to make up for the large deficiency caused

by the Calculation Error. However, Wedbush did not have \$133 million in easily accessible funds, and had to lend out customer securities in exchange for cash in order to raise this amount on short notice. Doing so launched it into a liquidity “spiral,” which effectively resulted in Wedbush being in a continually worsening financial condition for several weeks in a row. Specifically, using customer stock loans to help cover the shortfall in the Reserve Account caused Wedbush’s credits for the following week to be much higher, which meant that the amount due in the Reserve Account was also much higher. The following week, Wedbush was forced to lend out a larger amount of client securities to fund the Reserve Account, which, in turn, caused the next week’s credits to be even larger. The resulting liquidity problem was severe, and it took Wedbush several months to resolve it. During this time, staff from the Commission and FINRA monitored Wedbush’s liquidity position on a daily or semi daily basis.

Wedbush’s Compliance Problems

17. The Calculation Error is not the first significant compliance issue Wedbush has faced, and even after the discovery of the Calculation Error, it has continued to have compliance deficiencies. In the last three years alone, Wedbush has been sanctioned collectively by the Commission, FINRA, and Nasdaq five times³, and is settling additional charges brought by FINRA concurrent with the institution of this Order, including charges related to Rules 15c3-1 and 15c3-3. Wedbush also reported in its compliance reports for 2015 and 2016 that its internal controls were ineffective. Despite its repeated violations, Wedbush continued to lack adequate personnel for a regulated entity of its size and import until at least June 2016, which was more than a year after the discovery of the Calculation Error.

Violations

18. As a result of the conduct described above, Wedbush willfully⁴ violated Section 15(c)(3) of the Exchange Act and Rule 15c3-3 thereunder, which require carrying broker-dealers to maintain a reserve of funds or qualified securities in an account at a bank that is at least equal in value to the net cash owed to customers.

³ See, e.g., *In the Matter of Wedbush Securities Inc., Jeffrey Bell, and Cristina Fillhart*, AP File No. 3-15913 (Nov. 20, 2014); *FINRA Letter of Acceptance, Waiver and Consent*, No. 20100243866-03 (March 21, 2016); *FINRA Department of Enforcement v. Wedbush Securities Inc.*, Disciplinary Proceeding No. 2012033105901 (May 27, 2016).

⁴ A willful violation of the securities laws means merely “that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor “also be aware that he is violating one of the Rules or Acts.” *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

19. As a result of the conduct described above, Wedbush willfully violated Section 17(a)(1) of the Exchange Act and Rule 17a-5(a) thereunder by filing FOCUS Reports that contained incorrect information on the Reserve Formula because of the Calculation Error.

Undertakings

Wedbush has undertaken to:

20. Retain, at its own expense, one or more qualified independent consultants (the “Consultant”) not unacceptable to the Commission staff to conduct a comprehensive review of Wedbush’s current system of controls and procedures for compliance with all applicable regulatory requirements related to the following areas (collectively, the “Areas to be Reviewed”); to assess Wedbush’s corporate governance and culture of compliance with respect to the Areas to be Reviewed; and to provide recommendations for improvements as may be needed:

- a. Section 15(c) of the Exchange Act and Rules 15c3-1 (net capital) and 15c3-3 (customer protection rule) thereunder;
- b. liquidity;
- c. opening of, and due diligence relating to, new correspondent and prime services accounts; and
- d. internal audit and risk management.

21. Provide, within thirty (30) days of the issuance of this Order, a copy of the engagement letter detailing the Consultant’s responsibilities to Alka Patel, Associate Regional Director, U.S. Securities and Exchange Commission, 444 S. Flower Street, Suite 900, Los Angeles, CA 90071, with copies to Marc J. Blau, Assistant Regional Director, U.S. Securities and Exchange Commission, 444 S. Flower St., Suite 900, Los Angeles, CA 90071.

22. Cooperate fully with the Consultant, including providing the Consultant with access to its files, books, records, and personnel (and the files, books, records, and personnel of Wedbush’s affiliated entities, to the extent they relate to the Areas to be Reviewed), as reasonably requested for the above-referenced review, and obtaining the cooperation of respective employees or other persons under Wedbush’s control.

23. Require the Consultant to report to the Commission staff on its activities as the staff may request.

24. Permit the Consultant to engage such assistance, clerical, legal, or expert, as necessary and at a reasonable cost, to carry out its activities, and the cost, if any, of such assistance shall be borne exclusively by Wedbush.

25. Require the Consultant, within thirty (30) days of being retained (unless otherwise extended by the Commission staff for good cause), to provide Wedbush and the Commission staff with (i) an estimate of the time needed to complete the review and analysis, and (ii) a proposed deadline, subject to the approval of the Commission staff, for the preparation of a written report describing the review and analysis (“Report”).

26. Require the Consultant to issue the Report by the approved deadline and provide the Report simultaneously to Wedbush and the Commission staff. The Report shall evaluate the adequacy of Wedbush’s system of controls and procedures for compliance with all applicable regulatory requirements related to the Areas to be Reviewed; evaluate Wedbush’s corporate governance structure and culture of compliance relating to the Areas to be Reviewed; and make recommendations for improvements, as may be needed.

27. Submit to the Commission staff and the Consultant, within thirty (30) days of the Consultant’s issuance of the Report, the date by which Wedbush will adopt and implement any recommendations in the Report, subject to Sections (a)-(c) below and subject to the approval of the Commission staff.

a. As to any recommendation that Wedbush considers to be, in whole or in part, unduly burdensome or impractical, Wedbush may submit in writing to the Consultant and the Commission staff a proposed alternative reasonably designed to accomplish the same objectives, within thirty (30) days of the Consultant’s issuance of the Report. Wedbush shall then attempt in good faith to reach an agreement with the Consultant relating to each disputed recommendation and request that the Consultant reasonably evaluate any alternative proposed by Wedbush. If, upon evaluating Wedbush’s proposal, the Consultant determines that the suggested alternative is reasonably designed to accomplish the same objectives as the recommendations in question, then the Consultant shall approve the suggested alternative and make the recommendations. If the Consultant determines that the suggested alternative is not reasonably designed to accomplish the same objectives, the Consultant shall reject Wedbush’s proposal. The Consultant shall inform Wedbush and the Commission staff of the Consultant’s final determination concerning any recommendation that Wedbush considers to be unduly burdensome or impractical within fourteen (14) days after the conclusion of the discussion and evaluation by Wedbush and the Consultant.

b. In the event that Wedbush and the Consultant are unable to agree on an alternative proposal, Wedbush and the Consultant shall jointly confer with the Commission staff regarding the disputed recommendation, and Wedbush shall accept the Commission staff’s determination with respect to the disputed recommendation.

c. Within fourteen (14) days after the final determination of any disputed recommendation, Wedbush shall submit to the Consultant and the Commission staff the date by which Wedbush will adopt and implement the recommendation, subject to the approval of the Commission staff.

28. Adopt and implement, on the timetable set forth by Wedbush in accordance with paragraph 27, the recommendations in the Report. Wedbush shall notify the Consultant and the Commission staff in writing when the recommendations have been implemented.

29. Within thirty (30) days after Wedbush notifies the Consultant that the recommendations have been implemented, require the Consultant to certify, in writing, to Wedbush and the Commission staff, that Wedbush has implemented the Consultant's recommendations. The Consultant's certification shall also include an opinion of the Consultant as to whether Wedbush's system of controls and procedures related to the Areas to be Reviewed are designed to comply with all applicable regulatory requirements, and whether Wedbush's policies and procedures relating to the Areas to be Reviewed can be reasonably expected to detect and cause the reporting of transactions that may be relevant to a possible violation of law or regulation.

30. Within one hundred and eighty (180) days from the date of the Consultant's certification described in paragraph 29 above, require the Consultant to have completed a review of how Wedbush is implementing, enforcing, and auditing the effectiveness of its system of controls and procedures related to the Areas to be Reviewed and submit a final written report ("Final Report") to Wedbush and the Commission staff. The Final Report shall include an opinion of the Consultant as to whether Wedbush is taking reasonable steps to implement, enforce, and audit the effectiveness of its system of controls and procedures related to the Areas to be Reviewed.

31. Require the Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Wedbush, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Consultant will require that any firm with which the Consultant is affiliated or of which the Consultant is a member, and any person engaged to assist the Consultant in performance of the Consultant's duties under this Order shall not, without prior written consent of the Commission staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Wedbush, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

32. Certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Wedbush agrees to provide such evidence. The certification and supporting material shall be submitted to Marc J. Blau, Assistant Regional Director, U.S. Securities and Exchange Commission, 444 S. Flower St., Suite 900, Los Angeles, CA 90071, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

33. To ensure the independence of the Consultant, Wedbush shall not have the authority to terminate the Consultant without prior written approval of the Commission's staff and shall compensate the Consultant and persons engaged to assist the Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

34. Wedbush may apply to the Commission staff for an extension of the deadlines described above before their expiration and, upon a showing of good cause by Wedbush, the Commission staff may, in its sole discretion, grant such extensions for whatever time period it deems appropriate.

35. The Commission's acceptance of Wedbush's offer of settlement and entry of this Order shall not be construed as its approval of any controls, policies, or procedures reviewed by the Consultant or implemented based on the Consultant's recommendations.

IV.

In view of the foregoing, the Commission deems it appropriate, and in the public interest, to impose the sanctions agreed to in Respondent Wedbush's Offer.

Accordingly, pursuant to Sections 15(b)(4) and 21C of the Exchange Act, and Section 203(e) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Wedbush cease and desist from committing or causing any violations and any future violations of Sections 15(c)(3) and 17(a)(1) of the Exchange Act, and Rules 15c3-3 and 17a-5(a) thereunder.

B. Respondent Wedbush is censured.

C. Respondent Wedbush shall, within ten (10) days of the entry of this Order, pay disgorgement of \$275,851 and prejudgment interest of \$28,346 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment must be made in one of the following ways:

- (1) Wedbush may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Wedbush may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Wedbush may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Wedbush as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Alka Patel, Division of Enforcement, Securities and Exchange Commission, 444 S. Flower St., Suite 900, Los Angeles, CA 90071.

D. Respondent Wedbush shall pay a civil money penalty in the amount of \$1,000,000, plus post-order interest to be calculated on the date of entry of this Order, to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). Payment shall be made in the following installments: (1) \$250,000 within 10 days of the entry of this Order, (2) \$250,000 within one year of the entry of this Order, (3) \$250,000 within two years of the entry of this Order, (4) \$250,000 within three years of the entry of this Order, plus post-order interest pursuant to 31 U.S.C. § 3717. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. § 3717, shall be due and payable immediately, without further application. Payment must be made in one of the following ways:

- (1) Wedbush may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Wedbush may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Wedbush may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Wedbush as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Alka Patel, Division of Enforcement, Securities and Exchange Commission, 444 S. Flower St., Suite 900, Los Angeles, CA 90071.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

F. Respondent shall comply with the undertakings enumerated in paragraphs 20-35 above.

By the Commission.

Brent J. Fields
Secretary