GIFT AND INHERITANCE

The basis of security you receive as a gift depends upon whether your sale of the gifted security results in profit or loss. To stay in compliance with the new regulation, our system is now able to retain the original basis of the previous owner, and record the fair market value of the security as of the gift date to calculate the proper gain or loss upon liquidation. When you inherit stock, your basis is usually the fair market value on the date of death of the previous owner. Our system can also accommodate the calculation of death value and capitalization. Please consult with your tax advisor so that we can make proper adjustment to the gifted or inherited securities.

CALIFORNIA AND MAINE STATE WITHHOLDING

An account is considered uncertified if a taxpayer identification number is not provided on a properly authorized W-9 within 30 days of opening an account or if the taxpayer identification number is deemed incorrect. Uncertified accounts for residents of California and Maine that are subject to Federal Withholding will be subject to additional state income tax withholding beginning January 1st, 2011. Any income withheld in the first 30 days of the account opening will be refunded back to the account upon receipt of a valid W-9. However, after 30 days all withheld income is remitted to the state of residence.

California residents will be withheld at a rate of 7% for all proceeds, capital gains, and miscellaneous income. Maine residents will be withheld at a rate of 5% for all income.

STATE REPORTING

Wedbush may be required to report payments of interest or interest-dividends on federally tax-exempt municipal bonds to state tax authorities, such as California, for non-California municipal bonds.

WHAT DO YOU DO IF YOU HAVE FURTHER QUESTIONS?

Please consult your tax advisor for questions about how the new cost basis reporting requirement for "covered" securities affects your particular circumstance. Contact your Financial Advisor for any other questions.

Member NYSE/FINRA/SIPC

WEDBUSH SECURITIES INC.

(As clearing agent for your broker/dealer)

Important Tax Reporting Information

2011 and 2012

The IRS deadline to mail tax statements has changed from January 31st to February 15th

DELAYED MAILING OF 1099 STATEMENTS

As we have done in the past, the mailing of your 1099 Consolidated Tax Statement will be delayed until the third week of February for holders of RICs (i.e., Mutual Funds, which include Close-End Funds and certain equities), REITs (i.e., Real Estate Investment Trusts), Unit Investment Trusts (UITs), and Widely Held Fixed Investments Trusts (WHFITs) that distributed income in 2011. These types of instruments typically reallocate income from one category to another. Unfortunately, these changes are not always announced in a timely manner, which causes us to issue you a corrected 1099 statement. In addition, you may want to file your tax return closer to the IRS deadline in the event a corrected 1099 is issued due to a late report of income reallocation by these instruments. However, if you do not hold these types of instrument, we will mail your 1099 Consolidated Tax Statement by the IRS deadline, February 15th, 2012.

IMPORTANT CHANGES TO TAX REPORTING STARTING IN 2012

The Emergency Economic Stabilization Act of 2008 requires financial institutions, such as Wedbush Securities Inc., to begin reporting the cost basis of open-end Mutual Funds, equity-based dividend reinvestment plans (DRP) and regulated investment companies (RIC) in a DRP that are purchased after 2011. These securities are classified as "covered" by the IRS and the cost basis will be reported to the IRS when they are sold or redeemed. In addition, all equities purchased in 2011 that were not part of a DRP, are considered to be "covered" securities and if they were sold in 2011, the cost basis will be reported in the 1099-B section of your 1099 Consolidated tax statement with corresponding proceeds from the sale

AVERAGE COST ACCOUNTING METHOD AVAILABLE IN 2012

Starting on January 1st, 2012, average cost will be offered as an accounting method for individual accounts that hold "covered" open-end mutual funds, equity-based dividend reinvestment plans (DRP) and regulated investment companies that are included in a DRP. Individual accounts that hold multiple average cost eligible securities, will have the ability to pick and choose which securities to include in average cost processing. Please be aware that only "covered" securities are eligible for average cost processing. Shares purchased before January 1, 2012 are not eligible for average cost processing and will retain their original cost and holding period. In addition, once a disposition takes place (e.g., such as a sale) in a security that has been coded for average cost processing, the account will not be able to revoke average cost processing and revert back to the accounting method that is currently on the account.

WASH SALE

The Emergency Economic Stabilization Act of 2008 requires financial institutions, such as Wedbush Securities Inc., to begin reporting wash sales on "covered securities" in the 1099-B section of the 1099 Consolidated Tax Statement for tax year 2011.

Wash Sale occurs when an account sells a security at a loss and pre-purchases or re-purchases the same security within 30 days from the date of sale. This rule is covered under Internal Revenue Code Sec. 1091. It is not a new rule. What is new is that institutions, such as Wedbush, are now required to track and report wash sales on "covered' securities.

The idea behind the wash sale rule is to prevent a realized loss to be used as a tax deduction when the same security is then repurchased in the hope that it will recover its previous value.

Once a loss from a sale is identified as subject to the wash sale rule, the loss will be disallowed and will be added to the basis of the newly acquired shares. The replacement shares will include the original holding period or purchase date.

Example: Some time ago Joe bought 100 shares of ABC at $10 per share for $1000. The stock has depreciated to $5 per share and Joe sells it to take the $500 loss deduction. One week passes and Joe hears some good news on ABC and decides to buy it back for $8 per share for $800 total cost. Per IRS wash sale rule, Joe cannot deduct the $500 loss. Instead, the $500 is added to the cost of the replacement shares. The replacement shares now have an adjusted cost of $1300 — the $800 Joe paid plus the $500 loss from the wash sale adjustment. In other words, Joe is treated as if he bought the shares for $13 per share. If Joe ends up selling them for $15 per share, he will only report $2 per share of gain, and if he sells them for $8 per share (the same price Joe paid to buy them), Joe reports a loss of $5 per share. In most cases, it simply means Joe will get the same tax benefit at a later time.

1099-B REVISION

Major changes and updates to form 1099-B were introduced by the IRS for 2011 tax reporting. New boxes have been added for reporting the date of acquisition, cost basis, amount of loss disallowed due to a wash sale, covered indicator, and whether the gain or loss is short-term or long-term. Per the new legislation, for tax year 2011, 1099-B reporting to the IRS will be divided into five sub-categories:

- **Long Term Covered** – Cost Basis Reported to the IRS
- **Short Term Covered** – Cost Basis Reported to the IRS
- **Long Term Non-covered** – Cost Basis Not Reported to the IRS
- **Short Term Non-covered** – Cost Basis Not Reported to the IRS
- **Term Unknown** – Cost Basis Not Reported to the IRS

In order to assist you and your tax preparer in your filing, we will be displaying for you the cost basis information in all of the above five categories if it is available. However, we will be reporting to the IRS only the cost basis information from the first two categories (i.e. Long Term Covered and Short Term Covered) because it is required.

It is possible that one sell can fall into all five of the above categories. This is because one sell can pair off with many open tax lots and each of these open tax lots can fall into one of the above five categories. If, however, you are familiar with our gain/loss statement that you may have received from your broker in the past or have accessed it on-line through ClientLink, it displays and calculates all of your closed tax lots individually by purchase date. Therefore, it should be treated as supplemental information in determining your realized gain/loss.

We will not include a copy of the gain/loss statement in our 1099 Consolidated mailing because it is available to you on-line in your Client Link account or by contacting your Financial Advisor for a copy.