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

**SEC**  
Main Processing Section

FEB 29 2016

SEC FILE NUMBER
8- 40742

FACING PAGE

Washington DC

**Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/15 AND ENDING 12/31/15  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Brean Capital, LLC.  
 ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
1345 Avenue of Americas

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

New York  
(City)

New York  
(State)

10105  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Arnold Sarabella 212 702 6625  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Kamler, Lewis & Norman LLP

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

One Linden Place, Suite 200  
(Address) (City)

Great Neck

NY  
(State)

11021-2640  
(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)

*[Handwritten mark]*

OATH OR AFFIRMATION

I, Arnold Sarabella, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Brean Capital, LLC, as of December 31st, 20 15, 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:

**ANTHONY ADIPIETRO**  
Notary Public State of New York  
No. 01AD6033089  
Qualified in Nassau County  
Commission Expires Nov. 8, 2017

Arnold Sarabella  
Signature

Chief Financial Officer  
Title

Anthony Adipietro  
Notary Public

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).

**Brean Capital, LLC and Subsidiaries**  
**(SEC I.D. No. 8-40742)**

**Statement of Financial Condition and**  
**Report of Independent Registered Public Accounting Firm**  
**December 31, 2015**

**FILED PURSUANT TO RULE 17a-5(e)(3)**  
**AS A PUBLIC DOCUMENT**

Brean Capital, LLC and Subsidiaries  
Statement of Financial Condition  
Filed pursuant to Rule 17a-5(e)(3)  
December 31, 2015

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**KAMLER, LEWIS & NOREMAN LLP**

*Certified Public Accountants*

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220 White Plains Road  
Tarrytown, NY 10591  
Tel (914) 997-0800

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Members and Board of Directors of Brean Capital, LLC

We have audited the accompanying consolidated statement of financial condition of Brean Capital, LLC as of December 31, 2015, and the related notes to the consolidated financial statements. This financial statement is the responsibility of Brean Capital, LLC'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 statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial position presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statement of financial condition referred to above presents fairly, in all material respects, the consolidated financial position of Brean Capital, LLC as of December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

Kamler, Lewis & Noreman LLP

Great Neck, New York  
February 26, 2016

**Brean Capital, LLC and Subsidiaries**  
**Consolidated Statement of Financial Condition**  
**December 31, 2015**

**Assets:**

Cash and cash equivalents	\$ 4,166,887
Receivables from broker-dealers and clearing organizations	1,099,210
Interest receivable	3,040,885
Securities owned, at fair value (pledged as collateral with clearing organization)	1,012,413,113
Due from others	2,705,221
Prepaid expenses and other assets	3,996,590
Security deposits	986,506
Furniture and fixtures, equipment and leasehold improvements, net	970,497
Due from member	390,900
<b>Total Assets</b>	<b><u>\$ 1,029,769,809</u></b>

**Liabilities:**

Securities sold, not yet purchased, at fair value	\$ 268,662,445
Securities sold under repurchase agreements	25,737,512
Payable to brokers-dealers and clearing organizations	648,597,849
Accounts payable, accrued expenses and other liabilities	2,401,544
Compensation payable	13,565,281
Due to affiliate	55,648
Subordinated borrowings from related parties	12,000,000
<b>Total Liabilities</b>	<b><u>971,020,279</u></b>

**Members' Equity**

58,749,530

**Total Liabilities and Members' Equity**

**\$ 1,029,769,809**

The accompanying notes are an integral part of these consolidated financial statements

Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**1. Organization and Basis of Presentation**

Brean Capital, LLC (the "Company") is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA") and various other exchanges. The Company operates as an introducing broker and has agreements with clearing brokers to clear transactions, carry customers' accounts on a fully-disclosed basis and perform recordkeeping functions and, consequently, operates under the exemptive provisions of SEC Rule 15c3-3k(2)(ii). The Company engages in several classes of services including trading of mortgage backed securities and other fixed income instruments, management advisory, investment banking and syndicate underwriting and principal transactions. The Company is also a market maker in certain securities.

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company, Brean Murray Investment Consultancy (Shanghai) Co., Ltd. ("BMICS"), a corporation organized in China in 2008 and Xiamen Brean Murray, Carret Investment Consultancy Co., Ltd. ("XBMCIC"), a corporation organized in China in 2011, both of which are wholly-owned subsidiaries of the Company and whose operations has been discontinued, effective April 1, 2014. BMICS had provided investment banking and advisory services and XBMCIC had provided consulting services in the Xiamen Special Zone. All material intercompany balances and transactions have been eliminated in consolidation.

***Translation of Foreign Currencies***

Assets and liabilities denominated in foreign currencies are translated at year-end rates of exchanges.

***Use of Estimates***

The preparation of consolidated statement of financial condition in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make certain 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. Actual results could differ from those estimates.

***Recent Accounting Pronouncements***

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities*. The new standard is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. The new guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income; separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost; and present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when an entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The standard becomes effective for fiscal years beginning after December 15, 2018. The Company does not expect the adoption of ASU 2016-01 to have a material impact on the Company's consolidated financial statements.

Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**2. Summary of Significant Accounting Policies (Continued)**

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* on accounting and disclosure of repurchase-to-maturity ("RTMs") transactions and repurchase agreements. Effective beginning on January 1, 2015, RTMs will be accounted for as secured borrowings rather than sales of an asset, and transfers of financial assets with contemporaneous repurchase agreements will no longer be evaluated to determine whether they should be accounted for on a combined basis as forward contracts. The new guidance also prescribes additional disclosures particularly on the nature of collateral pledged in repurchase agreements accounted for as secured borrowings.

In April 2014, FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. Under ASU 2014-08, only disposals representing a strategic shift in operations should be presented as discontinued operations. Additionally, ASU 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. ASU 2014-08 is effective for fiscal periods beginning on or after December 15, 2014. The guidance is to be applied prospectively to all new disposals of components and new classifications as held for sale beginning in 2015. Management's decision to discontinue its China operations, effective April 1, 2014 (Note 16) was accounted for as discontinued operations in the consolidated statement of operations under the former accounting standards. Management has evaluated the new guidance and has concluded that it does not require adoption of the new update as it is not a new disposal or a new classification as held for sale.

***Cash and Cash Equivalents***

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2015, cash and cash equivalents were \$4,166,887. Cash and cash equivalents of \$4,123,730 were held at one financial institution which is in excess of the Federal Deposit Insurance Corporation limit of \$250,000. The Company also has a letter of credit of \$326,076 held at the same financial institution which is reported in prepaid expenses and other assets in the accompanying consolidated statement of financial condition.

***Securities Owned***

Securities transactions in regular-way trades are recorded on trade date, as if they had settled. Customers' securities transactions are reported on a settlement date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net in payable to broker-dealers and clearing organizations on the consolidated statement of financial condition.

The Company's securities inventory is primarily financed by third party clearing organizations and periodically through repurchase agreements. The amount due to clearing firms at December 31, 2015 is included in payable to broker-dealers and clearing organizations in the accompanying consolidated statement of financial condition.



Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**2. Summary of Significant Accounting Policies (Continued)**

***Furniture and Fixtures, Equipment and Leasehold Improvements***

Furniture and fixtures, equipment and leasehold improvements are recorded at cost. Depreciation is provided using the straight-line method over estimated useful lives of three to seven years. The cost of leasehold improvements is amortized over the lesser of the estimated useful life of the asset or the term of the lease.

***Derivatives***

Derivative financial instruments are recorded at fair value in the consolidated statement of financial condition and are included within securities owned and securities sold, not yet purchased. Derivatives entered into by the Company include purchase and sale agreements of to-be-announced securities ("TBAs"), which are forward mortgage-backed securities whose collateral remain "to be announced" until just prior to the trade settlement. When a forward contract exists for a when-issued security, such as a TBA security that provides a choice of settlement dates and delivery is made in the second nearest month or later, the TBA forward contract is accounted for as a derivative. The settlement of these transactions is not expected to have a material effect upon the Company's consolidated financial statements. Derivatives involve varying degrees of off-balance sheet risk, whereby changes in the level or volatility of interest rates or market values of the underlying financial instruments may result in changes in the value of a particular financial instrument in excess of its carrying amount. The fair value of derivatives is recorded in principal transactions in the consolidated statement of operations on a trade date basis. In addition, in order to mitigate exposure to market risk, the Company enters into various options and futures contracts.

***Rent Obligation***

The Company has operating lease agreements for office equipment and certain offices which contain provisions for future rent escalations or for periods in which rent payments are abated. The Company records monthly rent expense equal to the total of the payment due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent. The amount of deferred rent included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated statement of financial condition at December 31, 2015 is \$278,002. The Company also subleases office space offsetting the rental income against the rental expense. The Company provided lease incentives to its sublease tenant which is amortized against rental income over the life of the lease. Lease incentives at December 31, 2015 were \$71,462 which is reported in prepaid expenses and other assets in the accompanying consolidated statement of financial condition.

***State Filing Fees and Local Income Taxes***

The Company is a limited liability company subject to partnership tax laws. Accordingly, there is no provision for federal income taxes. The taxable income or loss of the Company, on the Federal and State levels, are included on the income tax returns of its members. The Company is subject to New York City Unincorporated Business Tax which is four percent of income after adjusting for non-deductible compensation to members and certain exclusions. In addition, the Company is subject to various states' partnership income taxes where it conducts business.

The Company is required to disclose unrecognized tax benefits or liabilities resulting from uncertain tax positions. At December 31, 2015, the Company did not have any unrecognized tax benefits or liabilities. The Company is no longer subject to tax examinations by taxing authorities for years prior to the three year statute of limitations and there are presently no ongoing income tax examinations.

Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**3. Receivable From/Payable to Brokers-Dealers and Clearing Organizations**

Amounts receivable from and payable to brokers-dealers and clearing organizations receivable at December 31, 2015 consist of the following:

	Receivable	Payable	
Clearing deposits - cash	\$ 724,130	\$ -	
Receivable from broker-dealer	375,080	-	
Payable to clearing organization	-	648,597,849	
	\$ 1,099,210	\$ 648,597,849	

**4. Fair Value Hierarchy**

Financial Accounting Standard Boards, Accounting Standard Codification 820 ("FASB ASC 820") defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within level 1, which are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs are developed based on the best information available in the circumstances and may include the Company's own data.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including for example, the type of security, the liquidity of the markets, the interest rate environment and other characteristics of the security or issuer. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. As a result, the degree of judgment used in determining fair value is greatest for securities categorized as level 3. When multiple inputs are used in determining fair value, the security is included in the hierarchy based upon the lowest level of input.

**Brean Capital, LLC and Subsidiaries**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2015**

**4. Fair Value Hierarchy (Continued)**

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Balance at December 31, 2015
<b>Assets:</b>				
<b>Securities owned, at fair value</b>				
Commercial mortgage backed	\$ -	\$ 653,597	\$ 920,417	\$ 1,574,014
<b>Common stock:</b>				
Publicly traded	-	-	76,200	76,200
Privately held	-	-	60,000	60,000
Corporate obligations	-	9,318,241	-	9,318,241
Federal agency mortgage-backed	-	113,795,761	-	113,795,761
Municipal bonds	-	16,509,381	-	16,509,381
Options	-	7,032	-	7,032
US Government and federal agencies	2,820,508	868,051,862	-	870,872,370
<b>Warrants:</b>				
Publicly traded	-	-	179,075	179,075
Privately held	-	-	21,039	21,039
<b>Total securities owned, at fair value</b>	<b>\$ 2,820,508</b>	<b>\$ 1,008,335,874</b>	<b>\$ 1,256,731</b>	<b>\$ 1,012,413,113</b>
<b>Liabilities:</b>				
<b>Securities sold, not yet purchased, at fair value</b>				
Futures contracts	\$ -	\$ 41,400	\$ -	\$ 41,400
US government and federal agencies	268,621,045	-	-	268,621,045
<b>Total securities sold, not yet purchased, at fair value</b>	<b>\$ 268,621,045</b>	<b>\$ 41,400</b>	<b>\$ -</b>	<b>\$ 268,662,445</b>

Level 1 consists of U.S. government and federal agencies and TBAs. TBAs are traded in an active quoted market and therefore generally classified as Level 1.

Level 2 consists of certain mortgage backed securities, corporate obligations, selective collateralized mortgage backed securities, and asset backed securities with recent sales activity, and investment grade and asset backed corporate bonds. Also included are interest rate options and futures.

Level 3 consists of non-investment grade corporate asset backed bonds with par values of less than 95, and stocks and warrants.

Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**4. Fair Value Hierarchy (Continued)**

Based on the above criteria, securities owned that are traded on a national stock exchange (or reported on the NASDAQ national market) are generally valued at the last reported sales price on the primary securities exchange on which such security traded on the date of valuation. Securities owned that are offered and sold on the over the counter market ("OTCBB") are generally valued at the closing bid price as reported on the OTCBB on the date of valuation. In cases where such over the counter securities have limited trading volume and are considered to be "thinly traded," management may apply a discount to the closing bid price to arrive at management's estimate of fair value. Warrants that are received in connection with investment banking transactions are recorded at fair value based on the lesser of the computed value using the Black-Scholes option pricing model or recent bid prices the Company has received to sell such securities. For warrants which are either, restricted, illiquid or thinly traded, the Company included an appropriate discount in determining the securities' fair value under the Black-Scholes option pricing model.

The following table summarizes the changes in the Company's Level 3 financial instruments for the year ended December 31, 2015:

	Balance, January 1, 2015	Purchases	Sales	Received in fees for investment services	Net gains or (losses) (realized and unrealized)	Return of principal	Transfers In, net	Balance, December 31, 2015
Commercial mortgage backed	\$ 2,505,935	\$ 669,913,908	\$ (675,574,252)	\$ -	\$ 3,579,521	\$ (66,858)	\$ 562,163	\$ 920,417
Common Stock	249,333	-	-	60,000	(173,133)	-	-	136,200
Warrants	245,029	-	-	178,950	(223,865)	-	-	200,114
	<u>\$ 3,000,297</u>	<u>\$ 669,913,908</u>	<u>\$ (675,574,252)</u>	<u>\$ 238,950</u>	<u>\$ 3,182,523</u>	<u>\$ (66,858)</u>	<u>\$ 562,163</u>	<u>\$ 1,256,731</u>

**5. Derivatives**

The Company utilizes derivatives for economic hedging strategies to actively manage its market and liquidity exposures.

The following table summarizes the derivatives included in securities owned and securities sold, not yet purchased in the accompanying consolidated statement of financial condition at December 31, 2015:

Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**5. Derivatives (Continued)**

	Number of Contracts	Notional	Fair Value
<b>Purchase Contracts</b>			
TBA purchase agreements	8	\$ 66,800,000	\$ 29,477
CBT 5Yr Treasury note options	100	10,000,000	7,032
	<u>108</u>	<u>\$ 76,800,000</u>	<u>\$ 36,509</u>
<b>Sale Contracts</b>			
TBA sale agreements	82	\$ 246,665,000	\$ 265,026
IMM Eurodollar futures contracts	40	40,000,000	41,400
	<u>122</u>	<u>\$ 286,665,000</u>	<u>\$ 306,426</u>

**6. Securities Sold Under Repurchase Agreements**

The Company enters into repurchase agreements to finance certain inventory. Transactions involving sales of securities under agreements to repurchase ("repurchase agreements") are presented on a net-by-counterparty basis when a legal right of offset exists and are accounted for as collateralized financing transactions and recorded at their contracted amounts plus accrued interest. The Company is required to provide securities to counterparties in order to collateralize repurchase agreements. The Company's agreements with counterparties generally contain contractual provisions allowing for additional collateral to be provided, or excess collateral returned, when necessary. The Company values the collateral daily and retrieves or returns excess collateral from/to counterparties, when appropriate.

At December 31, 2015, the fair value of financial instruments pledged as collateral by the Company on repurchase agreements was approximately \$30,600,000.

The following table provides detail on the composition of the outstanding repurchase agreements at December 31, 2015:

	2015					Total
	Remaining Contractual Maturity of the Agreements					
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	On Demand	
Repurchase agreements and Repurchase-to-maturity transactions						
U.S. Treasury and federal agency securities	\$ -	\$ -	\$ -	\$ -	\$ 25,737,512	\$ 25,737,512
Total borrowings	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,737,512</u>	<u>\$ 25,737,512</u>

Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**7. Prepaid Expenses and Other Assets**

Prepaid expenses and other assets at December 31, 2015 consist of the following:

Employee loans and advances	\$ 1,418,574
Prepaid expenses	962,813
Other receivables	884,571
Letter of credit	326,076
Prepaid rent	255,292
Deferred occupancy costs	149,264
	<u>\$ 3,996,590</u>

**8. Furniture and Fixtures, Equipment and Leasehold Improvements**

Furniture and fixtures, equipment and leasehold improvements, net of depreciation and amortization, at December 31, 2015 are stated at cost and consist of the following:

	Estimated Useful Lives	Amount
Furniture and fixtures	7 Years	\$ 389,359
Computer equipment	3-5 Years	1,590,474
Leasehold improvements	5 Years	295,966
Total, at cost		<u>2,275,799</u>
Less accumulated depreciation and amortization		1,305,302
Total Furniture and Fixtures, Equipment and Leasehold Improvements, net		<u>\$ 970,497</u>

**9. Subordinated Borrowings**

On November 25, 2015, the equity members of the Company entered into satisfactory subordination loan agreements based on their pro-rata ownership percentage with Brean Capital, LLC. The loans aggregating \$12,000,000 have a three year term, mature on November 26, 2018 and carry an annual interest rate of 9% payable monthly.

The subordinated borrowings are available in computing net capital under the SEC net capital rule, 15c3-1. To the extent such borrowings are required for the Company's continued compliance with minimum net capital requirements; they may not be repaid without prior written approval of FINRA. The fair market value of the subordinated borrowings is \$12,000,000. Interest payable to members aggregating \$109,479 is in accounts payable, accrued expenses and other liabilities in the accompanying consolidated statement of financial condition.

Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**10. Related Party Transactions**

The Company provides and receives certain management and administrative services from affiliates.

The Company has a management service and reimbursement agreement with Brean Strategic Advisors, LLC to perform various administrative functions and provide certain facilities, equipment and other shared expenses. At December 31, 2015, \$55,648 was included in due to affiliate in the accompanying consolidated statement of financial condition.

The Company has a receivable from its member, BMUR Holdings, Inc. which is primarily comprised of commercial rent tax assessment related to prior periods when the Company was under its sole ownership.

**11. Net Capital Requirement**

The Company is subject to the SEC Uniform Net Capital Rule ("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. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash distributions paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2015, the Company had net capital of \$20,502,889, which was \$19,442,022 in excess of its required minimum net capital of \$1,060,867. The Company's percentage of aggregate indebtedness to net capital was 77.61%.

**12. Commitments and Contingencies**

***Lease Commitments***

The Company has non-cancelable operating leases, relating to its offices located in New York, San Francisco, Beijing and various other locations which expire through November 2021. Certain leases provide for additional rent related to increases in real estate taxes and operating expenses. The Company also has non-cancelable operating leases for use of office equipment.

In December 2015, the Company entered into a non-cancelable operating lease to relocate its headquarters in New York upon expiration of the current lease. The new lease commences on June 1, 2016 and expires on November 15, 2021. The Company paid a security deposit in the amount of \$863,694 to secure the new lease, which is being held in escrow as of December 31, 2015 and is included in security deposits in the accompanying consolidated statement of financial condition. Future minimum rental payments related to the new lease are included in the table below. As of December 31, 2015, no liability was recorded on the consolidated statement of financial condition relating to the new lease.

Brean Capital, LLC and Subsidiaries  
Notes to Consolidated Statement of Financial Condition  
December 31, 2015

**12. Commitments and Contingencies (Continued)**

Future minimum payments for office space and equipment rental under these leases in each of the years subsequent to December 31, 2015 are as follows:

	*Future Minimum Lease Payments	Sublease Rental Income	Net Lease Payment
2016	\$ 4,527,880	\$ 1,202,417	\$ 3,325,463
2017	2,681,237	407,431	2,273,806
2018	1,924,508	-	1,924,508
2019	1,727,388	-	1,727,388
2020	1,727,388	-	1,727,388
Thereafter	1,439,490	-	1,439,490
Total	<u>\$ 14,027,891</u>	<u>\$ 1,609,848</u>	<u>\$ 12,418,043</u>

\* Future minimum lease payments exclude month-to-month cancellable leases.

***Litigation, Indemnifications and Other Contingencies***

In the normal course of business, the Company may be involved in litigation matters. These include litigations, arbitration and other proceedings initiated by private parties and arising from underwriting, financial advisory, securities trading or other transactional activities for client accounts, and employment matters. The Company does not believe that any current litigation, proceeding or other matter which it is a party or otherwise involved will have a material adverse effect on its financial position, results of operations and cash flows, although an adverse development, or an increase in associated legal fees, could be material in a particular period, depending in part on the Company's operating results in that period.

The Company indemnifies and guarantees certain service providers, such as clearing and custody agents, against specified potential future losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates in the normal course of business. Such specified potential future losses, if they ever occur, cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company has an outstanding letter-of-credit agreement for \$326,076 used in lieu of a security deposit for one of its offices.

**13. Financial Instruments with Off-Balance Sheet Risk**

The Company enters into various transactions involving derivatives and other off-balance sheet financial instruments. These financial instruments include TBAs, securities purchased and sold on a when-issued basis ("when-issued securities") and interest rate options and futures. These derivative financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions are entered into for trading purposes or to economically hedge other positions or transactions.



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**13. Financial Instruments with Off-Balance Sheet Risk (Continued)**

TBAs and when-issued securities provide for the delayed delivery of the underlying instrument. The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. The credit risk for TBAs and when-issued securities is limited to the unrealized fair valuation gains recorded in the statement of financial condition. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

In addition, 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 financial statements at December 31, 2015 at fair values of the related securities and will incur a loss if the fair value of the securities increases subsequent to December 31, 2015.

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company's clearing broker extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and/or securities in the customer's account. As a result of guaranteeing customer margin balances carried by the clearing broker, the Company may be exposed to off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses which the customer may incur. There is no margin accounts guaranteed by the Company other than just described at December 31, 2015.

Additionally, the Company is exposed to off-balance sheet risk of loss on transactions during the period from the trade date to the settlement date, which is generally three business days. If the customer fails to satisfy its contractual obligations to the clearing broker, the Company may have to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. Settlement of these transactions did not have a material effect on the Company's financial position.

The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and clearing broker guidelines. The Company's clearing organization monitors required margin levels daily and pursuant to such guidelines, require the customers to deposit additional collateral or to reduce positions, when necessary.

***Concentrations of Credit Risk***

The Company is engaged in various trading and brokerage activities in which the counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

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**14. Discontinued Operations**

Effective April 1, 2014, the Company's management discontinued the operations of its wholly-owned subsidiaries, Brean Murray Investment Consultancy (Shanghai) Co., Ltd., a corporation organized in China in 2008 and Xiamen Brean Murray, Carret Investment Consultancy Co., Ltd., a corporation organized in China in 2011.

Total assets of BMICS and XBMCIC were approximately \$43,000 at December 31, 2015 which was primarily comprised of cash on hand and are included in cash and cash equivalents in the consolidated statement of financial condition. Total liabilities of BMICS and XBMCIC were approximately \$150,000 at December 31, 2015 which were primarily comprised of accrued expenses and are included in accounts payable, accrued expenses and other liabilities in the consolidated statement of financial condition.

The following table summarizes the changes in the Company's liability related to discontinued operations for the year ended December 31, 2015:

Balance, January 1, 2015	\$ 108,000
Less: Payments for occupancy, legal, consulting and filing fees	(115,256)
Add: Additional expense accruals for occupancy, legal, consulting and filing fees	157,256
Balance, December 31, 2015	<u>\$ 150,000</u>

**15. Subsequent Events**

The Company evaluated the possibility of subsequent events that may impact the consolidated financial statements through February 26, 2016, the date the consolidated financial statements were available to be issued. The Company has determined that there are no material events that would require adjustments to or disclosure in its consolidated financial statements.

On January 5, 2016, the Company became a member of the National Futures Association as an introducing broker swap dealer.