

Macquarie Capital (USA) Inc.
Statement of Financial Condition (Unaudited)
September 30, 2017

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Assets

Cash	\$ 31,703,291
Cash segregated under federal regulations (Note 3)	9,000,000
Receivable from broker-dealers and clearing organizations	75,288,648
Receivable from customers	90,482,432
Receivable from non-customer	12,458
Securities owned, at fair value	105,091,836
Securities borrowed	299,999
Fees receivable, net	38,289,734
Receivable from affiliates	20,165,113
Dividends and interest receivable	5,342
Deferred tax asset	15,503,679
Other assets	6,482,700
Total assets	<u>\$ 392,325,233</u>

Liabilities and Stockholder's Equity

Liabilities

Payable to broker-dealers and clearing organizations	\$ 73,409,534
Payable to customers	47,684,318
Securities sold, not yet owned	1,984,170
Payable to parent and affiliates	15,016,130
Dividends and interest payable	19,698
Accrued expenses and other liabilities	20,472,746
Total liabilities	<u>158,586,596</u>

Commitments and contingencies (Note 12)

Stockholder's Equity

Common stock, \$0.01 par value; 1,000,000 shares authorized; 156,386 shares issued and outstanding	1,564
Additional paid-in capital	641,553,781
Accumulated deficit	(407,816,708)
Total stockholder's equity	<u>233,738,637</u>
Total liabilities and stockholder's equity	<u>\$ 392,325,233</u>

The accompanying notes are an integral part of this statement of financial condition.

Macquarie Capital (USA) Inc.

Notes to Financial Statements (Unaudited)

September 30, 2017

1. Organization

Macquarie Capital (USA) Inc. (the “Company”) is a Delaware Corporation wholly owned by Macquarie Holdings (USA) Inc. (the “Parent”), which is an indirect wholly owned subsidiary of Macquarie Group Limited (“MGL”), a public non-operating holding company located in Sydney, Australia.

The Company is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”).

The Company acts as a broker of Australian, Asian and U.S. equity and fixed income securities, global depository receipts, and credit products. These transactions are executed primarily with and on behalf of domestic financial institutions, including investment companies and investment advisors as well as MGL’s affiliates. The Company self clears on behalf of institutional clients. Additionally, the Company provides arrangement and advisory services on mergers and acquisitions, underwriting transactions, and project finance transactions with MGL and its affiliates as well as independent third parties.

On June 23, 2017, the Company received a capital contribution of \$15,000,000 from its Parent.

2. Significant Accounting Policies

Basis of Accounting and Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash only consists of un-invested cash balances used in the daily operations of the business that are primarily maintained at one major global bank. Given this concentration, the Company is exposed to certain credit risk.

Fair Value Measurements

The Company is required to report the fair value of financial instruments, as defined. 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. Fair value measurements are not adjusted for transaction costs. The recognition of “block discounts” for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available in an active market is prohibited. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

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Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Securities owned and securities sold, not yet owned are recorded on a trade date basis.

As of September 30, 2017, the Company did not hold any financial instruments that are classified within Level 3 of the fair value hierarchy.

Fees Receivable

Fees receivable consist of investment banking and advisory service fees as well as underwriting fees. Fees receivable are presented net of an allowance for doubtful accounts of \$5,239,387 as of September 30, 2017. Management reviews receivables on a quarterly basis to assess the need for a reserve based on collectability.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at fiscal period-end rates of exchange, while income statement items are translated at the spot exchange rate at the time of the transaction.

Share Based Compensation

The Company participates in the share-based compensation plan of MGL. Under the MGL share-based compensation plan, the awards are issued by the Parent with the costs pushed down to the Company. The Company recognizes an expense and corresponding equity reserve for the share-based awards granted to employees based on the fair value measured as of the grant date. The cost will be amortized over the vesting period on a straight line basis.

Income Taxes

The Company is a member of the Macquarie Holdings (USA) Inc. ("MHUSA") tax consolidated group ("consolidated group") for U.S. federal income tax purposes and a member of various unitary and combined filing groups for state and local income tax purposes. Where the consolidated group does not file a unitary or combined state and local income tax return, the Company must file on a standalone basis if it is deemed to have a presence in that state. The amount of current and deferred taxes payable or receivable is recognized as of the date of the Statement of Financial Condition utilizing currently enacted tax laws and rates.

Deferred income taxes are recorded for the effects of temporary differences between the reported assets and liabilities in the financial statements and the tax basis of those assets and liabilities that will result in taxable or deductible amounts in the future based on tax laws and rates applicable to the periods in which the differences are expected to reverse. The Company assesses its ability to realize deferred tax assets primarily based on the Company and its Parent's historical earnings, future earnings potential and the reversal of taxable temporary differences when recognizing deferred assets. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company's deferred tax assets, to the extent they are not offset by the valuation allowance, are presented separately on the Statement of Financial Condition.

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The Company follows accounting principles related to the accounting for uncertainty in income taxes. In this regard, the Company is required to determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation process, based on the technical merits of the position. The tax expense (benefit) to be recognized is measured as the largest amount of expense (benefit) that is greater than fifty percent likely of being realized upon ultimate settlement, which could result in the Company recording a tax liability.

New Accounting Pronouncements

In August 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-14, “Revenue from Contracts with Customers” to supersede the majority of current revenue recognition guidance under U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue for the transfer of goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts including significant judgments. The guidance will be effective for the Company beginning April 1, 2018. The Company is in the process of determining the impact of this guidance on the financial statements.

In March 2016, the Financial Accounting Standards Board issued ASU No. 2016-09, “Compensation - Stock Compensation” as a part of its Simplification Initiative. The guidance will affect the accounting for share-based payment transactions. The guidance was effective for the Company beginning April 1, 2017. An assessment was performed as of September 30, 2017 and will be ongoing. The adoption of this standard is not expected to have a material impact on the entity.

In November 2016, the Financial Accounting standards Board issued ASU No. 2016-18 “Statement of Cash Flows – Restricted Cash”. The guidance will amend the presentation and classification of changes in restricted cash in the statement of cash flows to eliminate current diversity in practice. The amended guidance requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. The guidance will be effective for the Company beginning April 1, 2019. The Company is in the process of determining the impact of this guidance on the financial statements.

3. Cash Segregated Under Federal Regulations

Cash has been segregated in a special reserve bank account for the exclusive benefit of customers in accordance with SEC Rule 15c3-3.

4. Receivable From and Payable to Broker-Dealers and Clearing Organizations

Amounts receivable from and payable to broker-dealers and clearing organizations at September 30, 2017, consist of the following:

	Receivable	Payable
Securities failed to deliver/receive	\$ 37,973,573	\$ 73,409,087
Receivable from/payable to clearing organizations	<u>37,315,075</u>	<u>447</u>
	<u>\$ 75,288,648</u>	<u>\$ 73,409,534</u>

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5. Receivable From and Payable to Customers

Receivable from and payable to customers includes balances with U.S. clients for transactions that were not settled prior to settlement date. In addition, the Company's affiliates affect transactions in securities with or for U.S. investors through the Company. These affiliates are exempt from the Securities Exchange Act of 1934 (the "Act"). In order for affiliates to maintain their exemption, the Company, among other things, is responsible for receiving, delivering, and safeguarding funds and securities in connection with the transactions on behalf of U.S. investors in compliance with Rule 15c3-3 under the Act. As such, the Company records receivables from and payables to customers for transactions past settlement date that were introduced to these affiliates.

6. Fair Value of Financial Instruments

The following table summarizes financial instruments at fair value, within the fair value hierarchy levels, as of September 30, 2017:

	Assets			
	Level 1	Level 2	Level 3	Total
Securities owned, at fair value				
Money market mutual funds	\$ 102,687,175	\$ -	\$ -	\$ 102,687,175
Equity securities	2,404,661	-	-	2,404,661
Total	<u>\$ 105,091,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,091,836</u>
	Liabilities			
	Level 1	Level 2	Level 3	Total
Securities sold, not yet owned, at fair value	\$ 1,984,170	\$ -	\$ -	\$ 1,984,170
Total	<u>\$ 1,984,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,984,170</u>

The Company also has other financial assets and liabilities that are not recorded at fair value. These instruments are recorded at their contractual amounts which approximate their fair value as they are generally short term in nature and at market rates. They would also be considered Level 2 in the hierarchy as there is no active market price for the instruments.

7. Deferred Profit Share

The Company's compensation arrangement includes provisions for the retention and deferral of payment of a portion of an employee's bonus above certain amounts. For Non-Executive Directors of the Company, the deferred amount plus interest is paid to the employee in the following second, third, and fourth years, subject to the employee's continued service to the Company.

For Executive Directors of the Company, the deferred amount vests in the following sixth to tenth years, subject to the employee's continued service to the Company. Such deferred amount is invested by MGL in Macquarie Funds and the capital gains of the portfolio are paid as additional compensation each year at the discretion of MGL's Executive Committee.

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8. Employee Benefit Plans

The Company participates in the Parent's 401(k) plan. Contributions to the 401(k) plan are matched by the Company, up to specific limits. Beginning January 1, 2012, the Company matches 100% of the first 3% plus 50% of the next 2% of the employee's pre-tax contributions with a maximum contribution of 4% up to the matching limit of \$10,800 (based on the maximum IRS compensation limit of \$270,000). A vesting schedule applies to all matched contributions based on the number of years of service with the Company. Substantially all employees are eligible to participate in the plan.

9. Employee Share Based Compensation

Macquarie Group Employee Retained Equity Plan

The Macquarie Group Employee Retained Equity Plan ("MEREP") is a flexible plan structure that offers different types of equity grants. Participation in the MEREP is currently provided to Associate Directors and above. The plan includes a decrease in the portion of the staff profit share paid in cash, an increase in the portion delivered as equity and an increase in the proportion of deferred remuneration. In most cases the equity grants are in the form of restricted share units ("RSU") comprising a beneficial interest in MGL shares held in trust for the staff member. The participant in the RSU is entitled to receive dividends on the share and direct the trustee how to exercise voting rights in the share. RSUs are the primary form of award under the MEREP. The deferred share unit ("DSU") is a right to receive either a share held in the trust or newly issued share for no cash payment, subject to vesting and forfeiture provisions. The DSU participant has no right or interest in any share until the DSU is exercised. Performance share units ("PSU") are structured like DSUs or RSUs with performance hurdles that must be met before the underlying share or cash equivalent will be delivered. The MEREP awards will vest over periods from three to five years for most Executive Directors, three to seven years for members of the Executive Committee and Designated Executive Directors (members of the Operations Review Committee and other Executive Directors with significant management or risk responsibility) and two to four years for other staff, including staff promoted to a Director level. The shares issued will be fully paid ordinary Macquarie Group Limited shares (symbol: MQG, listed on the Australian Securities Exchange) and will be issued to the MEREP trustee at the closing price of MGL shares on the day before the awards are issued.

10. Related Party Transactions

The Company has transactions with the Parent and its affiliates that arise from both the daily operations of the Company and specific transactions, including the performance of administrative services, allocation of expenses, and the execution of securities transactions.

Assets and receivables from the Parent and affiliated companies as of September 30, 2017 are comprised of the following:

Receivable from broker-dealers and clearing organizations	\$	32,843,720
Receivable from customers		853,740
Receivable from non-customer		12,458
Securities borrowed		299,999
Receivable from affiliates		20,165,113

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Liabilities and payables to the Parent and affiliated companies as of September 30, 2017 are comprised of the following:

Payable to broker-dealers and clearing organizations	\$	73,388,832
Payable to customers		14,470,252
Payable to parent and affiliates		15,016,130

11. Risk, Commitments, and Contingencies

The Company acts as agent to execute and clear all of its Australian securities transactions through an Australian affiliate, Macquarie Capital Securities (Australia) Limited, and Asian securities transactions through Macquarie Bank Limited Hong Kong branch. Pursuant to the terms of the agreements between the Company and its clearing brokers, the clearing brokers have the right to charge the Company for losses that result from a counterparty's failure to fulfill its obligations. As the right to charge the Company has no maximum amount and is applied to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. As the liability is not estimable at September 30, 2017, the Company did not record a liability with regard to this obligation. The Company has the ability to pursue collection from or performance of the counterparty. The Company's policy is to monitor the credit standing of the clearing brokers and all counterparties with which it conducts business.

The Company is a member of a U.S. clearinghouse and as a member may be required to pay a proportionate share of the financial obligations of another member should that member default on its obligations. The Company's potential obligation is not quantifiable and may exceed the value of cash and securities held at the clearinghouse. As the likelihood of this is remote, no liability has been recorded on the Statement of Financial Condition.

In the normal course of business the Company enters into contracts that contain a variety of representations and warranties, which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company expects the risk of loss to be remote and has not recorded an associated liability as of September 30, 2017.

The Company may be exposed to credit risk regarding its receivables, which are primarily receivable from financial institutions, including investment managers, banks and broker-dealers.

As of September 30, 2017, the Company has no commitments or contingent liabilities which are individually material or a category of commitments or contingent liabilities which are material.

12. Legal and Regulatory Matters

The Company is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of the Company's businesses. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. As at September 30, 2017, the Company has not identified any such matters which present loss contingencies which are both reasonably probable and estimable.

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13. Net Capital Requirements

As a broker-dealer, the Company is subject to the Uniform Net Capital Rule (“Rule 15c3-1”) under the Act that requires the maintenance of minimum net capital in accordance with a formula set forth therein. The Company calculates net capital under the alternative method permitted by Rule 15c3-1 which requires the Company to maintain net capital, as defined, of the greater of 2% of aggregate debit balances arising from customer transactions pursuant to Rule 15c3-3 under the Act, or \$250,000. At September 30, 2017, the Company had net capital of \$145,108,366 which was \$142,539,246 in excess of the requirement of \$2,569,120.

The Company is also subject to Rule 15c3-3 under the Act, which requires the Company to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of customers. In accordance with Rule 15c3-3, the Company had cash and securities segregated for the exclusive benefit of customers at September 30, 2017. The amount of cash segregated for the exclusive benefit of customers was \$9,000,000.

During the period ended September 30, 2017, the Company did not have assets in the proprietary accounts of its introducing brokers (“PAB”). As such, no cash or securities were required to be held in the reserve bank account at September 30, 2017 to comply with Rule 15c3-3.

14. Income Taxes

The Company is a member of the MHUSA tax consolidated group (“consolidated group”) for U.S. federal income tax purposes and a member of a combined group for state and local income tax purposes. Federal and state income taxes as well as benefits for federal and state net operating losses are allocated based on a formal tax sharing agreement between the Company and the Parent. All balances are settled with the Parent.

The consolidated federal and unitary/combined state and local tax returns that include the Company are subject to audits by relevant taxing authorities. Currently, the IRS is examining the U.S. federal consolidated group for tax years ended March 31, 2012 and March 31, 2013. New York State is examining the combined group for tax years ended March 31, 2007 to March 31, 2012. New York City is examining the combined group for tax years ended March 31, 2008 to March 31, 2013. Illinois is examining the combined group for tax years ended March 31, 2013 to March 31, 2014.

Deferred taxes result from temporary differences between tax laws and financial accounting standards. These result in a net deferred tax asset of \$15,503,679 which is included on the Statement of Financial Condition.

The Company uses the separate company method of tax allocation as modified for benefits-for-loss. This approach modifies the “separate return method”, a method that allocates current and deferred taxes to members of the group by applying ASC 740 to each member as if it were a separate taxpayer, so that net operating losses (or other current or deferred tax attributes) are characterized as realized (or realizable) by the subsidiary when those tax attributes are realized (or realizable) by the consolidated group even if the subsidiary would not otherwise have realized the attributes on a stand-alone basis.

Net Operating Loss

Members of the U.S. federal consolidated group that contribute net operating losses are allocated a portion of the U.S. federal consolidated group’s income tax liability to the extent members of the U.S.

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federal consolidated group contributed taxable income greater than contributed net operating losses. The member contributing a loss is due an amount equal to the loss that has been utilized to offset taxable income of the consolidated group.

Accounting for Uncertainty in Income Taxes

The Company accounts for uncertain tax positions by prescribing a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities for the year ended September 30, 2017.

As of September 30, 2017, there is no liability for tax related interest and penalties included within accrued expenses and other liabilities on the Company's Statement of Financial Condition.