ALPACA SECURITIES LLC

FINANCIAL STATEMENTS

May 31, 2022

(UNAUDITED)

Alpaca Securities LLC

STATEMENT OF FINANCIAL CONDITION

May 31, 2022

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(Unaudited)
May 31, 2022

ASSETS	
Cash	$ 13,980,712
Cash segregated under Federal and other regulations	72,146,768
Customer receivables	5,802,445
Equity securities - user-held fractional shares	36,630,376
Investment securities owned, at fair value, long	223,899
Due from broker	6,323,889
Clearing brokers deposit	2,250,000
Prepaid expenses and other current assets	801,148
Related Party Receivable	9,776
Total assets	$ 138,169,013
LIABILITIES AND EQUITY	
Liabilities	
Accounts payable and accrued expenses	$ 231,682
Customer payables	82,808,131
Due to Broker	75,568
Related Party Payable	302,977
Equity securities - fractional share repurchase obligations	36,630,376
Investment securities owned, at fair value, short	47
Other current liabiliies	332,489
Total liabilities	120,381,270
Equity	17,787,743
TOTAL LIABILITIES AND EQUITY	$ 138,169,013

1. Nature of business and summary of significant accounting policies

Nature of Business and Organization

Alpaca Securities LLC (the "Company") is a wholly owned subsidiary of AlpacaDB, Inc. ("Parent"). The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC"), is a member of the Financial Industry Regulatory Authority ("FINRA"), and the Securities Investor Protection Corporation ("SIPC"). The Company currently acts as an introducing broker for listed securities, and retails corporate equity securities over-the-counter.

The Company operates under Rule 15c3-1 of the Securities Exchange Act of 1934, where the requirement is to maintain sufficient liquidity in order to cover the Company's obligations. The clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books. The Company also operates under Rule 15c3-3 of the Securities Exchange Act of 1934, also conducting business on an omnibus basis and clearing through Velox Clearing LLC ("Velox") and Vision Financial Markets LLC ("Vision"). Receivables from and payables to broker reflected in the statement of financial condition are amounts due from and to the brokers at May 31, 2022.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts disclosed in the financial statements. Actual results could differ from those estimates.

Fractional share program

We maintain an inventory of securities held exclusively for the fractional share program, which is operated by the Company. This proprietary inventory is recorded within investment securities owned, at fair value, long. When a user purchases a fractional share, we record the cash received for the user-held fractional share as pledged collateral recorded within equity securities – user-held fractional shares and an offsetting liability to repurchase the shares, recorded within equity securities – fractional share repurchase obligations, as we concluded that we did not meet the criteria for derecognition under the accounting guidance. We measure our inventory of securities, user-held fractional shares and our repurchase obligation at fair value at each reporting period.

Income Taxes

The Company is a single-member limited liability company, which is disregarded for federal and state income tax purposes and is not subject to taxes on its income. The Parent of the Company is a "C" Corporation. As explained in Note 4, the Company has an expense sharing agreement with the Parent. Under the terms of the agreement, the Parent reimburses the Company for all taxes, including payroll and sales tax. Accordingly, the Company has not provided in these financial statements for federal or state income taxes.

In accordance with GAAP, the Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Company recording a tax liability that would reduce member's equity. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities. Management's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof.

The Company files its income tax returns in various state and local jurisdictions. Any potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with state and local tax laws. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next six months.

2. Cash Segregated Under Federal and Other Regulations

At May 31, 2022, the Company has Cash segregated under Federal and other regulations in the amount of $72,146,768. An additional deposit of $7,329,631 was made on June 1, 2022 to bring the amount on deposit to $79,476,399. Cash segregated under Federal and other regulations represents restricted cash segregated in accordance with the Customer Protection Rule ("Rule 15c3-3") of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under Rule 15c3-3, a broker dealer carrying customer accounts is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefits of customers.

3. Due from broker

The Company introduces all its securities transactions to Velox and Vision on an omnibus basis. In accordance with the clearance agreements, the Company has agreed to indemnify the clearing brokers for losses, if any, which the clearing brokers may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing brokers monitor collateral on the customers' accounts. In addition, pursuant to its executing agreement, the Company executes securities transactions with executing brokers. As of May 31, 2022, the due from broker of $6,323,889 are pursuant to these agreements.

4. Clearing brokers deposit

The Company has a brokerage agreement with its clearing brokers to carry its accounts and the accounts of its clients as customers of the clearing brokers. The clearing brokers have custody of the Company's cash balances which serve as collateral for any amounts due to the clearing brokers as well as collateral for securities sold short or securities purchased on margin. The balances as of May 31, 2022 at Velox and Vision was $2,000,000 and $250,000 respectively.

5. Fair Value of assets and liabilities

We measure our equity securities owned for fractional shares programs at fair value. We have evaluated the estimated fair value of financial instruments using available market information and are classified, on the basis of the measurement inputs employed, as level 1, 2, or 3 within the fair value hierarchy as follows:

Level 1 – Quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2022 are as follows:

	May 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities owned, at fair value, long:				
Equity securities - user-held fractional shares	$ -	$ 36,630,376	$ -	$ 36,630,376
Equity securities - securities owned	-	223,899	-	223,899
Total financial asset	$ -	$ 36,854,275	$ -	$ 36,854,275
Liabilities				
Investment securities owned, at fair value, short				
Equity securities - fractional share repurchase obligations	$ -	$ 36,630,376	$ -	$ 36,630,376
Equity securities - securities owned	-	47	-	47
Total financial asset	$ -	$ 36,630,423	$ -	$ 36,630,423

6. Repurchase obligations

The Company allows for the purchase of fractional shares. The fractional shares purchased by users are unrecognized, unmarketable, and illiquid outside of the Company's platform, they are not transferable in-kind, and may only be liquidated and the proceeds transferred out via a wire transfer. The Company records these repurchase obligations on its statement of financial condition under equity securities – fractional share repurchase obligations. For the year ended May 31, 2022 the Company recorded at fair market value fractional share repurchase obligations of $36,630,376.

7. Related party transactions

The Company has an expense sharing agreement with its Parent. The Parent performs and provides certain functions for the Company, including office facilities, payroll services, insurance, professional services, and technology.

The intercompany payable represents unpaid amounts due to Parent of approximately $302,977 at May 31, 2022 and is included on the accompanying statement of financial condition.

It is possible that the terms of certain related party transactions are not the same as those that would result for transactions among wholly unrelated parties.

8. Net capital requirement

The Company, as a member of FINRA, is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1. The Company has elected to use the alternative method, permitted by SEC Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, equal to the greater of the minimum dollar net capital requirement or 2% of aggregate debit balances arising from customer transactions, as defined. At May 31, 2022 the Company's net capital was $16,113,972 which was $15,863,972 in excess of its minimum net capital of $250,000. This minimum net capital is based upon the greater of $250,000 or 2% of aggregate debit items arising from customer transactions.

9. Off-balance sheet risk and concentrations of credit risk

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer 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.

The Company maintains cash in bank accounts which, at times, may exceed federally insured limits. The Company is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf.

10. Commitments and contingencies

The Company has entered into an omnibus clearing agreement with Velox.

The Company has entered into an omnibus clearing agreement with Vision.

In the normal course of business, the Company may be involved in disputes, claims or assessments from time to time. The Company is not aware of any such matters that would have a material impact on its financial statements.

The Company incurred significant losses in the current period associated with becoming a new entrant into its industry. Similar startup costs are not projected for the next fiscal period. The Company has significant liquid funds to continue its operations and meet its obligations that are due within one year following the date that the financial statements are issued.

The worldwide outbreak of coronavirus (COVID-19) may lead to an adverse impact on the financial markets and the overall economy. In the event such an impact was to occur and last for a sustained period, the operations and financial performance of the Company may be adversely affected. At this point, however, the severity of such an event is highly uncertain and cannot be predicted.

11. Recently issued accounting pronouncements

The Financial Accounting Standards Board (the “FASB”) has established the Accounting Standards Codification (“Codification” or “ASC”) as the authoritative source of GAAP recognized by the FASB. The principles embodied in the Codification are to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP in the United States. New accounting pronouncements are incorporated into the ASC through the issuance of Accounting Standards Updates (“ASU's”).

For the period ending May 31, 2022, various ASU's issued by the FASB were either newly issued or had effective implementation dates that would require their provisions to be reflected in the financial statements for the year then ended.

The Company has either evaluated or is currently evaluating the implications, if any, of each of these pronouncements and the possible impact they may have on the Company's financial statements. In most cases, management has determined that the pronouncement has either limited or no application to the Company and, in all cases, implementation would not have a material impact on the financial statements taken as a whole.

12. Subsequent events

The Company has evaluated events subsequent to the statement of financial condition date for items requiring recording or disclosure in the financial statements. The evaluation was performed through the date the financial statements were available to be issued.