

**ALPACA SECURITIES LLC**

STATEMENT OF FINANCIAL CONDITION

(Unaudited)

JUNE 30, 2023

## **Alpaca Securities LLC**

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# ALPACA SECURITIES LLC

## Statement of Financial Condition

June 30,

2023

### ASSETS

Cash	\$ 15,513,782
Cash segregated under federal and other regulations	153,481,534
Customer receivables (net of allowance for credit losses of \$86,439)	7,587,831
Equity securities - user-held fractional shares	83,139,587
Investment securities owned, at fair value, long	169,498
Due from broker	3,508,948
Clearing broker deposits	3,232,831
Accounts receivable (net of allowance for credit losses of \$195,824)	654,071
Prepaid expenses and other current assets	234,798
Related Party Receivable	218,532
Total assets	<u>\$ 267,741,412</u>

### LIABILITIES AND MEMBER'S EQUITY

#### Liabilities

Accounts payable and accrued expenses	\$ 1,182,541
Customer payables	161,716,870
Due to broker	145,401
Related party payable	1,077,437
Equity securities - fractional share repurchase obligations	83,139,587
Other current liabilities	981,990
Total liabilities	<u>248,243,826</u>

Member's Equity	<u>19,497,586</u>
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TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 267,741,412</u>
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## NOTES TO STATEMENT OF FINANCIAL CONDITION

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### 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. (the "Parent"). The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company currently acts as an introducing broker for listed securities, and retails corporate equity securities over-the-counter. The Company maintains the books and records of its customers, conducts business on an omnibus basis, and clears through Velox Clearing LLC ("Velox").

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 Company also operates under Rule 15c3-3 of the Securities Exchange Act of 1934, for additional information on the Company's requirements under Rule 15c3-3 see Note 2, *Cash segregated under federal and other regulations*.

#### *Use of Estimates*

The preparation of financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities during the reporting period. Actual results could differ from those estimates.

#### *Due from and due to broker*

Due from broker primarily includes receivables from the Company's clearing broker held in the Company's omnibus account. Due to broker reflects the clearing costs related to doing business with the Company's clearing broker. For additional information on the Company's receivable from and payable to brokers see Note 3, *Due from broker*.

#### *Deposits with Clearing Organizations*

Participants in clearing organizations are required to maintain a minimum cash deposit as part of their daily clearing fund requirement. The calculation of the amount required to be on deposit is based on the outstanding trades through the clearing organization. For additional information on the Company's deposits with clearing organizations see Note 4, *Clearing brokers' deposit*.

#### *Fractional share program*

The Company maintains 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, the Company records 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 the Company concluded that the Company does not meet the criteria for derecognition under the accounting guidance, the Accounting Standards Codification ("ASC") Topic 860 *Transfers and Servicing*. The Company measures their inventory of securities, user-held fractional shares and their repurchase obligation at fair value at each reporting period. For additional information on the Company's fractional share program obligations see Note 5, *Fair value of assets and liabilities*.

## NOTES TO STATEMENT OF FINANCIAL CONDITION

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### *Allowance for Credit Losses*

The Company accounts for estimated credit losses on financial assets measured on an amortized cost basis in accordance with ASC Topic 326-20. This topic requires the Company to estimate expected credit losses over the life of its financial assets as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. The Company's allowance for credit losses as of June 30, 2023 is \$282,263.

### *Receivables*

The Company's customer receivables, and accounts receivable, net include amounts from customers and broker-dealers, providing services to business customers, as well as cash deposits with clearing organizations. These amounts are primarily short-term in nature. Aged business customer receivables are reviewed for potential credit loss and written off when deemed uncollectible. The Company also presents a net amount receivable for unsettled securities transactions included in customer receivables. As noted in ASC 940-320-05-4, the risk of nonperformance of regular-way settling trades is minimal, given the following: (a) they are fully collateralized on the trade date, (b) the period of time between trade and settlement date is reasonably short, and (c) most securities are affirmed by both parties to the trade and settle net through a clearing entity. Accordingly, receivables and payables arising from these unsettled regular-way transactions may be recorded net.

### *Customer receivables and payables*

Customer receivable (net of allowance for credit loss) is primarily made up of margin receivables. These transactions are recorded on settlement date basis. Margin receivables are adequately collateralized by users' securities balances and are reported at their outstanding principal balance, net of an allowance for credit loss. The Company monitors margin levels and requires users to deposit additional collateral, or reduce margin positions, to meet minimum collateral requirements and avoid automatic liquidation of their positions.

The Company applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for receivables from users. The Company has no expectation of credit losses for customer receivables that are fully secured, where the fair value of the collateral securing the balance is equal to or in excess of the receivable amount. This is based on the assessment of the nature of the collateral, potential future changes in collateral values, and historical credit loss information relating to fully secured receivables. In cases where the fair value of the collateral is less than the outstanding receivable balance from a user, the Company recognizes an allowance for credit loss in the amount of the difference, or unsecured balance, in the period of occurrence. The Company writes-off unsecured balances when the balance becomes outstanding for over 21 days, unless the customer has agreed to a payment plan.

Customer payables represent free credit balances from users' uninvested deposits and/or funds attributed to users as a result of settled trades and other security related transactions.

### *Leases*

The Company has elected to not recognize a right-of-use ("ROU") assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement or have immaterial monthly lease payment obligations less than \$5,000, and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company expenses the cost associated with their short-term leases on a straight-line basis over the lease term through other expenses on the statement of operations.

## NOTES TO STATEMENT OF FINANCIAL CONDITION

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### *Prepaid expenses and other current assets*

The Company classifies prepayments made under contracts as prepaid expenses and expense them over the contract terms. These prepaid expenses primarily include items such as prepayments on professional services. As of June 30, 2023, prepaid expenses included in other assets were \$111,580. Other current assets primarily include corporate cash held at a third party to support instant withdrawals or deposits feature for the Company's cashiering product, fees receivable, and other various receivables.

### *Income Taxes*

The Company is a single-member limited liability company and, as such, is disregarded for federal, state, and local income tax purposes. All tax effects of the Company's income or loss are passed through to the Parent. In addition, the Company is not liable for any material limited liability company taxes. Therefore, no provision or liability for federal, state, or local income taxes is included in these financial statements.

## **2. Cash segregated under federal and other regulations**

At June 30, 2023, the Company has Cash segregated under federal and other regulations in the amount of \$153,481,534. An additional deposit of \$3,795,994 was made on July 3, 2023 to bring the amount on deposit to \$156,277,528. 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/Due to broker**

The Company introduces all its securities transactions to Velox 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 monitors the collateral on the customers' accounts. In addition, pursuant to its executing agreement, the Company executes securities transactions with executing brokers. As of June 30, 2023, the due from broker of \$3,508,948 are pursuant to these agreements.

Due to broker reflects the clearing costs related to doing business with the Company's clearing broker. As of June 30, 2023, the due to broker, on the statement of financial condition, of \$145,401 represents the clearing costs as agreed upon with the clearing broker.

## **4. Clearing brokers' deposit**

The Company has brokerage agreements 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 balance as of June 30, 2023 at Velox and National Securities Clearing Corporation was \$1,250,000 and \$1,975,331, respectively.

## NOTES TO STATEMENT OF FINANCIAL CONDITION

### 5. Fair value of assets and liabilities

The Company measures their equity securities owned for fractional shares programs at fair value. The Company has 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 June 30, 2023 are as follows:

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment securities owned, at fair value, long:				
Equity securities - user-held fractional shares	\$ 83,139,587	\$ -	\$ -	\$ 83,139,587
Investment securities owned, at fair value, long	166,998	-	-	166,998
Total financial asset	<u>\$ 83,306,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,306,585</u>
<b>Liabilities</b>				
Investment securities owned, at fair value, short				
Equity securities - fractional share repurchase obligations	\$ 83,139,587	\$ -	\$ -	\$ 83,139,587
Investment securities owned, at fair value, short	-	-	-	-
Total financial liabilities	<u>\$ 83,139,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,139,587</u>

#### *Equity securities*

The Company's portfolio of equity securities with readily determinable fair values is comprised of marketable stocks, exchange-traded funds ("ETF"), and American depositary receipts ("ADR"). Since quoted prices for the Company's equity securities are readily available in an active market, they are classified within Level 1 of the fair value hierarchy.

### 6. 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, in accordance with the terms of this agreement.

The Company holds customer accounts who also have accounts with the Company's affiliate, Alpaca Crypto LLC ("Alpaca Crypto"). For those customers with both an account with the Company and Alpaca Crypto, the Company holds the customers funds in compliance with Rule 15c3-3. Upon customers purchasing or selling crypto currency through Alpaca Crypto, the Company will transfer the customers' funds to or receive the customers' funds from Alpaca Crypto. The settling of funds between the Company and Alpaca Crypto may result in a payable to or receivable from related party.

## NOTES TO STATEMENT OF FINANCIAL CONDITION

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The related party payable represents unpaid expenses and dividends due to the Parent of \$1,077,437. The related party receivable represents unreceived amounts from Alpaca Crypto of approximately \$218,532 at June 30, 2023, these are included in related party payable on the statement of financial condition.

In March 2021, the Company entered into a \$2 million unsecured demand revolving line of credit with the Parent. The line of credit has a stated interest rate of 1%, with interest due monthly. At June 30, 2023, there was no outstanding balance on this unsecured line of credit.

The Company holds user accounts for related party AlpacaJapan Co. Ltd. ("Alpaca Japan"). Alpaca Japan is a registered broker/dealer in Japan and holds multiple user accounts with the Company including an omnibus account, a deposit account, and a settlement account. As of June 30, 2023, the Company had affiliate users Alpaca Japan and Alpaca Crypto with free credit balances totaling \$145,109 and \$4,073, respectively, included in customer payables on the statement of financial condition.

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

### 7. Financing activities, off-balance sheet risk, and concentrations of credit risk

In April 2022, the Company entered into a \$10 million on demand revolving line of credit agreement with BMO Harris Bank N.A. ("BMO"). The line of credit shall be used solely to finance customer withdrawals from the reserve account. Interest for this line of credit is determined at the time a loan is initiated and the applicable interest rate is calculated the rate per annum determined by adding 2.5% per annum to the Overnight Federal Funds Rate. Interest is payable monthly in arrears on the last calendar day of each month. At June 30, 2023, there was no outstanding balance on this unsecured line of credit.

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.

### 8. Commitments and contingencies

The securities industry is highly regulated and many aspects of the Company's business involves substantial risk of liability. In past years, there has been an increase in litigation and regulatory investigations involving the brokerage industry. Federal and state regulators, exchanges, or other SROs investigate issues related to regulatory compliance that may result in enforcement action. The Company is also subject to periodic regulatory audits and inspections that could in the future lead to enforcement investigations or actions. For the period ending June 30, 2023, the Company is involved with FINRA regarding an enforcement inquiry, which is still ongoing as of the date the financial statements were issued. The Company cannot reasonably estimate a reasonable loss (or range of loss) or potential fine, if any action is taken, that could result from the enforcement referral.

As of June 30, 2023, the Company was not named as a defendant in lawsuits.

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.



## NOTES TO STATEMENT OF FINANCIAL CONDITION

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### 9. 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 June 30, 2023, the Company's net capital was approximately \$18,084,885 which was approximately \$17,834,885 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.

### 10. 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 issued. Based upon this review, the Company has determined that there were no events which took place that would have a material impact on its financial statements.