

Velox Clearing LLC

Financial Statement

June 30, 2020

(Unaudited)

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Velox Clearing LLC
Statement of Financial Condition
June 30, 2020

ASSETS

Cash and cash equivalents	\$	5,762,428
Cash segregated under federal regulations		6,589,091
Receivable from customers and correspondents		1,660,963
Receivable from broker-dealers and clearing organizations		2,278,941
Receivable from affiliates		267,555
Restricted cash		400,000
Right-of-use lease asset		1,068,933
Property and equipment, net		637,372
Other assets		105,943
TOTAL ASSETS	\$	18,771,226

LIABILITIES AND MEMBER'S EQUITY

Payable to customers and correspondents		6,072,329
Payable to broker-dealers and clearing organization		835,312
Bank Loan -PPP		495,700
Accounts payable and accrued expenses		476,484
Payable to affiliates		6,436
Operating lease liability		1,510,910
TOTAL LIABILITIES	\$	9,397,170

MEMBER'S EQUITY

Member's contributions		18,883,200
Accumulated deficit		(9,509,144)
Total member's equity	\$	9,374,056
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$	18,771,226

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

Velox Clearing LLC

Notes to Financial Statement (Unaudited)

June 30, 2020

Note 1. Organization and Description of Business

Velox Clearing LLC (the "Company") was formed on August 9, 2017 in the State of Nevada. It is a wholly owned subsidiary of Velox Holdings Inc., a Nevada Corporation (the "Parent"). The Company is a clearing broker-dealer registered with the Securities and Exchange Commission ("SEC"), a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"), the Securities Investor Protection Corporation ("SIPC"), National Securities Clearing Corp. ("NSCC"), the Depository Trust Company ("DTC"), CBOE-BYX, CBOE-BYZ, CBOE-EDGA, CBOE-EDGX, Investors Exchange ("IEX"), The Nasdaq Stock Market ("NQX"), the New York Stock Exchange ("NYSE"), NYSE American and NYSE ARCA.

Note 2. Summary of Significant Accounting Policies

Basis of presentation

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

Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Management believes that the estimates utilized in preparing its financial statements are reasonable. However, actual results could differ from those estimates.

Cash and cash equivalents

The Company considers short-term, highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Restricted cash

Restricted cash represents cash held for the Company's letter of credit on its office lease agreement.

Cash segregated under federal regulations

Cash segregated and on deposit for regulatory purposes consists of cash in special reserve bank accounts for the exclusive benefit of clients and broker dealer under Rule 15c3-3 of the Securities Exchange Act of 1934 (the "Customer Protection Rule") and other regulations.

Receivable from and payable to customers

Customer securities transactions are recorded on a settlement date basis. Receivables from customers and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the statement of financial condition.

Receivable from and payable to correspondents

The Company collects commissions and other fees from end customers each month. As stipulated by individual agreements with correspondent introducing brokers ("Correspondents"), the Company calculates and distributes amounts due from or to Correspondents.

Receivables from and payables to broker-dealers and clearing organizations

Receivables from broker-dealers and clearing organizations include amounts receivable from securities not delivered by the Company to a purchaser by the settlement date ("fails to deliver"), and deposits with clearing organizations. Payables to broker-dealers and clearing organizations include amounts payable for securities not received by the Company from a seller by the settlement date ("fails to receive").

Property and equipment

Property and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful life of the asset or the term of the lease.

Other assets

Other assets are comprised of receivables generated in the normal course of business, such as interest receivables, prepaid expenses, and a security lease deposit.

Income taxes

The Company is a limited liability company for federal and state income tax purposes. Under laws pertaining to income taxation of limited liability companies, no federal income tax is paid by the Company. The income or loss of the Company is taxed to the member in its respective return.

The Company evaluates its tax positions taken or expected to be taken in the course of preparing tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as an expense in the applicable year. As of June 30, 2020, the Company does not have any significant uncertain tax positions for which a reserve would be necessary.

Recently adopted accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”). The primary objective of ASU 2016-02 is to increase transparency and comparability by recognizing lease assets and liabilities on the balance sheet and to expand related disclosures. ASU 2016-02 requires a “right-of-use” asset and a payment obligation liability on the balance sheet for most leases and subleases with terms longer than 12 months. The Company adopted this lease standard effective January 1, 2019. The Company identified the affected population of its leases and did not identify any cumulative-effect adjustment to be made to the opening balance of Member’s Equity at January 1, 2019.

Note 3: Receivable from and Payable to Broker-Dealers and Clearing Organizations

Amount receivable from and payable to broker-dealers and clearing organizations include the following:

Receivables:

Broker-Dealers	78,829
Clearing Organizations	2,200,113
Total Receivables	<u>\$ 2,278,941</u>

Payables:

Broker-Dealers	67,604
Clearing Organizations	767,707
Total Payables	<u>\$ 835,312</u>

Note 4: Letter of Credit

At June 30, 2020, the Company has a letter of credit in the favor of its office landlord. The letter of credit is in the amount of \$400,000 and expires at the end of the related lease term in July 2024.

Note 5. Property and Equipment

Property and equipment consist of the following at June 30, 2020:

Computer Hardware	33,535.94
Office Equipment	5,644.58
Furniture and Fixture	83,663.85
Leasehold Improvements	514,527.32
	<u>637,371.69</u>
Less accumulated depreciation and amortization	<u>(153,953.11)</u>
	<u>483,418.58</u>

Note 6. Net Capital Requirements

The Company, as a registered broker-dealer in securities, is subject to the Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission. The Company computes its net capital requirement under the alternative method provided for in Rule 15c3-1. Under the alternative method, the Company shall not permit its net capital to be less than the greater of \$1,500,000 or 2 percent of aggregate debit items computed in accordance with the Formula for Determination of Reserve Requirements for Brokers and Dealers, as defined. At June 30, 2020, the Company's net capital was \$7,902,775, which exceeded the minimum net capital requirement of \$1,500,000 by \$6,402,775.

Note 7: Trading Activities and Related Risks

The Company's trading activities are comprised of providing securities clearing services to clients. Trading activities expose the Company to market and credit risks. These risks are managed in accordance with established risk management policies and procedures. The Company is not trading or settling penny stocks, as defined by the Securities and Exchange Commission.

In the normal course of business, the Company clears, settles and finances various customer transactions. Clearance of these transactions includes the purchase and sale of securities which exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties. Liabilities to other brokers and dealers related to unsettled transactions are recorded at an amount for which the securities were purchased, and paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed to receive, the Company may purchase the underlying security in the market and seek reimbursement for any losses from counterparties.

The Company may be exposed to off-balance-sheet risk. In the normal course of business, the Company clears securities purchase and sales transactions on behalf of its clients. If another party involved in the transaction fails to fulfill its contractual obligation, the Company may incur a loss if the market value of the security is different from the contract amount of the transaction. The Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's or broker's obligations.

Note 8. Related Party Transactions

The Company entered into a technology service agreement with an affiliate of the Parent, Shanghai ManYing Technology Co. Ltd. ("SMT") in June 2018. Under this agreement SMT agrees to develop, design, sell and provide additional services related to the software that the Company may use. In April 2020, the services provided by SMT was replaced by Velox Technologies ("VT"). The Company also has accrued expenses payable to Velox Holdings Inc. At June 30, 2020, amounts payable to Velox Holdings Inc. was \$6,436.

In 2019 the Company entered into expense sharing agreements with two affiliates of the Parent, Velox Technologies LLC and Zinvest Financial Service LLC. Both affiliates are sharing the office space and certain office equipment with the Company. At June 30, 2020, the Company was due \$117,290 from Velox Technologies LLC and \$118,488.92 from Zinvest Financial Service LLC.

Note 9. Employee Benefit Plan

The Company provides a defined contribution 401(K) employee benefit plan (“the Plan”) that covers substantially all employees. All employees are eligible to participate in the Plan based on meeting certain term of employment requirements.

Note 10. Commitments and Contingencies

Contingencies

The Company recognizes liabilities that it considers probable and can be reasonably estimable as contingencies and accrues the related costs it believes sufficient to meet the exposure. In the normal course of business, the Company is subject to certain pending and threatened legal actions. The company has no pending litigation as of June 30, 2020.

Guarantee

The Company is a member of exchanges and clearing houses. The Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the organization. In general, the Company’s guarantee obligation would arise only if the organization had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the organization. Any potential contingent liability under these membership agreements cannot be estimated. As of June 30, 2020, the Company has not recorded any contingent liability in the statement of financial condition for these agreements and believes that any potential requirement to make payments under these agreements is immaterial

Commitments

The Company entered into a 4-year service agreement with FIS Phase 3 (“Phase 3”). The service agreement is effective January 2019 through December 2022. The agreement calls for the Company to pay a minimum fee of \$3,567,500, plus professional services, pricing charges, and volume based fees. At June 30, 2020, the remaining liability is \$2,178,750.

Note 11. Leases

The Company leases office space in Anaheim, California under a non-cancelable operating lease, which expires on August 31, 2024. Amounts reported in the statement of financial condition as of June 30, 2020 related to the operating lease include a right-of-use lease asset of \$1,068,933 and a lease liability of \$1,510,910.

The Company's future minimum annual lease payments are as follows:

Year Ending December 31:

2020	\$ 181,866
2021	371,756
2022	383,256
2023	395,024
Thereafter	<u>270,214</u>
	<u>\$1,602,116</u>

Note 12. Subsequent Events

Management of the Company has evaluated events and transactions that may have occurred through since June 30, 2020 and through July 31, 2020, the date the financial statements were available to be issued, and determined that there are no material events that would require disclosure in the Company's financial statements.