

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

SEC FILE NUMBER
<b>8-70017</b>

FACING PAGE  
**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 01/01/20 AND ENDING 12/31/20  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Velox Clearing LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

2400 E. Katella Ave., Suite 725

(No. and Street)

Anaheim

CA

92806

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Armanino LLP

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

12657 Alcosta Blvd., Suite 500

San Ramon

CA

94583

(Address)

(City)

(State)

(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)

OATH OR AFFIRMATION

I, Stephen Zak, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Velox Clearing LLC of December 31, 2020, 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:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Mariya Y. Afonina*  
Notary Public

MARIYA Y AFONINA  
NOTARY PUBLIC-STATE OF NEW YORK  
No. 01AF6251157  
Qualified in New York County  
My Commission Expires 11-14-2023

*[Signature]*  
Signature  
Chief Financial Officer  
Title

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- (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).

# **Velox Clearing LLC**

**Financial Statement**  
**With Report of Independent Registered Public Accounting Firm**

For the year ended December 31, 2020

Filed as public information Pursuant to Rule 17A-5(d) under the Securities Exchange Act of 1934.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Member of  
Velox Clearing LLC  
Anaheim, California

**Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of Velox Clearing LLC (the "Company"), a wholly-owned subsidiary of Velox Holdings Inc., as of December 31, 2020 and the related notes (collectively referred to as the "financial statement"). In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Velox Clearing LLC as of December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

*Armanino LLP*

Armanino<sup>LLP</sup>  
Woodland Hills, California

We have served as the Company's auditor since 2018.

April 26, 2021



An independent firm  
associated with Moore  
Global Network Limited

# Velox Clearing LLC

## Statement of Financial Condition

December 31, 2020

### ASSETS

Cash	\$	5,137,832
Cash segregated under federal regulations		15,495,622
Restricted cash		400,000
Receivable from customers and correspondents		1,780,684
Receivable from broker-dealers		477,689
Receivable from clearing organizations		10,667,374
Receivable from affiliates		227,264
Right-of-use lease asset		949,421
Property and equipment, net		560,590
Other assets		114,659
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>35,811,135</b>

### LIABILITIES AND MEMBER'S EQUITY

Accounts payable and accrued expenses	\$	811,642
Payable to customers and correspondents		17,643,329
Payable to broker-dealers		195,598
Payable to clearing organization		63,665
Note payable - Paycheck Protection Program		495,700
Payable to affiliates		2,716,180
Operating lease liability		1,348,748
<b>TOTAL LIABILITIES</b>		<b>23,274,862</b>

### MEMBER'S EQUITY

Member's contributions		23,483,200
Accumulated deficit		(10,946,927)
<b>TOTAL MEMBER'S EQUITY</b>		<b>12,536,273</b>

<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$</b>	<b>35,811,135</b>
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The accompanying notes are an integral part of these financial statements.

# Velox Clearing LLC

Notes to Financial Statements  
December 31, 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"), and the New York Stock Exchange ("NYSE").

## **Note 2. Summary of Significant Accounting Policies**

### **Basis of presentation**

The accompanying financial statement 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.

### **Restricted cash**

Restricted cash represents cash held for the Company's letter of credit on its office lease agreement. (See Note 3)

### **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 under Rule 15c3-3 of the Securities Exchange Act of 1934 (the "Customer Protection Rule") and other regulations.

### **Concentration of credit risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. Cash is deposited with federally insured commercial banks in the United States and cash balances may, at times, exceed federally insured limits. Management believes that these financial institutions are financially sound and, accordingly, minimal credit risk exists.

# Velox Clearing LLC

Notes to Financial Statements

December 31, 2020

## **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, 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.

## **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.

## **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.



# Velox Clearing LLC

Notes to Financial Statements  
December 31, 2020

## Leases

The Company determines if an arrangement is a lease at inception. For leases where the Company is the lessee, right-of-use ("ROU") assets represent the Company's right to use the underlying asset for the term of the lease, and the operating lease liability represents an obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date of the underlying lease arrangement to determine the present value of lease payments. The ROU asset is determined based on the lease liability initially established and reduced for any prepaid lease payments and any lease incentives received. The lease term to calculate the ROU asset and related lease liability includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option. The Company's lease agreements generally do not contain any material variable lease payments, residual value guarantees or restrictive covenants.

The Company elected the package of practical expedients permitted under the transition guidance, which allowed for the carry-forward of the Company's historical lease classification and assessment on whether a contract is or contains a lease. The Company elected to not apply the new standard's recognition requirements to leases with an initial term of 12 months or less and instead elected to recognize lease payments in the consolidated statements of operations on a straight-line basis over the lease term.

Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense while expense for financing leases is recognized as depreciation expense and interest expense using the accelerated interest method of recognition. The Company accounts for lease components and non-lease components as a single lease component.

## 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. Accordingly, no provision for income taxes besides the \$800 minimum California state franchise tax is reflected in the accompanying financial statements.

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 December 31, 2020, the Company does not have any significant uncertain tax positions for which a reserve would be necessary.

# Velox Clearing LLC

## Notes to Financial Statements December 31, 2020

### Note 3: Letter of Credit

At December 31, 2020, the Company had 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 4. Property and Equipment, Net

Property and equipment consist of the following at December 31, 2020:

Computer equipment	\$ 54,139
Furniture and fixtures	101,677
Office equipment	7,354
Leasehold improvements	<u>668,480</u>
	831,650
Less accumulated depreciation and amortization	<u>(271,060)</u>
	<u>\$ 560,590</u>

### Note 5. 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 December 31, 2020, the Company's net capital was \$11,102,112, which exceeded the minimum net capital requirement of \$1,500,000 by \$9,602,112.

### Note 6: 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.

# Velox Clearing LLC

Notes to Financial Statements  
December 31, 2020

## **Note 6: Trading Activities and Related Risks (continued)**

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 not received, 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 7. Related Party Transactions**

The Company entered into a technology service agreement with an affiliate Velox Technologies in March 2020. The agreement was subsequently amended in October 2020. Under this agreement Velox Technologies agrees to develop, design, sell and provide additional services related to the software that the Company may use. At December 31, 2020, amounts due to Velox Technologies totaled \$2,900.

In 2019 the Company entered into expense sharing agreements with two affiliates of the Parent, Velox Technologies and Zinvest Financial Service LLC. Both affiliates are sharing the office space and certain office equipment with the Company. At December 31, 2020, the Company was due \$195,527 from Zinvest Financial Service LLC.

On September 31, 2020, the Company entered into a line of credit agreement with the Parent for \$8,000,000. The Loan has a maturity date of December 31, 2021 and bears an interest rate of Federal Funds plus two percent. As of December 31, 2020, the Company had \$2,700,000 of borrowings outstanding under this facility which is included in payables to affiliates in the accompanying statement of financial condition.

## **Note 8. 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. The Company did not make an employer contribution during 2020.

# Velox Clearing LLC

Notes to Financial Statements  
December 31, 2020

## **Note 9. 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. Management believes that the Company has no pending litigation as of December 31, 2020 that was not sufficiently accrued for.

### **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 December 31, 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 \$1,828,750 for the remaining term of the contract, plus professional services, pricing charges, and volume-based fees.

## **Note 10. 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 December 31, 2020 related to the operating lease include a right-of-use lease asset of \$949,421 and a lease liability of \$1,348,748.

# Velox Clearing LLC

Notes to Financial Statements  
December 31, 2020

## Note 10. Leases (continued)

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

<u>Year Ending December 31:</u>	
2021	\$ 371,755
2022	383,256
2023	395,024
2024	<u>270,214</u>
	1,420,249
Less: present value discount	<u>(71,501)</u>
Operating lease liability	<u>\$ 1,348,748</u>

## Note 11. Subsequent Events

Management of the Company has evaluated events and transactions that may have occurred through April 26, 2021, 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.

## Note 12. Note Payable – Paycheck Protection Program

In April 2020, the Company received loan proceeds in the amount of \$495,700 from a promissory note issued by BMO Harris Bank National Association, under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "Covered Period" (8 or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Payments on any unforgiven principal and unpaid accrued interest owed under this note will be due after the payment deferral period. The amount of such payments will be calculated by amortizing over the period starting the day after the payment deferral period and ending on the note's maturity. If the Company submits a loan forgiveness application in accordance with the PPP Rules within 10 months after the end of the covered period, payments under this note are deferred until the date on which the Small Business Administration remits the loan forgiveness amount on the loan to lender or notifies lender that no loan forgiveness is allowed. If the Company does not submit a loan forgiveness application in accordance with the PPP Rules within 10 months after the end of the covered period, then payments under this note are deferred until the end of the 10 months following the covered period.

# Velox Clearing LLC

Notes to Financial Statements

December 31, 2020

## **Note 13. Risks and Uncertainties - COVID-19**

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact of the CARES Act and other governmental initiatives. If financial markets and the overall economy are impacted for an extended period, the Company's results may be materially affected.