



# Huntington Securities, Inc.

(A wholly owned subsidiary of Huntington Bancshares Incorporated)

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Statement of Financial Condition - Unaudited June 30, 2022

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Huntington Securities, Inc.

41 South High Street

Columbus, Ohio 43287

**HUNTINGTON SECURITIES, INC.**  
**(A Wholly Owned Subsidiary of Huntington Bancshares Incorporated)**

**STATEMENT OF FINANCIAL CONDITION - UNAUDITED**  
**AS OF June 30, 2022**

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**ASSETS**

Cash	\$ 2,877,577
Securities - at fair value	34,472,426
Accrued interest receivable	245,608
Receivables from broker-dealers	75,125,269
Office furnishings, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization (net of accumulated depreciation of \$1,033,565)	52,581
Trade receivables	4,415,742
Operating lease right of use assets	230,448
Derivative assets	9,238,874
Deferred tax assets	1,732,382
Other assets	3,732,804
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TOTAL ASSETS	\$ 132,123,711

**LIABILITIES AND SHAREHOLDER'S EQUITY**

LIABILITIES:

Securities sold not yet purchased - at fair value	997,110
Payable to affiliate	4,078,375
Derivative liabilities	7,484,172
Accrued personnel expenses	5,404,791
Operating lease liabilities	2,010,761
Accrued expenses and other liabilities	2,613,575
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Total liabilities	\$ 22,588,784

COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 12)

SHAREHOLDER'S EQUITY:

Common stock, \$1 par value - 1,000 shares authorized; 100 shares issued and outstanding	\$ 100
Paid-in capital	70,206,560
Retained earnings	39,328,267
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Total shareholder's equity	\$ 109,534,927

TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	<u>\$ 132,123,711</u>
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The accompanying notes are an integral part of the statement of financial condition.

# HUNTINGTON SECURITIES, INC.

(A WHOLLY OWNED SUBSIDIARY OF HUNTINGTON BANCSHARES INCORPORATED)

## NOTES TO FINANCIAL STATEMENT

JUNE 30, 2022

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### 1. ORGANIZATION AND BUSINESS

**Description of business** — Huntington Securities, Inc. (HSI or the Company) is a wholly owned subsidiary of Huntington Bancshares Incorporated (HBI). HSI is a broker-dealer registered with the Securities and Exchange Commission (SEC). HSI is a member of the Financial Industry Regulatory Authority (FINRA) and is a member of the Securities Investor Protection Corporation (SIPC). HSI deals in fixed income debt and equity securities as either an underwriter or broker and clears transactions through Pershing, LLC (Pershing). Other services offered by HSI include institutional sales and trading of securities, public finance, investment banking, and TBA derivative trading. HSI does not hold customer funds or securities. Pershing clears HSI's securities transactions and those of its customers and carries the accounts on a fully disclosed basis.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation** — The accompanying financial statement includes the accounts of HSI and have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

**Use of estimates** — The preparation of the financial statement in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statement and the accompanying notes. Management believes that the estimates utilized in preparing its financial statement are reasonable and prudent. Actual results could differ from those estimates.

**Revenue from contracts with customers** - Revenue from contracts with customers includes fees from investment banking, financial advisory services and commissions income. The recognition and measurement of revenue is based on the assessment of individual contract terms. Certain judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

**Underwriting fees** — The Company underwrites securities for business entities and state and local governmental entities that want to raise funds through a sale of corporate bonds, municipal bonds or equity securities. Revenues are earned from fees arising from securities offerings in which the Company acts as an underwriter. The Company also acts as a placement agent in connection with

the issuance of securities and earns a fee upon the successful placement of securities. Revenue is recognized on the trade date (the date on which the Company purchases the securities from the issuer) for the portion the Company is contracted to buy. The Company believes that the trade date is the appropriate point in time to recognize revenue for securities underwriting transactions as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point. The Company recognizes revenue from placement fees after successful placement of the securities and the transaction has closed.

Underwriting costs that are deferred under the guidance in FASB ASC 940-340-25-3 are recognized in expense at the time the related revenues are recorded. In the event that transactions are not completed and the securities are not issued, the Company immediately expenses those costs.

***Cash management fees*** — Huntington National Bank (HNB) has engaged HSI to provide services to HNB in the administration of certain programs for cash management and related activities. Services include managing vendor relationships, processing account opening documentation, coordinating money movement, monitoring activity, providing reporting, updating and communicating rate changes and managing process updates. The Company believes the performance obligation for providing these services is satisfied over time because the customer is receiving and consuming the benefits as they are provided by the Company. As compensation, HSI receives a portion of the fees collected by HNB and this revenue is recognized when HSI performs the related services and has satisfied the performance obligations.

***Investment banking fees*** — Investment banking revenue includes revenue earned by HSI in conjunction with its identification of potential buyers of HNB's mortgage loans. Revenue is based on the pricing of each transaction and is recorded when the transaction is closed and the performance obligation has been satisfied.

***Financial advisory fees*** — The Company provides advisory services for underwriting transactions. Revenue for financial advisory arrangements is generally recognized at the point in time that performance under the arrangement is completed (the closing date of the transaction) or the contract is cancelled. However, for certain contracts, revenue is recognized over time for advisory arrangements in which the performance obligations are simultaneously provided by the Company and consumed by the customer. In some circumstances, judgment is needed to determine the timing and measure of progress appropriate for revenue recognition under a specific contract.

***Commissions*** — The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date

because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

**Receivables** — Receivables for revenue from contracts with customers are recognized when the performance obligation is satisfied and the Company has an unconditional right to the revenue. The Company continually monitors collections and payments and maintains a reserve for uncollected receivables. There is no reserve for receivables based upon historical collection experience and specific collection issues that have been identified.

**Credit losses** - On January 1, 2020, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (ASC Topic 326): Measurement of Credit Losses on Financial Instruments. The Company accounts for estimated credit losses on financial assets measured at an amortized cost basis in accordance with FASB ASC 326-20, Financial Instruments – Credit Losses. FASB ASC 326-20 requires the Company to estimate expected credit losses over the life of its financial assets and certain off-balance sheet exposures as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts.

The Company records the estimate of expected credit losses, if any, as an allowance for credit losses. For financial assets measured at amortized cost basis the allowance for credit losses would be reported as a valuation account on the balance sheet that is deducted from the asset's amortized cost basis. Changes in the allowance for credit losses would be reported as credit loss expense.

The following financial assets are within scope of ASC 326-20.

*Receivables from broker-dealers.* The Company's receivables from broker-dealers include amounts receivable from cash deposits. See Note 5 for more information regarding receivables from broker-dealers.

*Accrued interest receivable.* The Company's receivables also include accrued interest receivable. Interest accrued is from securities owned and held at the clearing organization. The Company continually monitors daily settlement of trades, associated accrued interest, coupons scheduled for payment and historically has not experienced collection issues on its accrued interest, therefore, there is no credit loss.

*Trade receivables.* The Company's trade receivables include accrued underwriting fees arising from securities offerings. The Company's trade receivables are typically paid within 90 days and historically has not experienced collection issues on its trade receivables. The Company continually monitors collections and payments and there is no credit loss.

**Securities transactions** - HSI's securities transactions and related gains or losses and expenses are recorded at fair value on trade-date as if they had settled. Interest income and expense associated with securities owned are recognized on the accrual basis.

**Cash** – Cash consists primarily of cash in banks and deposits with HNB, which are readily convertible to known amounts of cash without prior notice or penalty. Cash balances from time to time may exceed FDIC limits.

**Income taxes** – Income taxes are accounted for using the asset and liability method in accordance with the provisions of ASC 740, *Income Taxes*. Accordingly, deferred tax assets and liabilities are recognized for the future book and tax consequences attributable to temporary differences between financial statement carry amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined using enacted tax rates expected to apply in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income at the time of enactment of such change in tax rates. HSI accounts for uncertainties in income taxes in accordance with ASC 740, *Income Taxes*.

**Fair value measurement** — HSI's financial instruments, such as cash, securities and derivative instruments, are carried at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level valuation hierarchy was established for disclosure of fair value measurements. The valuation hierarchy is based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

*Level 1* — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2* — Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3* — Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Financial instruments are considered Level 3 when values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. See Note 3 for more information regarding fair value measurements.

**Derivative instruments** — Derivatives instruments are recorded on trade date and measured at fair value. Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) in the Statement of Financial Condition when a legal right of setoff exists under an enforceable netting agreement. See Note 4 for more information on derivative instruments and offsetting.

**Share-based compensation** — Certain employees of HSI participate in the HBI share-based compensation plans. HBI follows the fair value-based method of accounting for awards of HBI stock (HBAN) granted to employees under various stock options and restricted share plan. Stock compensation costs are recognized prospectively for all new awards granted under these plans. Compensation expense related to share options is calculated using a methodology that is based on the underlying assumptions of the Black-Scholes pricing model and is charged to expense over the requisite service period (i.e., vesting period). HSI's allocation of this expense is reflective of share-based compensation activity related to HSI employees.

**Postretirement benefits** -- Eligible employees of HSI participate in the employee benefit programs of HBI. HBI maintains a 401(k)-plan covering substantially all employees. Employer contributions to the plan, which are charged to current earnings, are based on employee contributions.

**Leases** -- The Company recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Company is a lessee in noncancelable operating leases for office space. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed.

The lease liability is based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate at the date of measurement. Lease payments including variable payments are remeasured when the lease is modified, when the lease term or when any contingencies are resolved. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rates of our leases are not readily determinable and accordingly, we use our incremental borrowing rate based on the information available at the commencement date for all leases. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

A lessee's ROU asset is measured at the commencement date at the amount of the initially-measured lease liability plus any lease payments made to the lessor before or at the commencement date, minus any lease incentives received; plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized

initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

### 3. SECURITIES AND SECURITIES SOLD NOT YET PURCHASED

A summary of HSI's securities owned, measured at fair value on a recurring basis, as of June 30, 2022, is as follows:

Trading securities – State and municipal government securities Level 2: \$32,994,913. Corporate debt securities Level 2: \$1,477,512.

Trading Securities Sold Not Yet Purchased – U.S. Treasury securities Level 1: \$997,110.

HSI follows the fair value accounting guidance under ASC 820, *Fair Value Measurements and Disclosures*.

The valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy is as follows:

The Company's valuation of its state and municipal government bond inventory is based upon broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. These securities are classified within Level 2 of the fair value hierarchy. HSI did not have any securities classified as Level 3 as of June 30, 2022.

The Company assesses the levels of the investments at each measurement date.

### 4. DERIVATIVE INSTRUMENTS

The Company's derivative activities include futures contracts to economically mitigate the interest rate exposure of the underwriting securities owned. These futures contracts are included in the Statement of Financial Condition as receivables from broker-dealer measured at fair value. The Company does not utilize and does not consider futures contracts, as or to be, hedging instruments as those terms are defined under GAAP. Throughout the year, HSI was invested into treasury futures contracts. When HSI was invested into these contracts, the average notional was \$2.5 million.

The Company also utilizes forward contracts in the form of TBA (To Be Announced) securities relating to mortgage-backed instruments to facilitate customer transactions. The Company enters into TBA transactions to assist clients in hedging the interest rate risk associated with the mortgages owned by the clients. The total gross notional amount on the forward contracts as of June 30, 2022 was approximately \$11.3 billion. The fair value of TBA derivative assets and TBA derivative liabilities at June 30, 2021 was approximately \$9,275,421 and \$7,484,172, respectively. The Company's valuation of its TBA derivatives is based upon broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. These derivatives are



classified within Level 2 of the fair value hierarchy. HSI did not have any derivatives classified as Level 3 at June 30, 2022.

Certain derivative arrangements may be eligible for offset in the Statement of Financial Condition and are subject to master netting agreements. The master netting agreements reduce credit risk by permitting the closeout netting of various types of derivative instruments with the same counterparty upon the occurrence of an event of default. The master netting agreement also may require the exchange of cash or marketable securities to collateralize either party's net position. In certain cases, minimum thresholds must be exceeded before any collateral is exchanged.

The following provides information about these derivative arrangements subject to an enforceable master netting arrangement or similar agreements with offsetting rights and related collateral amounts on June 30, 2022: Assets: TBA contracts gross amounts recognized: \$9,275,421. Net amounts recognized presented in the Statement of Financial Condition: \$9,275,421. Collateral pledged: \$722,109. Net amount: \$8,553,312. Liabilities: TBA contracts gross amounts recognized: \$7,484,172. Net amounts recognized presented in the Statement of Financial Condition: \$7,484,172. Net amount: \$7,484,172.

## 5. RECEIVABLES FROM AND PAYABLES TO BROKER-DEALER

Amounts receivable from and payable to broker-dealer at June 30, 2022, consist of the following:  
Receivable –

- Deposit at clearing broker \$10,036,453.
- Receivables from broker-dealers \$347,114.
- Net due from clearing broker \$64,741,702.

Under the Company's clearing agreement all securities are held by and cleared through Pershing and settled daily between Pershing and the Company. Because of this daily settlement, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company continually reviews the credit quality of its counterparties and has not experienced a default. Settlement of net receivables and payables is in accordance with the master service agreement.

The Company has also established an arrangement to obtain financing from Pershing related to all of its trading activity. Financing under this arrangement is secured by trading securities. HSI was in a net receivable position on June 30, 2022 and was not charged interest.

Cash and financial instruments on deposit with counterparties may serve to collateralize amounts due and may serve to satisfy margin requirements and financial instruments may be rehypothecated by the counterparties.

## 6. LEASE AGREEMENTS

The Company has operating lease agreements covering its office space in Houston, Milwaukee, Little Rock and Denver. The Company has obligations under operating leases with initial noncancelable terms in excess of one year.

## 7. INCOME TAXES

HSI is included in the consolidated federal return of HBI. HBI's federal consolidated tax provision is allocated to its separate subsidiary companies on the basis of separate return computations. HSI is included in certain of HBI's unitary and combined state income and state franchise tax returns. HBI's unitary and combined state income tax provision is allocated to each member of the unitary and combined filing group. Under the intercompany federal and state tax allocation agreement with HBI, HSI provides and remits federal and state income taxes to or receives a federal or state income tax benefit from the taxpaying member.

HSI filed income tax returns in the U.S. federal jurisdiction and various state jurisdictions. For federal income tax, the statute of limitations remains open for tax year 2018 (September 30, 2018). For state jurisdictions, the statute of limitations remains open for tax years 2017 (March 31, 2018) through 2018 (September 30, 2018). HBI and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and city jurisdictions. For federal, state, and city income tax, the statute of limitations remains open for tax years 2018 through 2021.

Federal and state income taxes paid, net of refunds, by HSI to/from the tax jurisdiction or taxpaying entity during the year ended June 30, 2022 were \$271,198 net payments.

The deferred tax assets are recorded in the Statement of Financial Condition in other assets. The significant components of deferred tax assets and liabilities at June 30, 2022 were as follows:

- Deferred tax assets - Other employee benefits \$1,732,382.

HSI accounts for uncertainties in income taxes in accordance with ASC 740, *Income Taxes*. As of June 30, 2022, there were no unrecognized tax benefits. HSI does not anticipate the total amount of unrecognized tax benefits to significantly change within the next 12 months.

HSI recognizes interest and penalties on income tax assessments or income tax refunds in the financial statement as a component of its provision for income taxes. There were no amounts recognized for interest and penalties for the period ended June 30, 2022, and no amounts accrued at June 30, 2022.

## 8. **SHARE-BASED COMPENSATION**

HBI sponsors nonqualified and incentive share-based compensation plans which provide for the granting of restricted stock units and other awards to officers, directors, and other employees of the Company.

Restricted stock units are issued at no cost to the recipient, and can be settled only in shares at the end of the vesting period. Restricted stock units do not provide the holder with voting rights or cash dividends during the vesting period but do accrue a dividend equivalent that is paid upon vesting, and are subject to certain service restrictions. The fair value of these awards is the closing market price of HBI's common stock on the grant date.

Restricted stock units vest only if the recipient satisfies the service-based vesting requirements. The recipients restricted stock units vest over four years but are subject to forfeiture if the recipient fails to satisfy the vesting conditions.

## 9. **FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

**Customer activities:** Securities transaction are introduced, custodied, and cleared through the Company's clearing broker, Pershing. In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various securities transactions. As such, the Company guarantees its customers' performance under these contracts. The Company could be exposed to off-balance-sheet risk should either the customer or the broker fails to fulfill its contracted obligation, and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

**Market risk:** The Company buys from and sells to customers fixed income securities primarily on a principal basis, and, from time to time, may be exposed to market risk. This risk is generally controlled by monitoring the market and entering into offsetting positions when appropriate. The Company's transactions in derivative financial instruments involve varying degrees of off-balance-sheet market risk. Changes in the market values of the underlying financial instruments may result in changes in the value of the derivative financial instruments in excess of the amounts reflected in the statement of financial condition. Exposure to market risk is influenced by a number of factors, including the relationships between the financial instruments and the volatility and liquidity in the markets in which the financial instruments are traded.

**Credit risk:** Credit risk arises from the potential inability of counterparties to perform in accordance with the terms of the contract. The Company's exposure to credit risk associated with counterparty non-performance is limited to the current cost to replace all contracts in which the Company has a gain. HSI does not anticipate non-performance by counterparties. The Company limits credit risk by executing futures transactions through regulated exchanges that are subject to the exchanges' counterparty approval procedures and margin requirements. The Company also limits credit risk by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. HSI monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral when necessary.

**Concentration of credit risk:** The Company enters into various transactions with broker-dealers and other financial institutions. Cash and securities instruments may serve to collateralize amounts due. In the event these counterparties do not fulfill their obligations, the Company may be exposed to risk. This risk of default depends on the creditworthiness of the counterparties to these transactions. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

The Company, from time to time, has cash deposits in financial institutions in excess of federally insured limits; however, management does not believe that the Company is exposed to any significant credit risk.

In connection with underwriting activities, the Company enters into municipal and non-municipal underwritings. Municipal related underwriting revenues account for 39% of the revenue of the Company while non-municipal related underwriting revenues account for 21% of the revenue of the Company. Consequently, a decrease in either municipal or non-municipal related underwriting revenue could impact the total revenue of the Company.

#### 10. RELATED-PARTY TRANSACTIONS

Cash in the amount of \$2,835,087 was held in HNB deposit accounts at June 30, 2022, which exceeds the amount covered by the Federal Deposit Insurance Corporation (FDIC) deposit insurance.

On December 8, 2021, the Company entered into a \$150 million liquidity facility agreement (the "Revolver") with HNB effective October 20, 2021 that matures on December 7, 2022. The initial maximum availability under the Revolver is \$150 million. There were \$0 of borrowings under the Revolver as of June 30, 2022. Borrowings under the Revolver by the Company bear interest at a rate per annum equal to the SOFR Rate plus a margin of 1.11448% per annum. The Revolver has two pieces, a liquidity facility and a subordination loan. The liquidity facility bears a 15 basis point charge for the unused portion. The subordination loan bears a 25 basis point charge for the unused portion. Accrued unused facility fee on the Revolver at June 30, 2022 totaled \$27,083.

HBI and related entities, pursuant to the master interaffiliate services agreement, provide certain operational and administrative support to HSI. Payable to affiliate of \$4,078,375 as of June 30, 2022 consists of allocated taxes as well as all amounts related to all other inter-affiliate activity.

Pursuant to the master interaffiliate services agreement with HNB, HNB provides safekeeping services for clients of HSI.

HSI participates in the underwriting of corporate bonds for HNB and its affiliates.

Pursuant to the master interaffiliate services agreement with HNB, HSI assists HNB in the identification of potential buyers of mortgage loans. HSI receives compensation for this service based on the pricing HSI is able to negotiate for HNB; any portion of the execution price that HNB would not have been reasonably able to obtain without otherwise retaining a third-party broker is paid to HSI.

HNB has engaged HSI to provide services to HNB in the administration of certain programs for cash management and related activities. HSI earns fees as compensation for services provided.

As discussed in Note 2 and Note 8 respectively, HSI employees participate in the HBI share-based compensation plan and the HBI 401(k) plan.

#### 11. **NET CAPITAL REQUIREMENTS**

Pursuant to the uniform net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934, HSI is required to maintain minimum net capital as defined under such rule. At June 30, 2022, HSI had regulatory net capital of \$94,252,926 or an excess of \$94,002,926 over required net capital of \$250,000. HSI uses the Alternative Net Capital Standard for calculations.

The Company operates under the provisions of Paragraph (k)(2)(i) and (k)(2)(ii) of SEC Rule 15c3-3 and, accordingly, claims exemption from the remaining provisions of the Rule. The requirements of Paragraph (k)(2)(ii) provide that the Company, as an introducing broker or dealer, clears transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records. The Company's other business activities contemplated by Footnote 74 of the SEC Release No. 34-70073 adopting amendments to 17 C.F.R. § 240.17a-5 are limited to: (1) proprietary trading; (2) fees received from the private placement securities; (3) the receipt of fees for referring transactions to other broker-dealers; and (4) the receipt of fees for services provided to affiliates in connection with securities transactions.

#### 12. **COMMITMENTS AND CONTINGENT LIABILITIES**

In the ordinary course of business, the Company may be subject to various litigation and arbitration matters. Although the effects of these matters cannot be determined, the Company's management believes that their ultimate outcome will not have a material effect on the Company's statement of financial condition.

In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties that provide indemnification under certain circumstances. 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. The Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statement for these indemnifications.

#### 13. **SUBSEQUENT EVENTS**

The Company evaluated subsequent events through the date this financial statement was issued.