



MILLENNIUM ADVISORS, LLC

STATEMENT OF FINANCIAL CONDITION

As of December 31, 2020

***And Report of Independent Registered Public
Accounting Firm***

*Filed as PUBLIC information pursuant to Rule 17a-5(d) under the
Securities Exchange Act of 1934.*

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

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

| | |
|---|------------------|
| OMB APPROVAL | |
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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 01/01/2020 AND ENDING 12/31/2020
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Millennium Advisors LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
11605 N Community House Rd Suite 550

| |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO. |

Charlotte NC 28277
(City) (State) (Zip Code)

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

(980) 213-2311

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

RSM US LLP

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

216 Summit Boulevard Ste 300 Birmingham AL 35243
(Address) (City) (State) (Zip Code)

CHECK ONE:

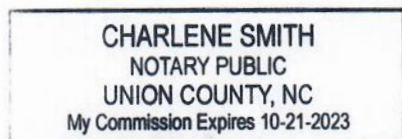
- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

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*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, Dave Chappelle, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Millennium Advisors LLC, as 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:



Dave Chappelle
Signature

Managing Member

Title

Charlene Smith
Notary Public

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).*

Millennium Advisors, LLC

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Report of Independent Registered Public Accounting Firm

Managing Member of Millennium Advisors, LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Millennium Advisors, LLC (the Company) as of December 31, 2020, and the related notes (collectively, the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company 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 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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.

RSM US LLP

We have served as the Company's auditor since 2016.

Birmingham, Alabama
February 16, 2021

MILLENNIUM ADVISORS, LLC**Statement of Financial Condition****December 31, 2020**

Assets

| | |
|--|-------------------------|
| Cash and cash equivalents | \$ 1,440,141 |
| Securities owned, at fair value | 1,707,690,722 |
| Receivable from clearing organization | 167,795,837 |
| Interest receivable from clearing organization | 1,192,442 |
| Right of use asset, net | 2,609,201 |
| Other assets | 2,443,446 |
| Total assets | <u>\$ 1,883,171,789</u> |

Liabilities and Member's Capital

| | |
|--|----------------------|
| Securities sold not yet purchased, at fair value | \$ 1,616,016,894 |
| Interest payable on subordinated borrowings | 799,792 |
| Lease liability | 2,978,460 |
| Accounts payable | 3,292,909 |
| Accrued expenses | 24,412,116 |
| Payable to affiliate | 4,503,887 |
| Subordinated borrowings | 55,000,000 |
| Total liabilities | <u>1,707,004,058</u> |

| | |
|--|-------------------------|
| Member's capital | <u>176,167,731</u> |
| Total liabilities and member's capital | <u>\$ 1,883,171,789</u> |

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

Millennium Advisors, LLC

Notes to the Financial Statement

December 31, 2020

Note 1—Organization and nature of operations

Millennium Advisors, LLC (the “Company”) is a broker-dealer registered with the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). The Company trades on a principal basis in fixed income securities with other broker dealers and institutional accounts. The Company’s transactions are executed and cleared through another registered broker-dealer on a fully disclosed basis, and as such the Company does not carry accounts for customers or perform custodial functions relating to customer securities.

The Company was organized on April 28, 2009, and began trading operations in February, 2010. The Company is a wholly-owned subsidiary of Millennium Consolidated Holdings, LLC (“MCH” or “Member”). The Company is a North Carolina limited liability company. The Member is not ultimately liable for debts, liabilities, or obligations of the Company; losses of capital; or profits solely for acting as an equity owner and not beyond its respective capital contributions.

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 (“GAAP”).

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and cash equivalents – The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation provides insurance coverage for up to \$250,000 for substantially all depository accounts. The Company, from time to time, may have amounts on deposit in excess of the insured limits.

Receivable from clearing organizations – Receivables from clearing organizations primarily represent principal transactions which have not yet settled. Also included is cash deposited with various clearing broker-dealers to conduct ongoing trading activities. The Company may obtain financing from its clearing organization from whom it can borrow against its proprietary inventory positions, subject to collateral maintenance requirements.

Securities owned – Securities owned consist of fixed income securities and are valued at quoted fair market values. If a quoted fair market value is not available, fair value is determined using quoted market prices for similar securities. Security transactions and any related gains or losses are recognized on the trade date basis and are recorded net as trading revenue. Cost is determined by the specific identification method for the purpose of computing realized gains or losses on investment securities. Changes in the fair value from one reporting period to the next (unrealized gains and losses) are recorded net as trading profit.

Millennium Advisors, LLC

Notes to the Financial Statement

December 31, 2020

Note 2—Summary of significant accounting policies (continued)

Securities sold, not yet purchased – Securities sold, not yet purchased consist of debt securities that the Company has sold short. In order to facilitate a short sale, the Company's clearing broker borrows the securities from another party and delivers the securities to the buyer. The Company will be required to cover its short sale in the future through the purchase of the security in the market at the prevailing market price. The Company is exposed to a loss to the extent that the security price increases before the Company purchases the security in the market to cover the short sale. Prevailing market prices may be in excess of recorded liability.

Derivatives – Derivative financial instruments are used for economic hedges of trading instruments, and are recorded at fair value. Changes in the fair value of derivative instruments are recorded as unrealized gains and losses. The Company generally records a realized gain or loss on the expiration, termination or settlement of derivative contracts.

The Company does not designate any derivative contracts as hedges for accounting purposes. GAAP requires that an entity recognize all derivative contracts as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. The fair value of all derivative contracts is recorded on a net-by-counterparty basis where a legal right to offset exists under enforceable netting agreement. The derivative contracts are recorded as part of securities owned and securities sold, not yet purchased in the Company's statement of financial condition.

The notional principal or contractual amounts of derivative financial instruments exceed the probable loss that could arise from counterparty default or market-related risks. The fair value of derivative financial instruments represents principally the estimated unrealized gain (asset) or loss (liability) and is recorded in securities owned or securities sold, not yet purchased. At December 31, 2020, the notional value of credit default swap contracts held was \$34 million. The fair value of such derivative instruments at December 31, 2020 was approximately \$1.2 million. The average monthly notional amount traded in 2020 was approximately \$89 million.

Income taxes – The Company is organized as a limited liability company and is treated as a disregarded entity for federal and state tax purposes. It does not file any tax returns, but its taxable income is reported as part of MCH's tax returns. Accordingly, no provision or benefit for federal or state income taxes has been made in the Company's financial statements. For the year ended December 31, 2020, management has determined that there are no material uncertain tax positions for the Company. Neither MCH nor the Company are subject to examination by U.S. federal and state tax authorities for tax years before 2017.

Fair value measurements – The carrying amounts of total current assets and total liabilities, other than securities owned and securities sold, not yet purchased which are discussed in more detail below, approximate fair value because of the short-term nature of these instruments or because the contractual interest rates associated with these assets or liabilities are considered to be at market rates.

Millennium Advisors, LLC

Notes to the Financial Statement

December 31, 2020

Note 2—Summary of significant accounting policies (continued)

Compensation arrangements – The Company provides certain incentive compensation awards to its employees in the form of grant units in the parent company, MCH (“grant units”). The Company accounts for the grant units in accordance with the provisions of the Accounting Standards Codification (ASC) Topic 718, whereby the cost of such awards is measured based on the fair value of the equity or liability instrument issued. The Company records compensation expense reflecting the number of awards that are expected to vest. Such expense is adjusted to reflect the awards that do ultimately vest. The fair value of the compensation arrangements is recognized over the employees’ requisite service period. The Company initially classifies the grant units as liabilities due to repurchase features included in the terms of the grant units. When the risk and rewards normally associated with equity ownership are achieved, the Company reclassifies the award to equity at its fair value. The liability remaining at each reporting period end is then remeasured at its fair value. The liability at December 31, 2020 related to the grant units is approximately \$6.4 million and included in accrued expenses in the accompanying statement of financial condition.

Recently adopted accounting pronouncements – In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to Disclosure Requirements for Fair Value Measurement*. The guidance in this ASU removes, modifies or adds certain disclosure requirements for fair value measurements; and is intended to provide more relevant information regarding valuation techniques and inputs used to arrive at measures of fair value, uncertainty in the fair value measurements and how changes in fair value measurements impact an entity’s performance and cash flows. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company adopted the provisions of this guidance on January 1, 2020. The adoption did not have a material impact the notes to financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“CECL”)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 also requires additional disclosures regarding significant estimates and judgements used in estimating credit losses, as well as the credit quality of an entity’s portfolio. The Company adopted the provisions of this guidance on January 1, 2020. The majority of the Company’s assets are recorded at fair value and are out of the scope of CECL. Certain balances receivable from the Company’s clearing organization are the assets that were evaluated for expected credit losses. These receivables are cash deposits required to be segregated by the clearing organization and have minimal probability of credit losses; therefore the adoption did not have a material impact on the notes to financial statements.

Subsequent events – The Company has evaluated subsequent events through the date the financial statements were issued. The Company determined that there were no such events to report.

Millennium Advisors, LLC

Notes to the Financial Statement

December 31, 2020

Note 3— Receivable from clearing organizations

The Company clears its principal transactions through other broker-dealers on a fully disclosed basis pursuant to which such brokers carry the proprietary accounts of the Company and provide all processing and servicing of the Company's accounts. The amount receivable from clearing organizations relates to the aforementioned transactions. Under the terms of the clearing agreements, the Company is required to maintain cash deposits, \$1,250,000 of which is included in other assets on the accompanying statement of financial condition.

The accounts maintained with the Company's clearing broker-dealers are composed of funds to settle securities traded, not yet settled, and proceeds from all trading activity, including interest accrued on securities positions. The funds in these accounts are available for the daily trading transactions initiated by the Company that are cleared and settled through the respective clearing broker-dealers. The accounts with the clearing broker-dealers are also used by the Company to transfer funds to its bank accounts for the administrative operations of the Company.

Note 4—Securities owned and securities sold, not yet purchased

The Company records securities owned and securities sold, not yet purchased at fair value. Fair value is a market-based measurement and is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy for disclosure of fair value measurements is used to maximize the use of observable inputs, that is, inputs that reflect the assumption market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are as follows:

- Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. The Company has no Level 1 assets or liabilities as of December 31, 2020.
- Level 2 - Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets, and valuations are based on observable market data in those markets. Level 2 securities include corporate, government and agency, municipal bonds and credit default swaps as outlined below.
- Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. The Company has no Level 3 assets or liabilities as of December 31, 2020.

Millennium Advisors, LLC

Notes to the Financial Statement

December 31, 2020

Note 4—Securities owned and securities sold, not yet purchased (continued)

Securities owned and securities sold, not yet purchased consist of fixed income securities and credit default swap index derivatives. The following describes the valuation methodology used by the Company to measure its financial instruments at fair value. All of the Company's financial assets and liabilities are traded in the secondary market. Therefore, fair value of all fixed income securities is determined using unadjusted market price quotations provided by third party pricing services used by the Company's clearing broker-dealers. These securities are categorized as Level 2 of the fair value hierarchy. Examples include U.S. government, U.S. agency and municipal government obligations, corporate obligations and certain mortgage-backed securities.

Credit derivatives consist of cleared over-the-counter ("OTC") credit default swap indices. The Company's OTC derivatives are all traded in markets where quoted market prices are available. Unadjusted pricing published by the Intercontinental Clearing Exchange, used by the Company's clearing broker-dealer is used to determine the fair value of these instruments. These derivatives have been classified as Level 2 of the fair value hierarchy.

When financial instruments are traded in secondary markets and quoted market prices do not exist for such securities, the Company generally relies on prices obtained from third-party pricing services or broker-dealer quotations or a combination thereof, and accordingly classifies these instruments as Level 2.

Securities owned and securities sold, not yet purchased, at December 31, 2020, consist of the following:

Securities owned at fair value:

| | December 31, 2020 | | | |
|-----------------------------|-------------------|-------------------------|-------------|-------------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Corporate Bonds | \$ - | \$ 1,545,087,353 | \$ - | \$ 1,545,087,353 |
| Government and Agency Bonds | - | 66,166,436 | - | 66,166,436 |
| Municipal Bonds | - | 96,436,933 | - | 96,436,933 |
| | <u>\$ -</u> | <u>\$ 1,707,690,722</u> | <u>\$ -</u> | <u>\$ 1,707,690,722</u> |

Securities sold, not yet purchased, at fair value:

| | December 31, 2020 | | | |
|---------------------------------|-------------------|---------------------------|-------------|---------------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Corporate Bonds | \$ - | \$ (1,524,106,802) | \$ - | \$ (1,524,106,802) |
| Government and Agency Bonds | - | (90,736,419) | - | (90,736,419) |
| Derivatives - Credit swap index | - | (1,173,673) | - | (1,173,673) |
| | <u>\$ -</u> | <u>\$ (1,616,016,894)</u> | <u>\$ -</u> | <u>\$ (1,616,016,894)</u> |

The Company actively trades fixed income securities. Positions in these securities are subject to varying degrees of market and credit risk. Market prices are subject to fluctuation and, as such, the Company is exposed to market risk. The fair value of the Company's investments will fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of those instruments.

Millennium Advisors, LLC***Notes to the Financial Statement******December 31, 2020***

Note 4—Securities owned and securities sold, not yet purchased (continued)

Additionally, fair values of interest-rate sensitive instruments may be affected by the credit worthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument, and other general market conditions. Market risk is directly impacted by the volatility and liquidity in the markets in which financial instruments are traded. The Company monitors its exposure to market risk, or its market risk profile, on a daily basis through a variety of financial, security position, and control procedures.

Credit risk is the possibility of debt securities being downgraded by the rating agencies or going into default due to non-performance by issuers. The Company minimizes inventory credit risk by managing issuer exposure with limits determined by management. The Company's counterparty risk is minimized by trading only with institutional parties and other broker-dealers and by clearing trades via the Federal Wire and the Deposit Trust Company, which ensure settlements occur simultaneously for both sides of the trade.

Note 5—Related parties

The Company paid distributions to MCH during 2020 of approximately \$16 million.

The Company maintains a services agreement with a sister company, also wholly-owned by MCH, for certain lead generation and related promotional services, including identifying dealers and institutional investors in Europe that may be interested in doing business with the Company and to introduce the Company to those firms that may be interested in the execution services that the Company provides. At December 31, 2020 the amount due to the sister company is presented on the statement of financial condition as payable to affiliate.

In the ordinary course of business, the Company may pay certain expenses on behalf of its affiliates and is reimbursed in due course. The Company regularly trades with its UK broker-dealer affiliate and transactions are conducted at current market rates.

See Note 11 for subordinated borrowings from MCH.

Note 6—Grant units

The Company provides bonus unit grants of MCH units ("grant units") to employees as part of its annual incentive compensation program to encourage participation in the long-term success of the Company. Grant units typically vest during a period of requisite service up to five years. The fair value of each grant unit is estimated on the date of grant using a market approach. Grant units provide for accelerated vesting based on various service and performance conditions, as defined in the agreements. A total of 4,291.3 grant units have been issued by the Company as part of incentive compensation awards since inception. As of December 31, 2020, there was approximately \$3.8 million of total unrecognized compensation cost related to unvested units issued under the Company's incentive compensation program. That cost is expected to be recognized over a weighted-average period of 3.13 years.

Millennium Advisors, LLC**Notes to the Financial Statement****December 31, 2020**

Note 6—Grant units (continued)

At December 31, 2020, grant units outstanding are as follows:

| | Units | Weighted Average Grant Fair Value |
|-------------------------------|----------------|--------------------------------------|
| Unvested at December 31, 2019 | 1,669.9 | \$ 6,067 |
| Units granted | 367.5 | 7,000 |
| Forfeited units | (171.4) | 6,273 |
| Vested units | (522.3) | 5,576 |
| Unvested at December 31, 2020 | <u>1,343.7</u> | <u>\$ 6,487</u> |

Note 7—Capital requirements

As a registered broker-dealer, the Company is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1") which requires the Company to maintain minimum "net capital" equal to the greater of \$100,000 or 6-2/3 percent of "aggregate indebtedness", as defined, and a ratio of aggregate indebtedness to net capital not to exceed 15 to 1. At December 31, 2020, the Company had net capital and net capital requirements of approximately \$117.7 million and \$544,404, respectively, and its net capital ratio was 0.07 to 1. Rule 15c3-1 further requires that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. In addition, certain advances, payment of dividends, and other equity withdrawals are subject to certain notification provisions of Rule 15c3-1.

The Company claims exemption from SEC Rule 15c3-3 of the Securities and Exchange Commission under paragraph (k)(2)(ii) of the Rule.

Note 8—401(k) Safe harbor plan

The Company sponsors a 401(k) safe harbor plan, which covers substantially all of its employees. The Company matches 100% of employee contributions up to 4% of annual income, which vests immediately.

Note 9—Leases

The Company currently leases office space in Charlotte, North Carolina under a ten-year operating lease. Operating lease assets and lease liabilities are recognized based on the present value of future lease payments over the lease term. The office lease provided for an implicit interest rate of 10% which was used in determining the present value of future payments at January 1, 2019, the date the Company adopted ASC Topic 842. Topic 842 requires lessees to establish a right-of-use asset and a lease liability on the statement of financial condition for all leases with terms longer than 12 months.

Millennium Advisors, LLC**Notes to the Financial Statement****December 31, 2020**

Note 9—Leases (continued)

The right of use asset is amortized on a straight-line basis over the lease term.

Maturities of lease liability at December 31, 2020 are as follows:

| | |
|----------------------------------|---------------------|
| 2021 | \$ 520,078 |
| 2022 | 535,681 |
| 2023 | 551,751 |
| 2024 | 568,305 |
| 2025 | 585,352 |
| Thereafter | <u>1,542,950</u> |
| Total lease payments | 4,304,117 |
| Less imputed interest | <u>(1,325,657)</u> |
| Present value of lease liability | <u>\$ 2,978,460</u> |

Note 10—Commitments and contingencies

In the ordinary course of business, the Company could be subject to various claims, litigation, regulatory and arbitration matters. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the Company's financial condition or results of operations. The Company also enters into contracts that contain a variety of representations and warranties that provide indemnifications 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 expects the risk of loss to be remote.

Note 11—Subordinated borrowings

In July 2018, the Company entered into a subordinated debt agreement with its parent, MCH, consisting of a \$35,000,000 subordinated loan that matures on April 30, 2023. The subordinated borrowing bears interest at a rate of 5.75% per annum. In April 2020, the Company entered into an additional subordinated debt agreement with its parent, MCH, consisting of a \$20,000,000 subordinated borrowing that matures on February 28, 2025. This subordinated borrowing also bears interest at 5.75% per annum. Both agreements were approved by the Company's principal regulator, FINRA, and are available for computing regulatory net capital under SEC Rule 15c3-1. With the prior written approval of FINRA, the Company may make a payment of all or any portion of the principal outstanding prior to the scheduled maturity date any time subsequent to one year after the effective date of the subordinated debt agreement.

MCH has agreed to subordinate its right of collection of principal and claims to all creditors of the Company prior to expiration of these notes. To the extent such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid. See Note 5 for other related party transaction detail.

