

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

ANNUAL REPORTS
FORM X-17A-5
PART III

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Information Required Pursuant to Rules 17a-5, 17a-12, and 18a-7 under the Securities Exchange Act of 1934

FILING FOR THE PERIOD BEGINNING 01/01/2021 AND ENDING 12/31/2021
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF FIRM: WATCHDOG CAPITAL, LLC

TYPE OF REGISTRANT (check all applicable boxes):

- ☒ Broker-dealer ☐ Security-based swap dealer ☐ Major security-based swap participant
☐ Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use a P.O. box no.)

6250 SHILOH ROAD, SUITE 30, RM 2

(No. and Street)

ALPHARETTA

GA

30005

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

MICHAEL O'CONNELL 617-901-0475

michael@watchdogcapital.com

(Name)

(Area Code – Telephone Number)

(Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing*

DAVID LUNDGREN & CO

(Name – if individual, state last, first, and middle name)

505 N MUR-LEN ROAD OLATHE

KS

66062

(Address)

(City)

(State)

(Zip Code)

(Date of Registration with PCAOB)(if applicable)

(PCAOB Registration Number, if applicable)

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* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), if applicable.

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, MICHAEL O'CONNELL, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of WATCHDOG CAPITAL, LLC, as of 12/31, 2021, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.

Signature: Michael O'Connell

Title:
CEO

Joseph Price
Notary Public, State of Connecticut
My Commission Expires 01/31/2027

Notary Public

This filing** contains (check all applicable boxes):

- ☒ (a) Statement of financial condition.
- ☒ (b) Notes to consolidated 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 cash flows.
- ☐ (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- ☐ (f) Statement of changes in liabilities subordinated to claims of creditors.
- ☐ (g) Notes to consolidated financial statements.
- ☐ (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- ☐ (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- ☐ (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- ☐ (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- ☐ (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- ☐ (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- ☐ (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- ☐ (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- ☐ (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- ☒ (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- ☐ (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☒ (t) Independent public accountant's report based on an examination of the statement of financial condition.
- ☐ (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- ☐ (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- ☐ (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- ☐ (z) Other: _____

****To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.**

WATCHDOG CAPITAL, LLC
STATEMENT OF FINANCIAL CONDITION

**For the Year Ended
December 31, 2021**

(With Report of Independent Registered Public Accounting Firm Thereon)

WATCHDOG CAPITAL, LLC
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FOR THE YEAR ENDED DECEMBER 31, 2021

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See notes to the Statement of Financial Condition.

DAVID LUNDGREN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS, CHARTERED

505 NORTH MUR-LEN ROAD

OLATHE, KANSAS 66062

DAVID B. LUNDGREN, MBA, CPA
CATHERINE LUNDGREN MBA, CPA

TELEPHONE
(913) 782-9530
FACSIMILE
(913) 782-9564

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members
of Watchdog Capital, LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Watchdog Capital, LLC as of December 31, 2021, and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of Watchdog Capital, LLC as of December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

This financial statement is the responsibility of Watchdog Capital, LLC's management. Our responsibility is to express an opinion on Watchdog Capital, LLC'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 Watchdog Capital, LLC 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 statements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.



We have served as Watchdog Capital, LLC's auditor since 2017.

Olathe, Kansas

February 22, 2022

WATCHDOG CAPITAL, LLC
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2021

ASSETS

| | |
|--------------------------------------|--------------------------|
| Cash | \$ 78,585 |
| Deposits with clearing organizations | 125,027 |
| Software development, internal use | 132,674 |
| Prepaid deposits and expenses | <u>34,044</u> |
| TOTAL ASSETS | <u><u>\$ 370,330</u></u> |

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES

| | |
|----------------------------------------------------------|-------------------|
| Payable to brokers, dealers and clearing organizations | 49,088 |
| Accounts payable, accrued expenses and other liabilities | <u>66,131</u> |
| TOTAL LIABILITIES | <u>\$ 115,219</u> |

MEMBER'S EQUITY

| | |
|----------------------------------------------|--------------------------|
| | <u>255,111</u> |
| TOTAL LIABILITIES AND MEMBER'S EQUITY | <u><u>\$ 370,330</u></u> |

See notes to the Statement of Financial Condition.

WATCHDOG CAPITAL, LLC
NOTES TO THE STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2021

1. Organization and Nature of Business

Watchdog Capital, LLC (the Company), a Georgia limited liability company, is a registered broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company is a wholly owned subsidiary of Chainstone Labs, LLC (Parent). The Company operates as a general securities broker dealer executing trades for institutional and retail customers and is focused on the convergence of traditional finance and digital securities. The Company is an introducing broker dealer and does not carry customer accounts or perform custodial functions related to customer securities.

2. Significant Accounting and Reporting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP) as determined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Company believes that the disclosures in these financial statements are adequate and not misleading. In the opinion of management, the financial statements contain all adjustments necessary for a fair presentation of the Company's financial position as of December 31, 2021 and is not necessarily indicative of the results for any future period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company monitors these bank accounts and does not expect to incur any losses from such accounts. The Company has defined cash and cash equivalents as highly liquid investments with original maturities of less than 90 days that are not held-for-sale in the ordinary course of business. The recorded value of such instruments approximates their fair value. At December 31, 2021, the Company had no cash equivalents.

Income Taxes

The Company is a single member limited liability company that is treated as a disregarded entity for income tax purposes. As such, no income taxes have been recognized within the Company's financial statements.

WATCHDOG CAPITAL, LLC
NOTES TO THE STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2021

2. Significant Accounting and Reporting Policies, Continued

The Company has addressed the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification 740-10, Accounting for Uncertainty in Income Taxes. Under FASB ASC 740-10, the Company is required to evaluate each of its tax positions to determine if they are more likely than not to be sustained if the taxing authority examines the respective position. A tax position includes an entity's status, including its status as a pass-through entity, and the decision not to file a tax return.

The Company has evaluated each of its tax positions and has determined that it has no uncertain tax positions for which a provision or liability for income taxes is necessary.

Current Expected Credit Losses

In June 2016, the FASB issued ASU No. 2016-13 (Topic 326) *Measurement of Credit Losses on Financial Instruments*, which significantly changes the ways entities recognize credit losses on financial instruments. The new accounting standard changes the way companies record losses on loans, loan commitments and other financial assets. The CECL model requires measurement of expected credit losses for financial assets measured at amortized cost, net investments in leases, and off-balance sheet credit exposures based on historical experience, current conditions, and reasonable and supportable forecasts over the remaining contractual life of the financial assets.

The Company has a fully disclosed clearing agreement with Apex Clearing Corporation; thus, receivables from brokers, dealers and clearing organizations include amounts receivable and cash on deposit with Apex. Deposits with clearing organizations consist of cash collateral that provides the Company with clearance and settlement of security transaction service. At December 31, 2021 the Company had no net receivable from Apex Clearing.

ASC 606-10 defines a contract asset as an entity's conditional right to consideration in exchange for goods and services. The conditional right is based on something other than the passage of time, such a future performance. Once the conditional right has been fulfilled and an unconditional right to consideration exists, the contract asset becomes a trade receivable.

While contract assets are not financial assets, ASC 606-10-45-3 requires these assets to be evaluated for credit losses under ASC 326-20. Therefore, estimates of expected credit losses on contract assets over their life are required to be recorded at inception and on an ongoing basis, based on historical information, current conditions, and reasonable and supportable forecasts.

The Company may, at times, have an account receivable related to retainer fees from executed agreements with independent external parties. In some circumstances, significant judgement is needed to determine the timing and measure of progress appropriate for revenue recognition under a specific contract.

WATCHDOG CAPITAL, LLC
NOTES TO THE STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2021

2. Significant Accounting and Reporting Policies, Continued

As such, the Company regularly reviews its accounts receivable for any bad debts based on the nature and contractual life or expected life of the financial assets, the Company's collection experience and customer worthiness. At December 31, 2021, the Company had no net receivable from executed contracts.

Coronavirus

In the second year of the COVID-19 coronavirus pandemic, the adverse impacts to global commercial activity have continued to contribute to significant volatility in the financial markets. Government-imposed responses and other related recovery measures intended to control the spread of the disease have created a variety of unintended challenges and risks. As such, economic uncertainty, changes in consumer demand, disrupted supply chains, staffing shortages and hybrid working patterns all continue to have a negative impact on many industries. The continued development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the COVID-19 coronavirus. Nevertheless, the COVID-19 coronavirus presents material uncertainty and risk with respect to the Company, its performance, and its financial results. At present, the extent to which the coronavirus may impact the Company's financial condition or results of operations in future periods is uncertain.

3. Transactions with Clearing Organizations

The Company has entered into a clearing agreement with Apex. Under the terms of this agreement, the Company utilizes the clearing, execution and other services provided by Apex. Specific services include execution of orders for the Company's customers whose accounts have been accepted by Apex; generation preparation and mailing of confirmations of customer accounts, preparation and mailing of summary monthly or quarterly statements, settlements of contracts and transactions in securities; engagement in all cashiering functions for customer accounts; construction and maintenance of books and records for all transactions executed and cleared through Apex. Under this agreement, the Company is required at all times to maintain a clearing deposit of \$125,000 with Apex. The Company was in compliance with respect to this agreement at December 31, 2021.

4. Related Parties

The Company is a wholly owned subsidiary of Chainstone Labs, LLC. In connection with this relationship, the Company and its Parent have executed an expense sharing agreement whereby the Company receives a monthly allocation of employee benefit expenses incurred by the Parent on its behalf. During 2021, the Company recorded expenses under this agreement in total of \$6,367.

WATCHDOG CAPITAL, LLC
NOTES TO THE STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2021

5. Net Capital Requirements

The Company is subject to the SEC's Uniform Net Capital Rule (SEC Rule 15c3-1) of the Securities Exchange Act of 1934, which requires maintenance of minimum net capital. Under the Rule, the Company is required to maintain minimum net capital, as defined, equal to the greater of \$5,000 or 6 2/3% of aggregate indebtedness and the ratio of aggregate indebtedness to net capital cannot exceed 1500 percent or 15:1.

At December 31, 2021, the Company had net capital of \$88,393 which was \$80,712 in excess of its required net capital and the ratio of aggregate indebtedness to net capital was 130.35%.

The Company is exempt from the provisions of SEC Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(ii) of the Rule.

6. Software Development, Internal Use

During 2021, the Company launched the development of a customer interface and back-office support system to enhance the Company's current capabilities in serving its customers in the domain of an emerging digital securities world.

Software development costs incurred during application development phase are capitalized in accordance with Accounting Standards Codification (ASC) 305-40, *Internal Use Software*. Costs incurred for application development, i.e., coding, installation and testing of the software, during development stage will be capitalized until the product is ready for implementation or operational stage. The costs of software development that have been capitalized will be amortized on a straight-line basis over the software's estimated useful life and will begin when the application software is ready for its intended use and all substantial testing of the software has been completed.

The Company projects that the newly developed software will be substantially ready for operational use for normal daily business in the first half of 2022. At December 31, 2021 the Company had capitalized costs related to software development of \$132,674.

7. Operating Lease Obligations

The Company is required to record a right-of-use asset and a corresponding lease liability on the balance sheet for all leases with terms greater than 12 months. All such leases are to be classified as either finance or operating. The Company had no lease obligations that required recording or disclosures in the December 31, 2021, financial statements. Pursuant to a month-to-month rent agreement, the Company recorded rent of \$3,000 which is included in the caption of "occupancy and equipment" in the Statement of Operations.

WATCHDOG CAPITAL, LLC
NOTES TO THE STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2021

8. Subordinated Liabilities

The Company had no liabilities subordinated to the claims of general creditors as of the beginning of the year, end of the year, and during the year ended December 31, 2021.

9. Subsequent Events

On January 1, 2022, all future software development was reassigned from the Company to the Parent. This reassignment included a reimbursement to the Company for all past software development related expenses in the amount of \$132,674. The reimbursement is expected to be received by the Company in the first quarter of 2022.

Management has evaluated all events or transactions that occurred after December 31, 2021 through the date of the issued financial statements and has determined that there were no additional material recognizable subsequent events that required recording or disclosure in the December 31, 2021, financial statements.

10. Commitments and Contingencies

The Company does not have any commitments or contingencies, including arbitration or other litigation claims, that may result in a loss or a future obligation.

11. Going Concern

The Company has incurred, and it anticipates it will continue to incur, considerable losses and generate negative operating cash flows and as such, will require additional funds as it continues to expand its technical and operational capabilities and product offerings. The Company had losses of \$420,109 in the current year. Cash flows used in operations totaled \$488,861 for the year ended December 31, 2021. The ability to continue as a going concern is dependent upon profitable future operations, positive cash flows, and additional capital contributions. It is the plan of the Company's ownership to continue to fund the Company to meet its obligations for the foreseeable future. The Company will have income as business dictates, projected to be within the upcoming fiscal year.