

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

ANNUAL REPORTS  
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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 October 1, 2021 AND ENDING December 31, 2021  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF FIRM: National Securities Corporation

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.)

5000 T-Rex Avenue, Suite 300

(No. and Street)

Boca Raton

FL

33431

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

Natalia Watson

(651) 869 - 5215

nwatson@brileyfin.com

(Name)

(Area Code – Telephone Number)

(Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing\*

Spicer Jeffries LLP

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

4601 DTC Boulevard, Suite 700 Denver

CO 80237

(Address)

(City)

(State)

(Zip Code)

(Date of Registration with PCAOB)(if applicable)

(PCAOB Registration Number, if applicable)

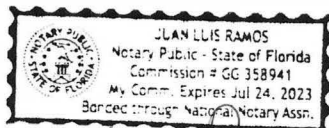
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\* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), 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, Natalia Watson, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of National Securities Corporation, as of 3/14, 2022, 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.



JUAN LUIS RAMOS  
Notary Public

Signature: Natalia Watson  
Title: Chief Financial Officer

### 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.

# **National Securities Corporation**

(a wholly-owned subsidiary of  
National Holdings Corporation)

## **FINANCIAL STATEMENTS**

December 31, 2021  
(with supplementary information)

**C O N F I D E N T I A L**

National Securities Corporation  
(a wholly-owned subsidiary of National Holdings Corporation)

Financial Statements and Supplemental Information

Three months ended December 31, 2021

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**SPICER JEFFRIES LLP**

Certified Public Accountants

4601 DTC BOULEVARD • SUITE 700

DENVER, COLORADO 80237

TELEPHONE: (303) 753-1959

FAX: (303) 753-0338

[www.spicerjeffries.com](http://www.spicerjeffries.com)

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of  
National Securities Corporation

### **Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of National Securities Corporation (the “Company”) as of December 31, 2021, and the related notes to the statement of financial condition (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, 2021 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.

We have served as the Company’s auditor since 2021.

Denver, Colorado  
March 11, 2022



# National Securities Corporation

## Statement of Financial Condition December 31, 2021

### ASSETS

Cash	\$38,508,236
Cash deposits with clearing organizations	445,813
Securities owned, at fair value	2,960,675
Receivables from broker-dealers and clearing organizations	6,078,802
Forgivable loans receivable	2,391,120
Other receivables	6,213,097
Prepaid expenses	644,776
Property and equipment, net	941,345
Goodwill	5,432,556
Intangibles, net	862,869
Due from affiliates	1,281,284
Deposits and other assets	260,137
Operating lease assets	4,315,601
Deferred tax asset, net	5,886,716
<b>TOTAL ASSETS</b>	<b><u>\$76,223,027</u></b>

### LIABILITIES AND SHAREHOLDER'S EQUITY

#### Liabilities

Securities sold, but not yet purchased, at fair value	\$296
Accrued commissions and payroll	16,662,571
Accounts payable and other accrued expenses	25,269,860
Operating lease liabilities	4,825,467
Due affiliates	415,785
<b>Total Liabilities</b>	<b><u>47,173,979</u></b>

#### Commitments and Contingencies (Note I)

#### Shareholder's Equity

Common stock \$0.02 par value, 5,000,000 shares authorized, 100 shares issued and outstanding	2
Additional paid-in-capital	33,065,842
Retained earnings	(4,016,796)
<b>Total Shareholder's Equity</b>	<b><u>29,049,048</u></b>

### TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY

**\$76,223,027**



## **National Securities Corporation**

### **NOTE A - DESCRIPTION OF BUSINESS**

National Securities Corporation, ("National" or the "Company"), a wholly owned subsidiary of National Holdings Corporation ("Parent"), was incorporated under the laws of the State of Washington. Its primary business is to provide financial services and products to the general public and to the financial community as a registered broker-dealer. The Company has offices throughout the United States with main offices in New York City, New York and Boca Raton, Florida.

The Company is subject to regulation by, among others, the Securities and Exchange Commission ("SEC") and Financial Industry Regulatory Authority ("FINRA").

The Company does not hold customer funds or securities. The Company clears its transactions on a fully disclosed basis through National Financial Services, LLC ("NFS"), Axos Clearing ("Axos") formerly COR Clearing LLC, Raymond James ("RJ") and Interactive Brokers LLC.

### **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **[1] Basis of presentation**

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

#### **[2] Use of estimates**

The preparation of these 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 significantly differ from those estimates.

#### **[3] Income taxes**

The Company accounts for income taxes in accordance with US GAAP which requires the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the financial statement and tax basis of its assets and liabilities. Valuation allowances are established to reduce deferred tax assets to an amount that is more likely than not to be realized.

FASB ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, requiring the Company to determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is reduced by the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority. As of December 31, 2021, the Company had no unrecognized tax positions.

The Company is included in consolidated federal and certain combined state and local income tax returns with its Parent.

#### **[4] Cash and cash equivalents**

The Company has defined cash and cash equivalents as cash held at financial institutions and highly liquid investments with maturities of less than three months when acquired that are not held for sale in the ordinary course of business. Cash and cash equivalents held at financial institutions, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation.



## National Securities Corporation

### **[5] Receivables from broker-dealers and clearing organizations**

Receivables from broker-dealers and clearing organizations represent net amounts due for fees and commissions associated with the Company's retail brokerage business.

### **[6] Forgivable loans**

Forgivable loans represent loans to primarily newly recruited independent financial advisors as an incentive for their affiliation. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (interest ranging up to 9%). These forgivable loans are amortized over time. The Company provides an allowance for doubtful accounts on the notes based on historical collection experience and continually evaluates the receivables for collectability and possible write-offs where a loss is deemed probable. As of December 31, 2021, no allowance was considered to be required.

### **[7] Property and equipment, net**

Property and equipment are recorded at cost net of accumulated depreciation and amortization.

### **[11] Goodwill and other intangible assets**

Goodwill, which is not subject to amortization, is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. As the Company has only one reporting unit, the impairment test consists of a comparison of the fair value of the Company with the carrying amount of its net assets, including goodwill. Fair value is typically based upon estimated future cash flows discounted at a rate commensurate with the risk involved or market-based comparable. If the carrying amount of the Company's net assets exceeds the fair value of the Company, then an impairment loss will be recognized. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. Accounting guidance on the testing of goodwill for impairment allows entities testing goodwill for impairment the option of performing a qualitative assessment to determine the likelihood of goodwill impairment. The annual impairment test performed on December 31, 2021, based on a quantitative assessment did not indicate any impairment of goodwill.

Intangible assets consisting of brand name are being amortized over their estimated useful lives on a straight-line basis and are subject to impairment testing on an annual basis through a comparison of the fair value of the assets to its carrying value. Based on the impairment test performed on December 31, 2021, there was no impairment of the brand name intangible asset. The Company utilized the relief-from-royalty method in determining the fair value of the brand name.

Intangible assets with finite lives including customer relationships are being amortized over their estimated useful lives on a straight-line basis and are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company assesses the recoverability of its finite-lived intangible assets by determining whether the unamortized balance can be recovered over the assets' remaining useful life through undiscounted estimated future cash flows. If undiscounted estimated future cash flows indicate that the unamortized amounts will not be recovered, an adjustment will be made to reduce such amounts to fair value based on estimated future cash flows discounted at a rate commensurate with the risk associated with achieving such cash flows. Estimated future cash flows are based on trends of historical performance and the Company's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.



## National Securities Corporation

### [13] Variable Interest Entities

The Company has entered into agreements to provide investment banking and advisory services to numerous investment funds (the "Funds") that are considered variable interest entities ("VIEs") under the accounting guidance. These Funds are established primarily to make and manage investments in equity or convertible debt securities of privately held companies that the Company, as investment advisory to the Funds, believes possess innovative or disruptive technologies and present opportunities for an initial public offering ("IPO") or another similar liquidity event within approximately one to five years from the date of investment. The Funds intend to hold the investments until an IPO or another similar liquidity event and then to make distributions to its investors when contractually permitted, estimated approximately six months following such IPO or liquidity event.

The Company earns fees from the Funds in the form of placement agent fees and carried interest. As the fee arrangements under such agreements are arm's-length and contain customary terms and conditions and represent compensation that is considered fair value for the services provided, the fee arrangements are not considered variable interests and accordingly, the Company does not consolidate such VIEs.

### [14] New accounting guidance

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which requires entities to use a forward-looking approach based on current expected credit losses ("CECL") to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. ASU 2016-13 is effective for the Company beginning October 1, 2023, and early adoption is permitted. The Company is currently assessing the impact that adoption of ASU 2016-13 will have on its financial statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes". The amendments in ASU 2019-12 simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC Topic 740, Income Taxes. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 will be effective for the Company's fiscal year beginning October 1, 2021, with early adoption permitted. The transition requirements are dependent upon each amendment within this update and will be applied either prospectively or retrospectively. The Company adopted ASU No. 2019-12 as of October 1, 2021. The adoption of this update did not materially impact the Company's consolidated statements and related disclosures.

## NOTE C – FAIR VALUE OF ASSETS AND LIABILITIES

US GAAP defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is 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 measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

## National Securities Corporation

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.

Level 3 Unobservable inputs which reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

The following table presents the carrying values and estimated fair values on December 31, 2021 of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and information is provided on their classification within the fair value hierarchy. Such instruments are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk.

<u>Assets</u>	December 31, 2021			
	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total Estimated Fair Value</u>
Cash	\$ 38,508,236	\$ 38,508,236	\$	\$ 38,508,236
Cash deposits with clearing organizations	445,813	445,813		445,813
Receivables from broker-dealers and clearing organizations	6,078,802		6,078,802	6,078,802
Forgivable loans receivable	2,391,120		2,391,120	2,391,120
Other receivables	6,213,097		6,213,097	6,213,097
Due from affiliates	1,281,284		1,281,284	1,281,284
	<b>\$ 54,918,352</b>	<b>\$ 38,954,049</b>	<b>\$ 15,964,303</b>	<b>\$ 54,918,352</b>
<u>Liabilities</u>				
Accrued commissions and payroll	16,662,571		16,662,571	16,662,571
Accounts payable and other accrued expenses	25,269,860		25,269,860	25,269,860
Due to affiliates	415,785		415,785	415,785
	<b>\$ 42,348,216</b>		<b>\$ 42,348,216</b>	<b>\$ 42,348,216</b>

The following table presents the financial assets and liabilities measured at fair value on a recurring basis on December 31, 2021:

<u>Assets</u>	December 31, 2021				
	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Estimated Fair Value</u>
<b>Securities owned:</b>					
Corporate stocks	\$ 237,874	\$ 237,874			\$ 237,874
Restricted common stock	422,053		422,053		422,053
Warrants	2,300,748		794,688	1,506,060	2,300,748
	<b>\$ 2,960,675</b>	<b>\$ 237,874</b>	<b>\$ 1,216,741</b>	<b>\$ 1,506,060</b>	<b>\$ 2,960,675</b>



## National Securities Corporation

<u>Liabilities</u>	<u>Carrying Value</u>	<u>December 31, 2021</u>			<u>Total Estimated Fair Value</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
<b>Securities sold, but not yet purchased:</b>					
Corporate stocks	\$ 296	\$ 296			\$ 296
	<b>\$ 296</b>	<b>\$ 296</b>			<b>\$ 296</b>

Changes in Level 3 assets measured at fair value on a recurring basis for the three months ended December 31, 2021:

	<b>Beginning Balance as of September 30, 2021</b>	<b>Net Realized Gain or (losses)</b>	<b>Net Change in Unrealized Appreciation (Depreciation)</b>	<b>Purchases</b>	<b>Sales</b>	<b>Transfer into Level 3 (a)</b>	<b>Transfer Out of Level 3 (b)</b>	<b>Ending Balance as of December 31, 2021</b>
<b>Assets</b>								
Warrants	1,330,308	-	133,523	-	-	42,229	-	1,506,060

(a) The Company received warrants as part of investment banking transactions.

(b) Transfers out consist of a transfer to Level 2 of a warrant as the underlying security became a publicly registered security and a warrant exercise.

The table below presents information on the valuation techniques, significant unobservable inputs and their ranges for our financial assets measured at fair value on a recurring basis with a significant Level 3 balance.

<b>Financial Instruments Owned</b>	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Input(s)</b>	<b>Input/Range</b>
Warrants	\$ 1,506,060	Market approach	Discount for lack of marketability	13% - 24%
			Volatility	42% - 79%

Certain positions in common stock and warrants were received as compensation for investment banking services. Restricted common stock and warrants may be freely traded only upon the effectiveness of a registration statement covering them or upon the satisfaction of the requirements of SEC Rule 144, including the requisite holding period.

Warrants are carried at fair value as determined by using the Black-Scholes option pricing model. This model takes into account the underlying securities current market values, the underlying securities market volatility, the terms of the warrants, exercise prices, and risk-free return rate. The market value of the underlying securities' market value is discounted based on the value of a protective put.

### NOTE D – OTHER RECEIVABLES

Other receivables represent principally employee receivables, investment banking transactions and trailing fees due from product sponsors.

## National Securities Corporation

### NOTE E –FORGIVABLE LOANS RECEIVABLE

From time to time, the Company may make loans, evidenced by promissory notes, primarily to newly recruited independent financial advisors as an incentive for their affiliation. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (interest ranging up to 9%). These notes have various schedules for repayment or forgiveness based on production or retention requirements being met and mature at various dates through 2029. In the event the advisor's affiliation with the Company terminates, the advisor is required to repay the unamortized balance of the note.

The Company provides an allowance for doubtful accounts on the notes based on historical collection experience and continually evaluates the receivables for collectability and possible write-offs where a loss is deemed probable. As of December 31, 2021, no allowance was considered to be required.

### NOTE F – INTANGIBLES

On December 31, 2021, intangibles consisted of the following:

	<b>Estimated Useful Life (years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Brand name	3	\$ 410,000	\$ 307,501	\$ 102,499
Customer relationships	10	3,988,143	3,227,773	760,370
Software license	3	44,800	44,800	-
		<u>\$ 4,442,943</u>	<u>\$ 3,580,074</u>	<u>\$ 862,869</u>

### NOTE G - NET CAPITAL AND OTHER REGULATORY REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which, among other things, requires the maintenance of minimum net capital. On December 31, 2021, the Company had net capital of \$2,996,853, which was \$1,996,853 in excess of its required net capital of \$1,000,000.

The Company claims exemption from the provisions of the SEC's Rule 15c3-3 pursuant to paragraphs (k) (2) (i) and (ii) since the Company is an introducing broker dealer that clears all transactions on a fully disclosed basis and promptly transmits all customer funds and securities to clearing brokers.

### NOTE H - INCOME TAXES

The Company is included in the consolidated federal and certain combined state and local income tax returns with its Parent. For financial reporting purposes, the Company determines its income tax provision on a separate company basis. Taxes currently payable by the Company on a separate company basis, which for December 2021 amounted to approximately \$896,000, will be paid to its Parent, or reduce amounts due to its Parent.



## National Securities Corporation

Deferred tax amounts are comprised of the following on December 31, 2021:

Deferred tax assets:	
Operating loss carryover	\$ 4,573,021
Operating lease liability	1,409,036
Legal reserve	1,624,195
Bad debt	316,745
Accrued compensation	593,418
Other accruals	<u>(175,096)</u>
Total deferred tax assets	8,341,319
Deferred tax liability:	
Fair value of warrants	(671,819)
Right-of-use asset	(1,260,156)
Intangibles and property and equipment	<u>(522,628)</u>
Total deferred tax liability	<u>(2,454,603)</u>
Net	<u>\$ 5,886,716</u>

### NOTE I - COMMITMENTS AND CONTINGENCIES

#### Litigation and regulatory matters

The Company is a defendant or respondent in various pending and threatened arbitrations, administrative proceedings and lawsuits seeking compensatory damages. Several cases have no stated alleged damages. Claim amounts are infrequently indicative of the actual amounts the Company will be liable for, if any. Further, the Company has a history of collecting amounts awarded in these types of matters from its brokers that are still affiliated, as well as from those that are no longer affiliated. Many of these claimants also seek, in addition to compensatory damages, punitive or treble damages, and all seek interest, costs and fees. These matters arise in the normal course of business. The Company intends to vigorously defend itself in these actions, and the ultimate outcome of these matters cannot be determined at this time.

Liabilities for potential losses from complaints, legal actions, government investigations and proceedings are established where management believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. In making these decisions, management bases its judgments on its knowledge of the situations, consultations with legal counsel and its historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution. However, accruals are reviewed regularly and are adjusted to reflect management's estimates of the impact of developments, rulings, advice of counsel and any other information pertinent to a particular matter. Because of the inherent difficulty in predicting the ultimate outcome of legal and regulatory actions, management cannot predict with certainty the eventual loss or range of loss related to such matters.

In accordance with applicable accounting standards, the Company establishes an accrued liability for contingent litigation and regulatory matters when those matters present loss contingencies that are both probable and can be reasonably estimated. In such cases, there still may be an exposure to loss in excess of any amounts reasonably estimated and accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability, but continues to monitor, in conjunction with any outside counsel handling a matter, further developments that would make such loss contingency both probable and reasonably estimable. Once the Company establishes an accrued liability with respect to a loss contingency, the Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established, and any appropriate adjustments are made each quarter.



## National Securities Corporation

In making these decisions, management bases its judgments on its knowledge of the situations, consultations with legal counsel and its historical experience in resolving similar matters. In many lawsuits, arbitrations and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the amount of that liability until the matter is close to resolution.

Because of the broad differences in value ascribed to each case by each plaintiff and the Company, management cannot estimate the possible loss or range of loss, if any, in excess of any amounts reasonably estimated and accrued.

As of December 31, 2021, the Company accrued approximately \$22,031,000 for these matters which is included in accounts payable and other accrued expenses in the statement of financial condition.

### NOTE K - OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Company is engaged in trading and providing a broad range of securities brokerage and investment services to a diverse group of retail and institutional clientele, as well as corporate finance and investment banking services to corporations and businesses. Counterparties to the Company's business activities include broker-dealers and clearing organizations, banks and other financial institutions. The Company uses clearing brokers to process transactions and maintain customer accounts for the Company on a fee basis. The Company permits the clearing firms to extend credit to its clientele secured by cash and securities in the client's account. The Company's exposure to credit risk associated with the non-performance by its customers and counterparties in fulfilling their contractual obligations can be directly impacted by volatile or illiquid trading markets, which may impair the ability of customers and counterparties to satisfy their obligations to the Company. The Company has agreed to indemnify the clearing brokers for losses they incur while extending credit to the Company's customers.

It is the Company's policy to review, as necessary, the credit standing of its customers and counterparties. Amounts due from customers that are considered uncollectible by the clearing broker are charged back to the Company by the clearing broker when such amounts become determinable. Upon notification of a charge back, such amounts, in total or in part, are then either (i) collected from the customers, (ii) charged to the broker initiating the transaction, and/or (iii) charged to operations, based on the particular facts and circumstances.

The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced and does not expect to experience any losses on such accounts.

To the extent the Company invests in marketable securities, the Company is subject to various market risks related to the portfolio.

### NOTE L - RELATED PARTY TRANSACTIONS

The Company entered into a service agreement, as amended in November 2015, with its Parent, whereby the Parent charges the Company for certain employees, insurance and benefits coverage, rent and utilities, software, equipment, email services, office supplies and travel costs as needed. During the three months ended December 31, 2021, the Company incurred charges of approximately \$3,401,000 for such services which are included in the respective operating expenses in the statement of operations.

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The Company entered into a service agreement, as amended in November 2015, with its affiliate, National Tax and Financial Services ("National Tax"), a wholly owned subsidiary of the Parent, whereby National Tax provides the Company with certain services related to its former brokerage operation, which the Parent transferred to the Company in November 2013, principally for compliance, supervision, information technology, human resources and corporate administrative support services. Additionally, rent and related utilities, advertising, recruiting, general insurance, office supplies, postage and overnight delivery and meals and entertainment may also be furnished as needed. During the three months ended December 31, 2021, the Company incurred charges of approximately \$1,151,000 from National Tax principally representing an allocation of rent, salaries and benefits relating to such services which are included in the respective operating expense in the statement of operations.

### NOTE N – PROPERTY AND EQUIPMENT

On December 31, 2021, property and equipment consisted of the following:

	<b>December 31, 2021</b>	<b>Estimated Useful Lives</b>
Equipment and software	\$ 663,791	3 - 6
Furniture and fixtures	345,871	5
Capital leases	509,483	3 - 7
Leasehold improvements	533,800	Lesser of useful life or term of lease
	2,052,945	
Less accumulated depreciation and amortization	(1,111,600)	
Property and equipment, net	<u>\$ 941,345</u>	

### NOTE P – LEASES

The Company's lease agreements primarily cover office space in various states expiring at various dates. The Company's leases are predominantly operating leases, which are included in right-of-use assets and operating lease liabilities on the Company's statement of financial condition. The Company's current lease arrangements expire from 2021 through 2030, some of which include options to extend or terminate the lease. However, the Company in general is not reasonably certain to exercise options to renew or terminate, and therefore renewal and termination options are not considered in the lease term or the right-of-use asset and lease liability balances.

The Company's lease population does not include any residual value guarantees, and therefore none were considered in the calculation of the lease balances. The Company has leases with variable payments, most commonly in the form of common area maintenance charges which are based on actual costs incurred. These variable payments were excluded from the right-of-use asset and lease liability balances since they are not fixed or in-substance fixed payments. The Company has lease agreements with lease and non-lease components. The Company has elected the practical expedient to account for lease and non-lease components as a single lease component.

For leases with terms greater than 12 months, right-of-use assets and lease liabilities are recognized at the implementation date of Topic 842 or the lease commencement date based on the present value of the future lease payments over the lease term. The discount rate used to determine the



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commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Company utilizes its incremental borrowing rate. The Company's lease agreements generally do not provide a readily determinable implicit rate nor is it available to the Company from its lessors. Instead, the Company estimates the Company's incremental borrowing rate based on information available at either the implementation date of Topic 842 or at lease commencement for leases entered into thereafter in determining the present value of future payments. Lease expense for net present value of payments is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less with purchase options or extension options that are not reasonably certain to be exercised are not recorded on the statement of financial condition. The Company recognizes lease expense for these leases on a straight-line basis over the term of the lease.

In October 2018, the Company entered into an agreement to lease equipment under a finance lease for 24 months. The equipment under the lease is collateral for the lease obligation and is included within property and equipment in the statement of financial condition. The leased equipment is amortized on a straight-line basis over 7 years. The interest rate related to the lease obligation was 5.6 percent and ended in October 2020. The finance lease obligation is included within other liabilities in the statement of financial condition.

The table below summarizes the Company's scheduled future minimum lease payments under operating and finance leases, recorded on the statement of financial condition as of December 31, 2021:

	Three Months Ending December 31,	Operating Leases
2021		\$ 667,000
2022		908,000
2023		866,000
2024		835,000
2025		813,000
Thereafter		<u>1,719,000</u>
Total minimum lease payments		\$ 5,808,000
Less: Amounts representing interest not yet incurred		<u>983,000</u>
Present value of lease obligations		<u>\$ 4,825,000</u>

The following table presents the balances for operating and finance right-of-use assets and lease liabilities:

Leases	Classification	December 31, 2021
<b>Assets</b>		
Operating lease assets	Right-of-use assets	\$ 4,316,000
Finance lease assets	Property and equipment	<u>243,000</u>
<b>Total lease assets</b>		<b><u>\$ 4,559,000</u></b>
<b>Liabilities</b>		
Operating lease liabilities	Operating lease liabilities	\$ 4,825,000
<b>Total lease liabilities</b>		<b><u>\$ 4,825,000</u></b>



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The table below presents additional information related to the Company's leases as of December 31, 2021:

	<u>Three Months Ended December 31, 2021</u>
<b>Weighted Average Remaining Lease Term:</b>	
Operating Leases	6.91 years
<b>Weighted Average Discount Rate:</b>	
Operating Leases	5.50 %

### NOTE Q – SUBSEQUENT EVENT

The Company has performed an evaluation of subsequent events through the date the financial statements were issued. The evaluation did not result in any subsequent events that required disclosures and/or adjustments.