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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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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: Sanders Morris Harris 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.)

600 Travis Street, Suite 5900

(No. and Street)

Houston

TX

77002-3003

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

Stephen M. Mangold 713-250-4222 steve.mangold@smhgroup.com
(Name) (Area Code – Telephone Number) (Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing*

McBee & Co., PC

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

718 Paulus Avenue

Dallas

TX

75214

(Address)

(City)

(State)

(Zip Code)

09/22/2009

3631

(Date of Registration with PCAOB)(if applicable)

(PCAOB Registration Number, if applicable)

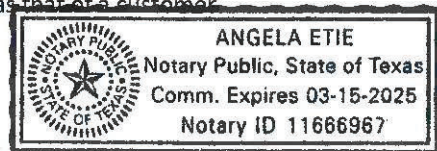
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* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), 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, Stephen M. Mangold, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of Sanders Morris Harris LLC, as of December 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.



Angela Etie
Notary Public

Signature:

Title:

Chief Executive 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.**

Consolidated Statement of Financial Condition

Sanders Morris Harris LLC

December 31, 2021

Filed pursuant to SEC Rule 17a-5(e)(3) as PUBLIC document

Sanders Morris Harris LLC
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Managers and Member of Sanders Morris Harris LLC

Opinion on the Consolidated Financial Statement

We have audited the accompanying consolidated statement of financial condition of Sanders Morris Harris 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 Sanders Morris Harris 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 Sanders Morris Harris LLC’s management. Our responsibility is to express an opinion on Sanders Morris Harris 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 Sanders Morris Harris 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 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.



McBee & Co., PC

We have served as Sanders Morris Harris LLC’s auditor since 2020.
Dallas, Texas
March 8, 2022

Sanders Morris Harris LLC
Consolidated Statement of Financial Condition

	December 31, 2021
Assets	
Current assets	
Cash and cash equivalents	\$ 4,545,445
Commissions receivable	92,816
Other accounts receivable	126,939
Accounts receivable, related parties	294,186
Prepaid expenses and other current assets	282,862
Total current assets	5,342,248
Notes receivable - employees	400,126
Property and equipment, net	127,131
Operating lease right of use assets	329,654
Financial instruments, at fair value	167
Deposits with clearing organization	250,000
Deposits	41,539
Total assets	\$ 6,490,865
Liabilities and Member's Equity	
Current liabilities	
Accounts payable	\$ 420,897
Accounts payable, related parties	85,230
Accrued employee compensation and benefits	1,508,993
Deferred tax liability	47,496
Operating lease liabilities	365,922
Total liabilities	2,428,538
Commitments and contingencies	
Member's equity	4,062,327
Total member's equity	4,062,327
Total liabilities and member's equity	\$ 6,490,865

See accompanying notes to consolidated statement of financial condition

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

1. Organization and Nature of Operations

Nature of Operations

Sanders Morris Harris LLC (“the Company”) is a limited liability company organized in the state of Texas to serve as a broker-dealer and enter into certain investment banking activities. The Company operates as an introducing broker. The Company is registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”). Its customers’ accounts as of December 31, 2021 are carried by third party clearing firm Pershing LLC, an affiliate of the Bank of New York Mellon under a fully disclosed clearing arrangement. This clearing broker also provides the Company with information necessary to generate commission runs, transaction summaries, and data feeds for various reports, including compliance and risk management, execution reports, trade confirmations, monthly account statements, cashiering functions, and handling of margin accounts.

The Company is a wholly owned subsidiary of Tectonic Financial, Inc. (“Tectonic Financial”), along with its wholly owned subsidiary, HWG Insurance Agency, LLC (“HWG”). Tectonic Financial has two additional subsidiaries, Tectonic Advisors, LLC, an SEC registered investment advisor, and T Bancshares, Inc., and its subsidiary, T Bank, NA, a national bank. Tectonic Financial is a registered financial holding company.

2. Summary of Significant Accounting Policies

A summary of significant accounting policies is as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, HWG. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company’s decision to consolidate an entity is based on its ability to direct the activities and obligation to absorb losses or right to receive benefits of the entity.

Management estimates

The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect 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 revenue and expenses for the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Highly liquid instruments with original maturities of three months or less when purchased are considered to be cash equivalents. The Company is subject to the regulations of the Securities and Exchange Commission that, among other things, may restrict the withdrawal of cash held at the Company’s clearing firms that are used to collateralize the Company’s trading accounts.

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

Receivables

The Company's commissions receivable balance consists of commissions due from clearing firms and advisory fee clients.

Notes receivables are stated at cost. For notes receivable that are interest bearing, interest income is recognized using the simple interest method over the life of the related note receivable.

Management monitors receivables for any collection issues. The Company does not typically require collateral. An allowance for doubtful accounts is established based on reviews of individual receivables, recent loss experience, current economic conditions, and other pertinent factors. Receivables deemed uncollectible are charged to the allowance. As of December 31, 2021, no receivables were deemed uncollectable.

Fair Value

The fair value of cash and cash equivalents, deposits, receivables, accounts payable and accrued liabilities approximate cost due to the short period of time to maturity.

Property and Equipment

Property and equipment are recorded and carried at cost, net of accumulated depreciation and amortization. Depreciation of furniture and equipment is computed on a straight-line basis over a three to five-year period. Amortization of leasehold improvements is computed on a straight-line basis over the shorter of the term of the lease or useful life. When assets are retired or otherwise disposed, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in net income for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized.

Leases

The Company leases certain office facilities and office equipment under operating leases. Under the lease standards, for operating leases other than those considered to be short-term, the Company recognizes lease right-of-use assets and related lease liabilities. Such amounts are reported as operating lease right of use assets and operating lease liabilities, respectively, on our accompanying consolidated statement of financial condition. The Company does not recognize short-term operating leases on our balance sheet. A short-term operating lease has an original term of 12 months or less and does not have a purchase option that is likely to be exercised.

In recognizing lease right-of-use assets and related lease liabilities, the Company accounts for lease and non-lease components (such as taxes, insurance, and common area maintenance costs) separately as such amounts are generally readily determinable under our lease contracts. Lease payments over the expected term are discounted using our incremental borrowing rate referenced to the Federal Home Loan Bank Secure Connect advance rates for borrowings of similar term. The Company also considers renewal and termination options in the determination of the term of the lease. If it is reasonably certain that a renewal or termination option will be exercised, the effects of such options are included in the determination of the expected lease term. Generally, the Company cannot be reasonably certain about whether or not the respective lease will be renewed until such time the lease is within the last two years of the existing lease term. When the Company are reasonably certain that a renewal option will be exercised, the Company

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

measures/remeasures the right-of-use asset and related lease liability using the lease payments specified for the renewal period or, if such amounts are unspecified, the Company generally assumes an increase (evaluated on a case-by-case basis in light of prevailing market conditions) in the lease payment over the final period of the existing lease term.

Income taxes

The Company is a wholly owned subsidiary of Tectonic Financial and has elected to be taxed as an entity disregarded as separate from its owner for federal tax purposes. Tectonic Financial is organized as a C corporation. Accordingly, the Company's activity is subject to taxation as a C corporation for federal income tax purposes, and recognizes its federal income tax on a separate entity basis.

The Company's policy is to recognize potential interest and penalties related to income tax matters in income tax expense. The Company believes it has appropriate support for the income tax positions taken and to be taken on its income tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter.

The Company identified no material uncertain income tax positions in accordance with FASB ASC No. 740-10, Accounting for Uncertainty in Income Taxes. If there were unrecognized income tax benefits, the Company's policy would be to recognize accrued interest and penalties, as appropriate, related to unrecognized income tax benefits in income tax expense. The Company recognized no interest or penalties for the year ended December 31, 2021 and does not have a balance of accrued interest and penalties as of December 31, 2021.

From time to time, Tectonic Financial is subject to examination by various tax authorities in jurisdictions in which they have significant business operations. As the Company is included in the consolidated tax return of Tectonic Financial, Inc., the Company is jointly and severally responsible for the income tax obligations of the consolidated group resulting from such examinations. The Company regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. As of December 31, 2021, the Company does not expect to make any significant payments as a result of any adjustment from the finalization of any such examinations. The tax years which remain subject to examination by major tax jurisdictions as of December 31, 2021, include 2018 through 2021.

Revenue Recognition

Revenue from contracts with customers includes commission income related to brokerage transactions and services, and fees from asset management and investment banking services. The recognition and measurement of revenue under FASB ASC 606, *Revenue from Contracts with Customers*, is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the related agreement; and whether constraints on variable consideration should be applied due to uncertain future events.

Advisory Fees

Investment advisory fees: The Company provides investment advisory services on a daily basis. The Company believes the performance obligation for providing advisory services is satisfied over time

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

because the customer is receiving and consuming the benefits as they are provided by the Company. Fee arrangements are typically based on a percentage applied to the customer's assets under management. Fees calculated in this manner are generally received monthly or quarterly and are recognized as revenue ratably over the period as they relate specifically to the services provided in that period, which are distinct from the services provided in other periods.

Performance fees: In addition to investment advisory fee arrangements based on a percentage applied to the customer's assets under management, the Company receives fees under certain of its agreements which vary based on specified performance measures, for example, when a separate account exceeds a specified benchmark or contractual hurdle over a contractual performance period. Currently, all of the Company's contracts of this nature specify either a quarterly or an annual performance period. These fees are earned once account returns have exceeded specified performance measures for the performance period and are calculated as a percentage of account returns. These performance fees are considered variable consideration as the amount of revenue is dependent on the value of the assets at future points in time as well as meeting a specified hurdle rate, both of which are highly susceptible to factors outside the Company's influence and uncertain until a final determination is made. Revenues are recognized in the last period of the performance period specified in the respective contract since this is the point at which the Company can conclude that a significant reversal will not occur.

Commissions and Investment Banking

Brokerage commissions: The Company buys and sells securities on behalf of its customers through its arrangements with its clearing firm. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and clearing expenses are recorded each month based upon the trade date, which is the date that the Company fills the trade order by finding and contracting with a counterparty, and confirms the trade with the customer. The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer.

Syndication and private placement commissions: The Company participates in the syndication of public securities offerings and in private placement offerings for business entities that want to raise funds through a sale of securities. With respect to public securities offerings, the Company may make a commitment to acquire securities from the issuer, or the Company may participate in the syndication group on a best effort, non-committed basis. With respect to private placement offerings, the performance obligation is the consummation of the sale of securities of the issuer. Revenues are earned from fees arising from these securities offerings, and are recognized when the performance obligation is satisfied, generally the trade date. The Company believes that the trade date is the appropriate point in time to recognize revenue for these securities transactions as there are no significant actions which the Company needs to take subsequent to this date and the issuer obtains the control and benefit of the capital markets offering at that point.

M&A advisory fees: The Company may provide advisory services on an ongoing basis related to prospective mergers and acquisitions (M&A). Revenue is recognized over time for these advisory arrangements, given that under the relevant agreements, the performance obligations are simultaneously provided by the Company and consumed by the customer.

Costs to Obtain or Fulfill a Contract with a Customer: Under FASB ASC 606, the incremental costs of obtaining a contract with a customer are required to be capitalized if the costs (1) relate directly to an

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

existing contract or anticipated contract, (2) generate or enhance resources that will be used to satisfy performance obligations in the future, and (3) are expected to be recovered. The Company has not incurred material costs to date which meet these conditions. Under FASB ASC 606, costs of this nature, including fees to third-party recruiters and bonuses to employees, would be included in contract acquisition costs, net in the consolidated statements of financial condition and would be amortized over the estimated customer relationship period.

Recent accounting pronouncements

Recently issued accounting standards that have been issued or proposed by the Financial Accounting Standards Board or other standards setting bodies are not expected to have a material impact on the Company's financial statements.

3. Deposits with Clearing Organization

Under its clearing agreement, the Company is required to maintain a certain level of cash or securities on deposit with a clearing organization. Should the clearing organization suffer a loss due to the failure of a customer of the Company to complete a transaction, the Company is required to indemnify the clearing organization. The Company had \$250,000 on deposit as of December 31, 2021 with a clearing organization to meet this requirement.

4. Property and Equipment

Property and equipment as of December 31, 2021 were as follows:

	Cost	Depreciable Lives
Furniture and fixtures	\$ 340,916	3 Years
Equipment and software	113,450	3 - 4 Years
Leasehold improvements	111,166	5 Years
Accumulated depreciation	(438,401)	
Furniture, equipment and leasehold improvements, net	<u>\$ 127,131</u>	

Depreciation expense for the year ended December 31, 2021 is \$67,275.

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

5. Income Tax

Income tax expense for the year ended December 31, 2021 differs from the “expected” federal income tax expense computed by applying the U.S. federal statutory rate to earnings before income taxes for the year ended December 31, 2021 as a result of the following:

Computed expected tax expense	\$ 379,557
Non-deductible expenses	7,488
Total income tax expense	<u>\$ 387,045</u>

Income tax expense for federal income taxes consist of the following for the year ended December 31, 2021:

Current federal income tax expense	\$ 358,258
Deferred income tax expense	28,787
	<u>\$ 387,045</u>

The significant components of the Company’s deferred tax liabilities at December 31, 2021 are as follows:

Deferred tax assets (liabilities):	
Property and equipment	\$ (18,033)
Stock compensation	(33,559)
Other	4,096
	<u>\$ (47,496)</u>

Deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities as measured by the currently enacted tax rates.

The Company is subject to Texas franchise tax, which is imposed on an entity’s margin rather than on its net income; however, certain aspects of the tax are similar to an income tax. The Company did not recognize franchise tax expense or franchise tax payable during the year ended December 31, 2021, and does not expect its franchise tax obligation to be material.

6. Employee Benefit Plan

Substantially all employees of the Company are covered by an employer-sponsored defined contribution retirement plan, the Tectonic Advisors, LLC Retirement Plan & Trust (the “Plan”). Under the Plan, the Company contributed \$123,138 of safe harbor contributions during the year ended December 31, 2021, of which there was \$13,465 accrued for the year ended December 31, 2021. During the year ended December 31, 2021, the Company contributed 3% of a participant’s compensation to the Plan. At its discretion, the Company may also make additional annual contributions to the Plan. Any discretionary contributions are allocated to employees in the proportion of employee contributions to the total contributions of all participants in the Plan.

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

7. Leases

The Company leases certain office facilities and office equipment under operating leases. Certain of the leases contain provisions for renewal options, escalation clauses based on increases in certain costs incurred by the lessor, as well as free rent periods and tenant improvement allowances. The Company amortizes office lease incentives and rent escalations on a straight-line basis over the life of the respective leases. The Company has obligations under operating leases that expire between 2021 and 2024 with initial non-cancellable terms in excess of one year.

Accounting standards for leases require the recognition of our operating leases on our balance sheet, under right-of-use assets and corresponding lease liabilities. See Note 2, Summary of Significant Accounting Policies, to these consolidated financial statements for more information. The right-of-use assets represent our right to utilize the underlying asset during the lease term, while the lease liability represents the obligation to make periodic lease payments over the life of the lease. As of December 31, 2021, right-of-use assets and related lease liabilities totaled \$329,654 and \$365,922, respectively, and are in operating lease right of use assets and operating lease liabilities, on the consolidated statement of financial condition. As of December 31, 2021, the weighted average remaining lease term is sixteen months, and the weighted average discount rate is 5%.

Future minimum commitments under these operating leases are as follows:

2022	\$ 300,565
2023	72,217
2024	<u>5,956</u>
Total minimum rental payments	378,738
Less: Interest	<u>(12,816)</u>
Present value of lease liabilities	<u><u>\$ 365,922</u></u>

The following table summarizes lease cost for the year ended December 31, 2021:

Operating lease cost	\$ 295,321
Variable lease cost	<u>161,680</u>
Total lease cost	<u><u>\$ 457,001</u></u>

In certain cases, SMH is reimbursed by affiliates who utilize space leased by SMH. Occupancy on the consolidated statement of income is shown net of these amounts.

8. Contingencies

The Company may be subject to various claims and legal proceedings that arise in the ordinary course of its business from time to time. The Company will make provisions for a potential liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company did not incur claims for the year ended December 31, 2021. No provision relating to claims or litigation was recorded at December 31, 2021.

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

9. Concentration of Risk

The Company executes, as agent, securities transactions on behalf of its customers. If either the customer or a counterparty fails to perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the market value of the security is different from the contract value of the transaction. The Company's customer security transactions are transacted on either a cash or margin basis. In margin transactions, the customer is extended credit by the clearing broker, subject to various regulatory margin requirements, collateralized by cash and securities in the customer's account. In connection with these activities, the Company executes customer transactions with the clearing broker involving the sale of securities not yet purchased (short sales). In the event the customer fails to satisfy its obligation, the Company may be required to purchase financial instruments at prevailing market prices in order to fulfill the customer's obligations. The Company is engaged in various trading and brokerage activities with counterparties that primarily include broker-dealers, banks, and other financial institutions. If counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

The Company is subject to credit risk to the extent that its deposits with commercial banks exceed the Federal Deposit Insurance Corporation insurable limit of \$250,000. Management does not consider this risk to be significant, and has not incurred any losses for the year ended December 31, 2021.

10. Related Party Transactions

The Company and Tectonic Financial, Inc. entered into a management services agreement effective May 14, 2021, under which the Company receives services, including management, legal and other administrative services, from Tectonic Financial, Inc. and in turn is charged for such services. The Company and Tectonic Financial, Inc. agree to make a reasonable allocation of costs incurred by Tectonic Financial, Inc. for services provided by its employees. For the year ended December 31, 2021, the Company incurred and paid \$165,000 in management fees under this agreement. This amount is included in other operating expenses in the accompanying consolidated statement of income.

The Company is a member of a group of related operating companies. The related members of the group may make certain payments on each other's behalf for general operating purposes. These amounts are reimbursed or collected by the Company in cash on a periodic basis. The amount due from these related parties was \$294,186 and the amount owed to these related parties was \$85,230. These amounts are included in receivable from related parties and payable to related parties in the accompanying consolidated statement of financial condition. Such amounts are non-interest bearing and are due on demand. In addition, the Company has deposit accounts at an affiliated bank, T Bank, NA, which totaled \$889,036 as of December 31, 2021. This amount is included in cash and cash equivalents on the consolidated statement of financial condition.

Notes receivable, employees represents amounts provided to or paid on behalf of financial advisors for the purchase of common shares of Tectonic Financial. The term of the loan is 26 months at an interest rate of .18%. Notes receivable, employees was \$400,126 as of December 31, 2021. For the year ended December 31, 2021, the Company recognized \$126 in interest income.

Sanders Morris Harris LLC
Notes to Consolidated Statement of Financial Condition
December 31, 2021

11. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. A further requirement is that equity capital may not be withdrawn or cash distributions paid if this ratio would exceed 10 to 1 after such withdrawal or distribution. As of December 31, 2021, the Company had net capital, as defined, of \$2,547,858, which was \$2,297,858 in excess of the required minimum net capital of \$250,000. As of December 31, 2021, the Company had aggregate indebtedness of \$2,207,145, and its aggregate indebtedness to net capital ratio was .87 to 1.

The difference in total assets and total liabilities from the consolidated statement of financial condition and the Computation of Net Capital under Rule 15c3-1 is attributable to a difference between regulatory reporting and reporting in accordance with GAAP.

12. Reserve Requirements

As of December 31, 2021, the Company was not subject to the reserve requirements under Rule 15c3-3 of the Securities Exchange Act of 1934 because it qualifies for an exemption under Rule 15c3-3(k)(2)(ii) as all customer transactions are cleared through Pershing LLC on a fully disclosed basis. The Company does not carry securities accounts for its customers or perform custodial functions relating to customer securities and therefore has not included the schedules entitled "Computation for Determination of Reserve Requirements under Rule 15c3-3" and "Information for Possession or Control Requirements under Rule 15c3-3" in the supplementary information of this report.

The Company's other business activities contemplated by Footnote 74 of the SEC Release No. 34-70073 adopting amendments to 17 C.F.R. § 240.17a-5 are limited to effecting securities transactions via subscriptions on a subscription way basis where the funds are payable to the issuer or its agent and not to the Company and private placements.

13. Subsequent Events

The Company has evaluated subsequent events through March 8, 2022, which is the date these financial statements were available for issuance.