# M1 Finance LLC

Unaudited Statement of

Financial Condition

As of

June 30, 2023

# M1 Finance LLC

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M1 FINANCE LLC
Unaudited Statement of Financial Condition
As of June 30, 2023

| | June 30, 2023 |
|---|---|
| **ASSETS** | |
| Cash & Cash Equivalents | $ 69,040,625 |
| Cash and Investments Segregated | 5,674,818 |
| Membership Deposits | 987,104 |
| Accounts Receivable | 1,844,661 |
| Clearing Receivable | 2,235,104 |
| Investment in Securities | 1,359,504 |
| Prepaid Expenses | 276,693 |
| Property and Equipment | 731,449 |
| **Total Assets** | **$ 82,157,650** |
| **LIABILITIES AND MEMBER'S EQUITY** | |
| **LIABILITIES** | |
| Clearing Payable | $ 4,444,700 |
| Accrued Expenses | 2,276,952 |
| Other Liabilities | 324,242 |
| Debt | 10,000,000 |
| **Total Liabilities** | **17,045,894** |
| **MEMBER'S EQUITY:** | |
| Capital Contributions | 51,832,511 |
| Retained Earnings | 13,279,245 |
| **Total Equity** | **65,111,756** |
| **Total Liabilities and Member's Equity** | **$82,157,650** |

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

M1 FINANCE LLC
Notes to the Unaudited Statement of Financial Condition
For the Year Ended June 30, 2023

**Note 1 – Summary of Significant Accounting Policies**

Organization and Nature of Operations

M1 Finance LLC (the “Firm”) is a Delaware Limited Liability Company registered as a clearing broker dealer with the Securities and Exchange Commission (“SEC”) and a wholly owned subsidiary of M1 Holdings Inc. (the "Parent"). The first capital contribution was made in October 2015, from its sole member. The Firm is a registered member of the Financial Industry Regulatory Authority (“FINRA”) and Securities Investor Protection Corporation (“SIPC”).

The Parent maintains an online platform to build long-term savings and manage wealth through investments in New York Stock Exchange (“NYSE”) and the National Association of Securities Dealers Automated Quotations Systems (“NASDAQ”) securities, for free, automatically, and intelligently. The Firm does not engage in market making or firm commitment underwritings or provide investment advisory services to its brokerage clients. The Firm does not affect transactions in commodities, commodity futures or commodity options nor does it engage in any other non-securities business activities.

For the period ended June 30, 2023, securities transactions were cleared through Apex Clearing Corporation (“Apex”) and M1 Finance LLC. The Firm maintains both a fully disclosed clearing relationship with Apex and operates as a self clearing broker dealer.

Financial Statement Presentation

The accounting policies and reporting practices of the Firm conform to the practices in the broker-dealer industry and are in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of unaudited statement of financial condition 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 as of June 30, 2023. The actual outcome of the estimates could differ from the estimates made in the preparation of this financial statement.

Cash and Cash Equivalents

The Firm has defined cash equivalents as highly liquid investments with original maturities of less than ninety days that are not held for sale in the ordinary course of business. The Firm maintains its operating cash in bank checking and insured cash sweep (“ICS”) accounts insured by the Federal Deposit Insurance Corporation. The Firm may, during the ordinary course of business, maintain account balances in excess of federally insured limits. The Firm has not experienced losses on these accounts, and management believes that the Firm is not exposed to significant risks on such accounts. The Firm also maintains three brokerage accounts with its clearing broker APEX.

Cash and Investments Segregated

The Firm, as a regulated broker dealer, is required to segregate cash for the exclusive benefit of customers pursuant to the customer protection rule 15c3-3 under Securities Exchange Act of 1934. The Firm completes 15c3 reserve calculations and segregates cash into a special reserve bank account for this purpose on a frequent cycle. As of June 30, 2023, $5,674,818 was segregated in the Firm's special reserve bank account for the exclusive benefit of customers.

Membership Deposits

The Membership deposits represent the minimum exchange membership required in order to conduct business on the exchange. The Firm recognizes the deposits with the National Securities Clearing Corporation ("NSCC") and the Depository Trust Company ("DTC") at cost. The required level of deposits may fluctuate significantly from time to time based upon the nature and size of users' trading activity and market volatility.

Accounts Receivable

Accounts receivables are stated at net realizable value and comprise of our revenue sharing receivables with third parties, as well as net settlement with our clearing firm with short time to maturity.

Clearing Receivable

Clearing receivables comprise of receivables from customers, brokers-dealers and clearing organization. Receivables from brokers, dealers, and clearing organizations relate to client orders routed for execution and other receivables such as dividends, wash sales and more from third-party brokers. These receivables are mostly short term in nature.

Receivables from customers represent margin loans to customers and interest earned on it. The margin balances are adequately collateralized by clients' securities. See Note 10 on margin requirements with clients and the Firm' risk exposure.

Clearing Payable

Clearing payables comprise of payables to customers, broker-dealers and clearing organizations. Payables to brokers, dealers, and clearing organizations relate to client orders routed for execution, payables from wash sales and more.

Payable to customers represents client cash in brokerage accounts resulting from deposits, funds resulting from settled trades and other security related transactions.

Income Taxes

No provisions have been made for income taxes since the Firm is a single member limited liability company and is considered a disregarded entity for income tax purposes. The Parent is liable for income taxes based on the Firm's taxable income.

The Firm follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more- likely-than-not be sustained upon examination by taxing authorities. The Firm has analyzed tax positionstaken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Firm believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments.

Investments in Securities

The Firm primarily executes trades on an agency basis. The Firm allows for fractional share purchases and maintains a fractional share account for limited customer facilitation activity. Securities transactions are recorded on the trade date, as if settled. Profit and loss arising from securities transactions are entered for the account and risk of the Firm and are therefore recorded on a trade date basis. Marketable securities held by the Firm are classified as trading securities and valued at fair value.

**Note 2 – Fair Value Measurements**

FASB ASC Topic 820, and Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels for the fair value hierarchy under FASB ASC Section 820-10, Fair Value Measurements and Disclosures ("ASC 820-10") are described below:

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

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

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. For the year ended June 30, 2023, the Firm noted zero transfers between the different levels. As of June 30, 2023, the Firm did not have any investments in securities classified as Level 3 inputs.

| | | **Fair Value Measurements Using** | | |
|---|---|---|---|---|
| | **2023** | **Level 1** | **Level 2** | **Level 3** |
| Investment in Securities: | | | | |
| Investments in trading securities | $ 1,359,504 | $ 1,359,504 | $ - | $ - |
| **Total** | **$ 1,359,504** | **$ 1,359,504** | **$ -** | **$ -** |

**Note 3 – Clearing Receivable**

Clearing Receivable as of June 30, 2023, are composed of the following:

| | |
|---|---|
| Receivables From Brokers, Dealers, and Clearing Organizations | $ 10,961 |
| Receivable from Customers | 2,224,143 |
| **Total Clearing Receivable** | **$ 2,235,104** |

**Note 4 – Clearing Payable**

Clearing Payable as of June 30, 2023, are composed of the following:

| | |
|---|---|
| Payables From Brokers, Dealers, and Clearing Organizations | $ 31,057 |
| Payable from Customers | 4,413,643 |
| **Total Clearing Payable** | **$ 4,444,700** |

**Note 5 – Accrued Expenses and Other Liabilities**

Accrued Expense and Other Liabilities as of June 30, 2023, are composed of the following:

| | |
|---|---|
| Accrued Expenses: | |
| Marketing Accrual | $ 1,051,260 |
| Litigation Accrual | 673,753 |
| Other accruals | 551,939 |
| **Total Accrued Expenses** | **$ 2,276,952** |
| Other Liabilities: | |
| Clearing Liability – Margin and Short Securities | $ 271,110 |
| Interest/Unused Fee Payable | 53,132 |
| **Total Other Liabilities** | **$ 218,718** |

**Note 6 - Concentration of Risk**

The Firm is engaged in brokerage activities in which counterparties primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Firm may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Firm's policy to review, as necessary, the credit standing of each counterparty. The Company has not experienced any losses in such accounts and management believes that it has placed its cash on deposit with financial institutions which are financially stable.

**Note 7 - Net Capital Requirements**

The Firm is subject to the Uniform Net Capital Rule (15c3-1) of the Securities and Exchange Commission. The Firm computes Net Capital under the Alternative Method provided for under 15c3-1, which requires the maintenance of a minimum net capital equal to the greater of $250,000 and 2% of aggregate debit items as defined by SEA Rule 15c3-3. As of June 30, 2023, the Firm had net capital of $72,796,230 which was $72,546,230 in excess of its required net capital of $250,000.

**Note 8 - Related Parties**

The Firm has an expense agreement with its Parent whereby the Firm makes use of a portion of the Parent's office and support personnel which does not cause the Parent to incur significant, if any, additional costs, and expenses. The Firm does record and pay for any expenses directly related to its operating activities as a registered Broker Dealer. In some cases, the operating expenses that are directly related to the Firm get funded by the Parent and reported as a payable to Parent on the statement of financial condition. In addition, certain affiliate payments pass-through the Firm and typically clear within 3 months. As of June 30, 2023, the Firm had a receivable from its affiliates of $39,556.

In addition to that, the Parent has a brokerage account with the Firm and from time to time, employees of the Parent also have brokerage accounts with the Firm.

Debt:

On December 2, 2022, the Firm entered into a subordinate loan agreement with its Parent for $10,000,000 at an interest rate of 0.25% per annum on outstanding principal amount. The loan has a maturity date of December 31, 2024. The subordination agreement sets forth the rights and obligations of the Parent and the Firm, and it provides that any claims by the Parent are subordinate to claims by other parties, including clients and employees of the Firm. As of June 30, 2023, the Firm has an outstanding principal balance of $10,000,000 and interest payable of $18,767 included in the Debt section on the statement of financial condition.

**Note 9 - Commitments and Contingencies**

From time to time the Firm may be exposed to various asserted and unasserted infringement claims in the ordinary course of business. The Firm accounts for these probable losses in accordance with the ASC 450, Contingencies. As of June 30, 2023, the Firm has recorded, within Accrued Expenses in its statement of financial condition, $516,175 for those matters in which it is probable that it has incurred a loss and the amount of the loss, or range of loss, can be reasonably estimated and $157,778 for associated legal fees. There are no other commitments or guarantees against the assets of the Firm and no other contingencies regarding litigation. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Firm's statement of financial condition or liquidity.

**Note 10 – On and Off-Balance-Sheet Credit Risk**

In the ordinary course of business, the Firm introduces securities transactions for brokerage clients on a fully disclosed basis through APEX. With the transition to a clearing broker, the Firm clears clients' securities transactions on its own clearing platform for accounts carried by the Firm. These activities may expose the Firm to risk in the event the client is unable to fulfill its contractual obligations. In addition, the agreement between the Firm and APEX provides that the Firm is obligated to assume any exposure related to nonperformance of its clients' transactions on the APEX platform.

By permitting clients to receive loans on margin, the Firm is subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held by the Firm and Firm's clearing broker could fall below the amount of the client's indebtedness. In the event a client fails to satisfy its obligations, the Firm may be required to sell financial instruments at prevailing market prices in order to fulfill the client's obligations.

The Firm mitigates the risks associated with client margin activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Firm and its clearing broker monitor required margin levels daily and requires brokerage clients to deposit additional collateral or reduce margin loans, when necessary. The Firm does not expect losses to be material to the Firm's financial condition. However, in the case of unforeseen events, the Firm's actual result could materially differ from those anticipated.

**Note 11 – Debt**

On November 17, 2022, the Firm entered into a loan agreement with a bank to extend a revolving unsecured line of credit up to $100,000,000 for a fee of 0.1% on the unused portion of the line and an interest rate of 1.00% plus overnight rate on the drawn outstanding principal amount. The line of credit has a maturity date of December 31, 2023. As of June 30, 2023, the Firm has not utilized the line of credit and the outstanding loan balance is zero with an outstanding unused fee payable of $25,556.

On November 17, 2022, the Firm entered into a loan agreement with a bank to extend a revolving secured line of credit up to $30,000,000 for a fee of 0.5% on the unused portion of the line and an interest rate of 1.00% plus overnight rate on the drawn outstanding principal amount. The line of credit has a maturity date of December 31, 2023 and is secured with eligible securities listed within the contract. As of June 30, 2023, the Firm has not utilized the line of credit and the outstanding loan balance is zero with an outstanding unused fee payable of $38,333.

On December 02, 2022, the Firm entered into a subordinate loan agreement with its Parent for $10,000,000 at an interest rate of 0.25% per annum and a maturity date of December 31, 2023. Please refer to the related parties note for additional information.