

D
A
V
I
D
S
O
NS
O
NS
O
ND
A
V
I
D
S
O
ND
A
V
I
D
S
O
ND
A
V
I
D
S
O
ND
A
V
I
D
S
O
NA
V
I
D
S
O
ND
A
V
I
D
S
O
N

D.A. DAVIDSON & CO.
Statement of Financial Condition
As of March 31, 2024 (Unaudited)
Amounts in thousands, except per share amounts

| | <u>March 31, 2024</u> |
|--|-----------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 165,920 |
| Securities segregated under federal and other regulations | 4,878 |
| Receivables from: | |
| Clients, net | 103,710 |
| Broker-dealers and clearing organizations | 44,491 |
| Other, net | 27,909 |
| Securities owned: | |
| Trading – at fair value | 152,740 |
| Securities purchased under agreements to resell | 19,828 |
| Notes receivable, net | 79,674 |
| Fixed assets, net | 19,956 |
| Right-of-use assets, net | 53,056 |
| Deferred income taxes | 20,236 |
| Goodwill | 9,962 |
| Intangible assets, net | 2,580 |
| Other assets | 28,249 |
| Total assets | <u>\$ 733,189</u> |
| LIABILITIES AND SHAREHOLDER'S EQUITY | |
| LIABILITIES: | |
| Drafts payable | \$ 2,718 |
| Payables to clients | 226,877 |
| Payables to broker-dealers and clearing organizations | 10,386 |
| Accrued compensation | 68,636 |
| Lease liabilities | 60,495 |
| Securities sold, but not yet purchased – at fair value | 20,177 |
| Accounts payable and accrued liabilities | 22,215 |
| Total liabilities | <u>411,504</u> |
| Commitments and contingencies | — |
| SHAREHOLDER'S EQUITY: | |
| Common stock (\$0.10 par value. Authorized 3,000 shares; 1 share issued and outstanding) | — |
| Additional paid-in capital | 224,683 |
| Retained earnings | 97,002 |
| Total shareholder's equity | <u>321,685</u> |
| Total liabilities and shareholder's equity | <u>\$ 733,189</u> |

See accompanying notes to the statements of financial condition.

D.A. Davidson & Co., member SIPC, is subject to the Uniform Net Capital Rule (15c3-1) pursuant to the Securities Exchange Act of 1934. The Company has elected to use the alternative method permitted by Exchange Act Rule 15c3-1 which requires that it maintain net capital in excess of the greater of \$250 or 2% of aggregate debit balances arising from customer transactions as defined in the Formula Reserve Requirements under SEC Exchange Act Rule 15c3-3. At March 31, 2024, the Company's net capital of \$137,209 was 106.77% of aggregate debit items and net capital exceeded the required capital of \$2,570 by \$134,639. The Statement of Financial Condition of the most recent annual audit report pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 is available for examination at the principal office of the company and the regional office of the Securities and Exchange Commission in San Francisco, California.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(1) Summary of Significant Accounting Policies

Organization

D.A. Davidson & Co. (the Company) is a broker-dealer, investment adviser, and municipal advisor registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company is a Montana corporation that is a wholly-owned subsidiary of D.A. Davidson Companies (the Parent). The Company's activities as a securities broker-dealer comprise several classes of services, including principal transactions, agency transactions, investment banking and municipal advisory and underwriting. The Company's activities as an investment adviser comprise both discretionary and non-discretionary investment advisory services. These services are provided to its customers throughout the United States.

The Company follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Company follows to ensure consistent reporting of financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the *FASB Accounting Standards Codification* (the Codification or ASC).

(a) Recent Accounting Pronouncements

In March 2020, the FASB issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (Topic 848)*, to ease the potential burden in accounting for reference rate reform. The guidance provides optional expedients and exceptions for applying existing accounting guidance to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met, including simplifying accounting analyses for contract modifications. This guidance only applies to the items listed above if they reference LIBOR or another reference rate expected to be discontinued because of reference rate reform and only for a limited period of time. When elected, the optional expedients for contract modifications must be applied consistently for all eligible contracts or eligible transactions subject to the same accounting guidance that would have otherwise been applied. Once elected, the amendments must be applied prospectively.

The guidance was effective upon issuance and can be applied through December 31, 2024. The Company is applying the accounting relief as relevant contract modifications are made during the course of the reference rate reform transition period. There was no impact to the Company's financial condition upon issuance of this accounting standard update.

The Company did not adopt any other new accounting pronouncements that impacted the Company's financial condition as of and for the period ended March 31, 2024.

The FASB has also issued ASUs that will be effective for future fiscal years. The Company is continuing to assess the impact of adopting the new pronouncements for future reporting periods.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(1) Summary of Significant Accounting Policies (Continued)

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided. Accordingly, actual results could differ from those estimates.

(c) Cash Equivalents

Cash equivalents consist of money market funds which invest in U.S. Treasury bills, notes and commercial paper with original maturities of 90 days or less, and amounted to \$113,000 at March 31, 2024. The money market funds are classified as Level 1 assets in the fair value hierarchy. The Company has cash deposit accounts with financial institutions in which the balances may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant risk.

(d) Securities Segregated Under Federal and Other Regulations

Securities segregated under federal regulations represents qualified securities segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3, *Customer Protection – Reserves and Custody of Securities*, of the Securities Exchange Act of 1934.

(e) Receivables from and Payables to Clients

Accounts receivable from and payable to clients are recorded on a settlement date basis and include amounts due on cash and margin transactions. Securities owned by clients are held as collateral for receivables. See Note 1(j) for the Company's current expected credit losses accounting policy related to receivables from clients.

(f) Securities Owned, Securities Sold, But Not Yet Purchased, and Fair Value Measurement

Securities at March 31, 2024 consist of bonds, stocks and other investments. The Company classifies its investments as trading securities. Securities are bought and held principally as inventory for the purpose of sales in the near term. Securities are recorded at fair value on a trade date basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation techniques used are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following hierarchy:

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(f) *Securities Owned, Securities Sold, But Not Yet Purchased, and Fair Value Measurement (Continued)*

- Level 1 securities include inputs based on quoted prices in active markets for identical securities, which provides the most reliable fair value measurement. This category generally includes actively traded equity securities, mutual funds, and United States (U.S) Treasury securities.
- Level 2 securities include inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. These observable inputs include quoted prices for similar securities, and bond pricing models based on interest rates, credit risk, and remaining maturity for similar securities. This category generally includes corporate bonds, municipal bonds, government agency mortgage-backed bonds, and other U.S. government obligations.
- Level 3 securities do not have observable pricing for all significant inputs as of the measurement date. These securities are valued based on management's best estimate of fair value, which may include significant judgment or estimation. Factors that may be considered in the valuation estimate include the cost, terms and liquidity of the security, the financial condition and operating results of the issuer, market prices of similar securities, pricing models based on estimated cash flows and yields, and other factors generally applicable to the valuation of securities. This category includes certain sanitation improvement district obligations.

See Note 4 for further information regarding Securities Owned, Securities Sold, But Not Yet Purchased, and Fair Value Measurement.

(g) *Securities Purchased Under Agreements to Resell*

Securities purchased under agreements to resell are financing transactions collateralized by negotiable securities and are carried at contractual amounts plus accrued interest. The Company's policy is to obtain possession of the collateral with a market value equal to or in excess of the principal amount loaned. The Company monitors daily the market value of the securities acquired as compared to the amounts due and may require counterparties to deposit additional collateral, or may return collateral to counterparties, when necessary.

(h) *Securities Lending Activities*

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender. With respect to securities loaned, the Company receives cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed are presented in receivables from broker-dealers and clearing organizations and securities loaned are presented in payables to broker-dealers and clearing organizations. See Note 1(j) for the Company's current expected credit losses accounting policy related to receivables from broker-dealers and clearing organizations.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(1) Summary of Significant Accounting Policies (Continued)

(i) *Notes Receivable*

Notes receivable consist of loans to Company employees. These notes earn interest at rates consistent with market rates at the time of issuance and are repaid over a term of two to nine years. Repayment is generally made with the employees' bonus compensation. See Note 1(j) for the Company's current expected credit losses accounting policy related to notes receivable.

(j) *Current Expected Credit Losses (CECL)*

The Company accounts for estimated credit losses on financial assets measured at an amortized cost basis in accordance with ASC 326-20, *Financial Instruments – Credit Losses* (ASC 326-20). ASC 326-20 requires the Company to apply the current expected credit loss (CECL) model to determine the estimated expected credit losses over the life of its financial assets and certain off-balance sheet exposures based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts. The Company records the estimate of expected credit losses as an allowance for credit losses. For financial assets measured at an amortized cost basis the allowance for credit losses is reported as a valuation account on the balance sheet that adjusts the asset's amortized cost basis.

Under ASC 326, a practical expedient may be elected for contracts when the counterparty is contractually obligated to fully replenish the collateral to meet the requirements of the contract and the Company reasonably expects such replenishment to continue. The Company elects to use the practical expedient when eligible.

Receivables from clients. The Company's receivables from clients include margin loans and accrued interest on these loans. Margin loans represent credit extended to clients to finance their purchases of securities by borrowing against securities they own and are fully collateralized by these securities in client accounts. Collateral is maintained at required levels at all times. The borrowers of a margin loan are contractually required to continually adjust the amount of the collateral as its fair value changes. The Company subjects the borrowers to an internal qualification process and an interview to align investing objectives, and monitors customer activity. The Company applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for margin loans.

Receivables from broker-dealers and clearing organizations. The Company's receivables from broker-dealers and clearing organizations include amounts receivable from unsettled trades, including amounts receivable for securities failed to deliver, accrued interest receivables and cash deposits. A portion of the Company's trades and contracts are cleared through a clearing organization and settled daily between the clearing organization and the Company. Because of this daily settlement, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company continually reviews the credit quality of its counterparties.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(j) Current Expected Credit Losses (CECL) (Continued)

Securities purchased under agreements to resell. Securities purchased under agreements to resell are collateralized by securities with a market value in excess of the obligation under the contract which may result in unsecured credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations timely. The Company applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for securities purchased under agreements to resell. The Company has established policies and procedures for mitigating credit risk including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties. The Company minimizes credit risk by daily monitoring of securities posted as collateral and requiring additional collateral to be deposited.

Notes receivable. The Company's notes receivable consist of loans to Company employees granted to employees primarily for recruiting. These loans are contingent on the employees' continued employment with the Company and generally require repayment if employees leave during a contractual service period.

These loans amortize over a contractual service period of two to nine years from the initial date of the loan and amounts related to accrued interest are reported in the same balance sheet line item as the other elements of the loan's amortized cost. The outstanding loan generally becomes due in the event the employee departs during the service period. The Company estimates the allowance for credit losses by considering credit quality indicators and the recoverability of an outstanding loan balance from employees that left the Company. A loan would be placed on non-accrual status when, based on current information, it is probable that the Company will be unable to collect scheduled payments of principal and interest when due according to the contractual terms of the underlying loan agreement. The amortized cost basis of these loans would be written-off against the allowance for credit losses when management deems the amount to be uncollectible. The Company's allowance for credit losses on notes receivable totaled \$1,622 at March 31, 2024.

(k) Fixed Assets

Fixed assets include furniture, equipment and leasehold improvements that are recorded at cost, less accumulated depreciation and amortization. Depreciation is provided on a straight-line or accelerated basis using estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Estimated useful lives range from two to 10 years.

(l) Right-of-Use Assets and Lease Liabilities

The Company conducts its operations from leased office facilities and also enters into leases in the normal course of business for certain office and technology equipment. In accordance with ASC 842, *Leases*, the Company recognizes a right-of-use (ROU) asset and a corresponding lease liability on its statement of financial condition for its lease arrangements. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(l) *Right-of-Use Assets and Lease Liabilities (Continued)*

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate. See Note 6 for further information regarding the Company's leases accounted for under ASC 842.

(m) *Income Taxes*

The Company is included in the consolidated U.S. federal and various combined state income tax returns filed by the Parent. Federal income taxes are calculated as if the subsidiary companies filed on a separate return basis.

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. When applicable, a valuation allowance is established to reduce any deferred tax asset when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company records uncertain tax positions when the effect of the outcome is considered more likely than not and reasonably estimable. There were no ongoing state tax examinations as of March 31, 2024. As of March 31, 2024, the Company has not made any material accruals for uncertain tax positions.

(n) *Goodwill and Intangible Assets*

Goodwill represents the excess of consideration paid over fair value of net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values.

(o) *Drafts Payable*

Drafts payable represent amounts drawn by the Company against banks and sight overdrafts under sweep agreements with banks.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(1) Summary of Significant Accounting Policies (Continued)

(p) *Stock-Based Compensation*

The Parent's stock incentive plan provides for the granting of Parent common stock-based awards to officers, key employees and directors of the Company. The Parent provides stock-based awards as part of compensation agreements the Company has with certain employees which provide for the issuance of its Parent's stock in future years, upon satisfaction of vesting requirements. Stock-based compensation is accounted for in accordance with ASC 718, *Compensation—Stock Compensation*.

(q) *Long-Lived Assets*

The Company's long-lived assets, such as property, plant and equipment, and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

The Company did not record any impairment charges during the period ended March 31, 2024 as there were no long-lived assets that were considered impaired.

(r) *Risk and Uncertainties*

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would affect the amounts reported in the statement of financial condition. The risk of loss on unsettled transactions relates to customers' and other counterparties' inability to fulfill their contracted obligations.

(2) Net Capital Requirements

The Company is subject to Rule 15c3-1, *Net Capital Requirements for Brokers or Dealers*, pursuant to the Securities Exchange Act of 1934. The Company has elected to use the alternative method permitted by Rule 15c3-1 which requires that it maintain net capital in excess of the greater of \$250 or 2% of aggregate debit balances arising from customer transactions as defined in the Formula Reserve Requirements under Rule 15c3-3. At March 31, 2024, the Company's net capital of \$137,209 was 106.77% of aggregate debit items and net capital exceeded the required capital of \$2,570 by \$134,639.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(3) Receivables from and Payables to Broker-Dealers and Clearing Organizations

Amounts receivable from and payable to broker-dealers and clearing organizations as of March 31, 2024, consist of the following:

| | <u>Receivable</u> | <u>Payable</u> |
|--------------------------------------|-------------------|------------------|
| Securities failed-to-deliver/receive | \$ 3,452 | 7,152 |
| Broker Omnibus | 40,944 | — |
| Unsettled proprietary trades | — | 1,331 |
| Other | 95 | 1,903 |
| | <u>\$ 44,491</u> | <u>\$ 10,386</u> |

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(4) Securities Owned, Securities Sold, But Not Yet Purchased, and Fair Value Measurement

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy. See Note 1(f) for a discussion of the Company's fair value measurement accounting policies.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2024:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|--|--|-------------------|
| Securities segregated under federal and other regulations: | | | | |
| Debt securities issued by the U.S. | | | | |
| Treasury and segregated under Rule 15c3-3 | \$ 4,878 | \$ — | \$ — | \$ 4,878 |
| Securities owned: | | | | |
| Equity securities | \$ 4,582 | \$ — | \$ — | \$ 4,582 |
| Debt securities issued by the U.S. | | | | |
| Treasury and other U.S. government corporations and agencies | — | 20,683 | — | 20,683 |
| Debt securities issued by states of the U.S. and political subdivisions of the states | — | 54,460 | 202 | 54,662 |
| Corporate debt securities | — | 64,393 | — | 64,393 |
| Certificates of deposit | — | 8,312 | — | 8,312 |
| | <u>\$ 4,582</u> | <u>\$ 147,848</u> | <u>\$ 202</u> | <u>152,632</u> |
| Limited partnerships | | | | 108 |
| Total securities owned | | | | <u>\$ 152,740</u> |
| Securities sold, but not yet purchased: | | | | |
| Equity securities | \$ 295 | \$ — | \$ — | \$ 295 |
| Debt securities issued by the U.S. | | | | |
| Treasury and other U.S. government corporations and agencies | 19,673 | — | — | 19,673 |
| Corporate debt securities | — | 209 | — | 209 |
| | <u>—</u> | <u>209</u> | <u>—</u> | <u>209</u> |
| Total securities sold, but not yet purchased | <u>\$ 19,968</u> | <u>\$ 209</u> | <u>\$ —</u> | <u>\$ 20,177</u> |

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(4) Securities Owned, Securities Sold, But Not Yet Purchased, and Fair Value Measurement (Continued)

Following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

| | Level 3 Beginning Balance | Purchase of Investments | Sale/ Redemption of Investments | Realized Gain/(Loss) | Change in Unrealized Gain/(Loss) | Level 3 Ending Balance |
|---|---------------------------------|----------------------------|---------------------------------------|-------------------------|--|------------------------------|
| Securities Owned: | | | | | | |
| Debt securities issued by states of the U.S. and political subdivisions of the states | \$ 211 | \$ — | \$ — | \$ — | \$ (9) | \$ 202 |
| | \$ 211 | \$ — | \$ — | \$ — | \$ (9) | \$ 202 |

There were no transfers between levels during the period ended March 31, 2024.

The following table summarizes the valuation techniques and significant unobservable inputs used for the Company's investments categorized as Level 3 in the fair value hierarchy as of March 31, 2024:

| Name | Fair Value | Valuation Technique | Unobservable Inputs | Range of Input Values |
|---|------------|----------------------------------|--|---|
| Debt securities issued by states of the U.S. and political subdivisions of the states | \$ 202 | Discounted cash flow approach | Repayment terms Discount rates Estimated housing starts Developed lot value | 1-17 years 9.25% 2-8 \$3,000-\$5,000 |

The Company's investments in limited partnerships are valued at net asset value as a practical expedient.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(5) Fixed Assets

Fixed assets, net of accumulated depreciation as of March 31, 2024 consist of the following:

| | | |
|--------------------------------|----|----------------------|
| Furniture and equipment | \$ | 23,019 |
| Leasehold improvements | | 21,326 |
| Computer hardware | | 8,566 |
| Software | | 2,888 |
| Construction in progress | | 801 |
| Total fixed assets | | <u>56,600</u> |
| Less: Accumulated depreciation | | <u>(36,644)</u> |
| Fixed assets, net | \$ | <u><u>19,956</u></u> |

(6) Leases

Lessee Arrangements

The Company enters into real estate lease arrangements for all of its office spaces. Additionally, the Company enters into equipment lease arrangements for copiers and postage machines. The Company's leases have remaining terms ranging from one to 10 years. The Company's leases do not include residual value guarantees or covenants.

The Company recognizes a ROU asset and a lease liability on its statement of financial condition for its lease arrangements. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate. The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company estimates its incremental borrowing rate is based on the terms of each lease as well as the interest rate environment at the later of the adoption date of October 1, 2019, lease commencement date or lease remeasurement date. The incremental borrowing rate has also been adjusted to reflect a secured rate.

The Company has elected the practical expedient, where leases with an initial term of 12 months or less (short-term leases) are not recorded as an ROU asset or lease liability on the Company's statement of financial condition. The lease terms include any non-cancellable periods and may reflect periods covered by options to extend or terminate when it is reasonably certain that those options will be exercised. The Company has also elected the practical expedient to carry over historical lease determination and lease classification conclusions.

In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(6) Leases (Continued)

Leases are classified as operating or finance leases at the lease commencement date. As of March 31, 2024, ROU assets and lease liabilities by lease type are as follows:

| | |
|--------------------------------|------------------|
| Right-of-use assets | |
| Operating leases, net | \$ 52,224 |
| Finance leases, net | <u>832</u> |
| Total right-of-use assets, net | <u>\$ 53,056</u> |
| | |
| Lease liabilities | |
| Operating leases | \$ 59,628 |
| Finance leases | <u>867</u> |
| Total lease liabilities | <u>\$ 60,495</u> |

Lease Liabilities

Future undiscounted lease payments for operating and finance leases with initial terms of one year or more as of March 31, 2024 are as follows:

| | Operating Leases | Finance Leases |
|------------------------------------|-----------------------------|---------------------------|
| Remainder of 2024 | \$ 8,844 | \$ 197 |
| 2025 | 14,970 | 311 |
| 2026 | 12,423 | 236 |
| 2027 | 9,496 | 160 |
| 2028 | 6,905 | 51 |
| Thereafter | <u>20,139</u> | <u>2</u> |
| Total lease payments | 72,777 | 957 |
| Less: Interest | <u>(13,149)</u> | <u>(90)</u> |
| Present value of lease liabilities | <u>\$ 59,628</u> | <u>\$ 867</u> |

The Company has an operating lease with a related party. Refer to Note 12 for additional information on the related party lease arrangement.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(6) Leases (Continued)

Supplemental Lease Information

| | <u>March 31, 2024</u> |
|---|-----------------------|
| Operating lease weighted average remaining lease term (years) | 5.7 |
| Operating lease weighted average discount rate | 6.6% |
| Finance lease weighted average remaining lease term (years) | 3.1 |
| Finance lease weighted average discount rate | 6.2% |

(7) Income Taxes

Differences between the financial statement carrying amounts and the tax bases of assets and liabilities that give rise to significant portions of deferred tax assets and liabilities as of March 31, 2024, are as follows:

| | |
|--|------------------|
| Deferred tax assets: | |
| Compensation and benefits | \$ 19,902 |
| Lease liabilities | 15,495 |
| Accrued expenses and reserves | 572 |
| Tax credit carryforwards | 454 |
| Business acquisitions | 257 |
| Other | 215 |
| Intangible assets | 92 |
| Deferred income tax assets, before valuation allowance | <u>36,987</u> |
| Valuation allowances | <u>(454)</u> |
| Total deferred income tax assets, net of valuation allowance | <u>36,533</u> |
| Deferred tax liabilities: | |
| Right-of-use assets, net | \$ (13,590) |
| Fixed assets, net | (2,569) |
| Prepaid expenses | (138) |
| Total deferred income tax liabilities | <u>(16,297)</u> |
| Deferred income taxes | <u>\$ 20,236</u> |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the existence of, or generation of, taxable income in the periods in which those temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(7) Income Taxes (Continued)

Based upon the level of historical taxable income and estimates of future taxable income over the periods in which the deferred tax assets are deductible, at March 31, 2024, management has established valuation allowances for foreign tax carryforwards that are not more likely than not to be realized. As of March 31, 2024, the Company has a deferred tax asset associated with foreign tax carryforwards of \$454. If not used, the foreign tax carryforwards will expire between September 30, 2032, and September 30, 2034.

(8) Goodwill and Intangible Assets

As of March 31, 2024, the balance of goodwill was \$9,962. The Company is required to identify the related reporting unit that pertains to any goodwill balance and to test goodwill for impairment by comparing the fair value of the reporting unit to the carrying amount of the reporting unit. The Company has identified its related reporting unit as its capital markets business and has allocated goodwill accordingly.

The Company estimated the fair value of the reporting unit and determined that the unit's fair value exceeds its carrying value, and consequently, no impairment was evident at March 31, 2024.

In connection with the April 2016 SMITH HAYES Companies (SH) acquisition, the Company recorded an intangible asset of \$6,289 identifiable with the SH customer base, which is being amortized over the estimated useful life of 10 years. The value of the intangible asset is based on the present value of estimated net cash flows from the SH customer accounts over the 10 year period.

In connection with the April 2019 Wells Nelson & Associates, L.L.C. (WN) acquisition, the Company recorded an intangible asset of \$2,008 identifiable with the WN customer base, which is being amortized over the estimated useful life of 10 years. The value of the intangible asset is based on the present value of estimated net cash flows from the WN customer accounts over the 10 year period.

In connection with the April 2019 Gode Conway acquisition, the Company recorded an intangible asset of \$641 identifiable with the Gode Conway customer base, which is being amortized over the estimated useful life of nine years. The value of the intangible asset is based on the present value of estimated net cash flows from the Gode Conway customer accounts over the nine year period.

The balance of these intangible assets was \$2,580, net of accumulated amortization of \$6,358 as of March 31, 2024.

(9) Loans Payable to Banks

As of March 31, 2024, the Company had two lines of credit secured by certain Company or client margin assets. These revolving lines of credit are payable on demand and bear interest at rates that vary with the Effective Federal Funds Rates. One of the lines is for \$150,000 and has a maturity date of December 15, 2024. The second line of credit does not specify a maturity date or the amount of credit available. The Company did not have any outstanding borrowings under the lines of credit at March 31, 2024.

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(9) Loans Payable to Banks (Continued)

As of March 31, 2024 the Company had a letter of credit totaling \$1,000 for lease security deposits for certain office locations. Landlords for the properties are deemed the beneficiaries, with commitment periods and maturity dates varying by location. The outstanding balance on this letter of credit was \$500 as of March 31, 2024.

(10) Employee Benefit Plans

Employees of the Company participate in the Parent's retirement savings and profit sharing plan and employee stock ownership plan (ESOP). Each plan is a defined contribution plan covering all employees who have completed six months of service. Participants become 100% vested in the employer contribution account after six years of service. The proportionate cost of the respective plans is borne by the Company through annual contributions in amounts determined by the board of directors of the Parent. Investments of the ESOP consist entirely of common stock of the Parent, which is appraised twice annually including as of the end of each plan year by an independent certified business appraiser to determine the current fair market value.

Participants may contribute to the Parent's retirement savings and profit sharing plan under the retirement savings portion of the plan. Contributions are based on a participant's choice of a percentage of compensation up to limits established by the plan.

(11) Stock-Based Compensation

The Company provides stock-based awards and restricted stock grants as a result of compensation agreements with certain employees which provide for the issuance of its Parent's stock in future years upon satisfaction of vesting requirements.

As of March 31, 2024, there were 977 outstanding stock-based awards with a weighted average exercise price of \$64.87.

The Company also has an employee stock purchase plan which allows employees to purchase stock of the Parent subject to certain limits specified by the plan.

(12) Related Party Transactions

The Parent wholly owns the Company and the Company's two sister corporations: Davidson Investment Advisors, Inc., and D.A. Davidson Trust Company. Related parties consist of significant shareholders, directors, principal officers, the Parent's retirement savings and profit sharing plan, and the ESOP. Included in accrued compensation at March 31, 2024, was \$7,894 related to retirement savings and profit sharing plan contributions.

Included in receivables from other and accounts payable and accrued liabilities are related parties receivables and payables for account balances of directors and principal officers. Also included as related parties receivables and payables are funds the Company advances to and receives from the Parent and sister

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(12) Related Party Transactions (Continued)

corporations in the normal course of business. These receivables and payables bear interest based on the prime rates and consisted of \$239 of receivables and \$4,116 of payables at March 31, 2024.

The Parent has a revolving line of credit and has pledged two-thirds of the Company's outstanding common stock in connection with its line of credit.

The Parent leases its Great Falls, Montana office space from a limited liability company whose members include a director of the Parent. The following is a schedule by fiscal year of future non-cancelable, minimum lease payments required under the related party lease as of March 31, 2024:

| | | |
|--------------------------------------|----|---------------------|
| Remainder of 2024 | \$ | 573 |
| 2025 | | 1,162 |
| 2026 | | 1,180 |
| 2027 | | 1,197 |
| 2028 | | 1,215 |
| Total lease payments | | <u>5,327</u> |
| Less: Interest | | <u>(846)</u> |
| Present value of related party lease | \$ | <u><u>4,481</u></u> |

(13) Off-Balance-Sheet Risk

In the normal course of business, the Company enters into when-issued underwriting and purchase commitments. Transactions relating to such commitments open at March 31, 2024, and subsequently settled, had no material effect on the financial statement.

The Company's normal business activities involve the execution, settlement and financing of various securities transactions. These activities may expose the Company to credit and market risks in the event the customer or counterparty is unable to fulfill its contractual obligations. Such risks may be increased by volatile trading markets.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. A portion of the Company's customer activity includes the sale of securities not yet purchased and the writing of option contracts, substantially all of which are transacted on a margin basis.

Customer transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event customers fail to satisfy their obligations, the Company may be required to purchase or sell financial instruments at prevailing

D.A. DAVIDSON & CO.

Notes to Statement of Financial Condition (Unaudited)

March 31, 2024

Amounts in thousands, except per share amounts

(13) Off-Balance-Sheet Risk (Continued)

market prices to fulfill the customers' obligations. The Company seeks to control the risk associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions when necessary.

(14) Commitments and Contingencies

In connection with the September 2021 Marlin & Associates Holding LLC (MA) acquisition, if MA revenue exceeds \$30,000 by the third anniversary of the acquisition date, an earnout payment will be made to the MA sellers and key employees. This additional payment has been accounted for as a liability. As of March 31, 2024, the associated liability included within accounts payable and accrued liabilities was \$3,348.

The Company has a partially self-insured plan for eligible employee medical and dental expenses. The Company maintains stop loss insurance for individual claims in excess of \$205 for the 2024 calendar year, and for aggregate claims in excess of \$15,568 at March 31, 2024.

The Company is involved in various claims and litigation. In the opinion of management, following consultation with legal counsel, the ultimate liability or disposition thereof is not expected to have a material adverse effect on the financial condition.

In the normal course of business, the Company is or may be subject to regulatory proceedings, including examinations, arising in connection with the conduct of its operations. These matters could result in censures, fines, or other sanctions. The Company is currently subject to regulatory proceedings. The Company, after consultation with legal counsel, would vigorously defend itself in the event of any action stemming from such proceedings. Given the inherent difficulty of predicting the outcome of regulatory proceedings, particularly in cases or proceedings in which substantial or indeterminate damages or fines may be sought, the Company cannot estimate losses or ranges of losses because of the outcome of these proceedings. Matters arising from regulatory proceedings could have a material adverse effect on the Company's financial condition.