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QMB Number.	3235-0123
Expires:	May 31, 2017
Estimated average burden	hours per response . . . . 12.00

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17016634  
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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
<b>8-48557</b>

Washington DC

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING JANUARY 1, 2016 AND ENDING DECEMBER 31, 2016  
MM/DD/YY MM/DD/YY

RECEIVED  
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**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER DEALER: **1ST DISCOUNT BROKERAGE, INC.**

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

**8927 HYPOLUXO ROAD, SUITE A-5**

(No. and Street)

**LAKE WORTH**

**FLORIDA**

**33467**

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

**AILEEN GALLAGHER** **561-515-3220**

(Area Code - Telephone No.)

**B. ACCOUNTANT DESIGNATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**OHAB AND COMPANY, PA**

(Name - if individual, state last, first, middle name)

**100 E. SYBELIA AVENUE, SUITE 130, MAITLAND**

**FLORIDA**

**32751**

(Address and City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its Possessions

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual audit be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, WILLIAM CORLEY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm or 1<sup>ST</sup> DISCOUNT BROKERAGE, INC., as of December 31, 2016 are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Donna Lynn Segal  
State of Florida  
My Commission Expires 08/31/2017  
Commission No. FF 42105

*[Signature]*  
Public Notary

*[Signature]*

Signature

**PRESIDENT**

Title

This report\*\* contains (check all applicable boxes);

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements under Exhibit A of Rule 15c3-1.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**1ST DISCOUNT BROKERAGE, INC.**  
**(A WHOLLY-OWNED SUBSIDIARY OF 1 DB FINANCIAL, INC.)**

**FINANCIAL STATEMENT**  
**FOR THE YEAR ENDED**

**DECEMBER 31, 2016**



# **hab and Company, P.A.**

100 E. Sybelia Ave. Suite 130  
Maitland, FL 32751

*Certified Public Accountants*  
Email: [pam@ohabco.com](mailto:pam@ohabco.com)

Telephone 407-740-7311  
Fax 407-740-6441

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
of 1st Discount Brokerage, Inc.

We have audited the accompanying statement of financial condition of 1st Discount Brokerage, Inc. as of December 31, 2016, and the related notes to the financial statements. This financial statement is the responsibility of 1st Discount Brokerage, Inc.'s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial position presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of 1st Discount Brokerage, Inc. as of December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

*O'hab and Company, P.A.*

Maitland, Florida

March 8, 2017

**1ST DISCOUNT BROKERAGE, INC.**  
**(A WHOLLY-OWNED SUBSIDIARY OF 1 DB FINANCIAL, INC.)**  
**STATEMENT OF FINANCIAL CONDITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Assets**

Cash and cash equivalents	\$	186,450
Clearing deposits with clearing brokers		250,036
Due from clearing brokers		182,746
Accounts receivable		41,578
Prepaid expenses and other current assets		39,910
Securities purchased, not yet sold		17,458
Property and equipment, net of depreciation of \$95,161		14,984
Other non-current assets		9,000
		<hr/>
	\$	<u>742,162</u>

**Liabilities and Stockholder's Equity**

Liabilities:		
Commissions payable	\$	115,803
Accounts payable		128,376
Accrued expenses		129,881
		<hr/>
Total liabilities	\$	<u>374,060</u>
Stockholder's equity:		
Common stock, no par value, 100,000 shares authorized, 1,250 shares issued and outstanding		1,322,496
Retained earnings (deficit)		(954,394)
		<hr/>
Total stockholder's equity		<u>368,102</u>
	\$	<u>742,162</u>

*The accompanying notes are an integral part of these financial statements.*

**1<sup>st</sup> DISCOUNT BROKERAGE, INC.**  
**(A WHOLLY-OWNED SUBSIDIARY OF 1DB FINANCIAL, INC.)**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**1. ORGANIZATION**

1st Discount Brokerage, Inc. (the "Company"), (a wholly-owned subsidiary of 1DB Financial, Inc.) was incorporated on July 14, 1995 in the state of Florida. The Company is a registered broker-dealer with the Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). The Company became a wholly-owned subsidiary of 1 DB Financial, Inc. (the "Parent"), as of February 25, 1999.

The Company's main office is in Lake Worth, Florida and the Company operates independent branch offices throughout the United States. The Company's main sources of revenue are derived from securities brokerage transactions and fees as a registered investment advisor. The Company is an introducing broker-dealer and clears its trades through Apex Clearing Corporation (the "Clearing Broker").

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Cash and cash equivalents** - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents for the purposes of the statement of cash flows.

**Cash deposits with clearing brokers** - Cash deposits with clearing broker consist of funds on deposit with the Clearing Broker pursuant to the Company's clearing agreement. The agreement requires the Company to maintain a minimum clearing deposit of \$250,000, based on the Company having only U.S. customers and executing trades exclusively through Apex Clearing. At December 31, 2016, the Company had \$250,036 in the clearing deposit account, the difference representing earnings on the money on deposit. As long as the Company continues to use the clearing and execution services of the Clearing Broker, the Company will be required to maintain the cash on deposit.

**Due from clearing broker and commissions receivable** - Due from clearing broker and commissions receivable represents monies due the Company from the Clearing Broker through securities generated transactions. An allowance for doubtful accounts is not recorded since the Clearing Broker adjusts accounts monthly to actual collections.

**Furniture and equipment** - Furniture and equipment are recorded at cost. Repair and maintenance costs are charged to operations as incurred. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any gains or losses are included in operations. Depreciation of furniture and equipment is provided utilizing the straight-line method over the estimated useful lives of the related assets, which range from two to seven years.

**Securities transactions** - Principal securities transactions in regular-way trades are recorded on the trade date, as if they had settled. Commissions from customers' securities transactions are recorded on a trade date basis.

**Investment banking fees** - Investment banking fees are recorded when services for the transaction are determined to be completed, generally as set forth under the terms of the agreement.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Asset management fees** – Fees are recorded and recognized in the period in which the services are provided.

**Selling concessions** – Revenue generated from sales of mutual funds, variable products, fixed products and direct participation programs are recorded when earned on a trade date basis.

**Margin Rebates** – Received from Clearing Firm and recorded when earned.

**Admin Fees** – Customer fees that are recorded when earned.

**Other income** – Other income includes administrative fees for client services and other miscellaneous items and is recognized as earned.

**Income taxes** - The Company and its Parent are included in the consolidated federal income tax return filed by its Parent. Federal income taxes are calculated as if the companies filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from the Parent. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. Deferred tax expenses or benefits are recognized in the financial statements for the changes in deferred tax liabilities or assets between years except as described in Note 6.

The Company recognizes deferred tax assets to the extent that management believes that these assets are more likely than not to be realized. In making such a determination, management assesses the available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations, to estimate whether sufficient future taxable income will be generated to permit use of existing deferred tax assets.

It is the Company's policy to recognize any interest and penalties in the provision for taxes. The federal and state income tax returns of the company for 2015, 2014, and 2013 are subject to examination by the IRS and state taxing authorities, generally for three years after they are filed.

**Fair value of financial instruments** - All of the Company's financial instruments are carried at market value or at amounts, which, because of their short-term nature, approximate current fair value. See Note 4 for further discussion.

**Use of estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. RELATED PARTY TRANSACTIONS**

**Parent company transactions** - The Company shares offices with its Parent. The Company pays all of its own expenses; the Parent is not responsible for any of the Company expenses.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**4. FAIR VALUE MEASUREMENTS**

The Company has certain investments reported in the accompanying statement of financial condition. *FASB ASC 820-10-50-1 through 50-3* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability.

The following schedule details the level of the Company's financial instruments measured on a recurring basis:

	<u>Fair Value Measurement at Reporting Date Using Description</u>			
	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>	
<u>12/31/2016</u>				
<b>Assets:</b>				
Securities owned, not yet sold	\$ 17,458	\$ 17,458	\$ -	\$ -

**5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2016:

Equipment, furniture and software	47,264
Leasehold improvements	35,881
Internet Set-Up and Other	27,000
Less: Accumulated depreciation	<u>(95,161)</u>
	<u>\$ 14,984</u>

Depreciation expense was \$7,915 for the year ended December 31, 2016.

**6. INCOME TAX EXPENSE/BENEFIT**

The Company has available net operating loss and other carryforwards totaling approximately \$2,357,000 at December 31, 2016, to reduce future tax of the parent and other subsidiaries of which \$1,423,000 has



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**6. INCOME TAX EXPENSE/BENEFIT (continued)**

been/is eliminated in the consolidation process. The carryforwards will begin to expire in the year 2030. Management believes that it is more likely than not that the benefit from these net operating losses and other carryforwards will not be realized.

**7. COMMITMENTS AND CONTINGENCIES**

On January 5, 2010, the Company entered into a lease for its administrative offices effective April 2010. The lease was for a term of five (5) years and the space totals 1,440 square feet. In March 2015 the lease was renewed for an additional 3 years and terminates April 30, 2018. The base rent of \$32,144 for the first year increased to \$33,387 for the year beginning 5/1/2016 and will increase to \$34,388 for the year beginning 5/1/2017. Operating expenses are charged in addition to the base rent.

Rent expense, including storage expense, for the year ended December 31, 2016 was \$61,550. Minimum basic rent payments inclusive of sales tax, excluding operating/common area maintenance, for the next two years are as follows:

2017	\$36,438
2018	<u>\$12,265</u>
	<u>\$48,703</u>

In 2007 IDB was sued by a terminated registered representative alleging unfair, deceptive commercial practices in violation of good faith and fair dealing. Proceedings have been stayed based on representations by the terminated representative's counsel regarding his medical condition. Arbitration has now been scheduled for August 2017. Our counsel has served discovery, which the representative was to respond to by January 25, 2017, but has not yet produced. Independent legal counsel is unable to form a judgment that an unfavorable outcome is either "probable" or "remote" and, at this time, unable to estimate the amount or range of any possible loss.

The Company received a demand letter dated February 12, 2014 claiming that a registered representative of the Company, who was terminated in December 2008, stole money from alleged customers. Independent legal counsel advised the Company that it is too early to form an opinion whether an adverse result is either "probable" or "remote", however, there are several initial problems presented for these customers in proving their case. No claims have been filed to date against IDB.

In 2016 IDB settled arbitration cases with two clients for alleged unauthorized trading in certain ETFs. IDB signed a FINRA AWC for a fine of \$50,000 plus restitution to clients in the amount of \$39,060 plus interest. Any amounts not paid in 2016 have been accrued.

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**NOTES TO FINANCIAL STATEMENTS**  
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**7. COMMITMENTS AND CONTINGENCIES (continued)**

The Company maintains cash balances at a large national bank, which is insured by the Federal Deposit Insurance Corporation up to \$250,000. The balances may exceed that amount at any time. However, management does not believe the money to be at risk.

The Company maintains accounts at its Clearing Broker. The accounts contain cash and securities. Balances are insured up to \$500,000 (with a limit of \$250,000 for cash) by the Securities Investor Protection Corporation. The balances may exceed these amounts at any given time, but management believes the money to not be at risk.

**8. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, The Company's Clearing Broker extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. As a result of guaranteeing customer margin balances carried by the Clearing Broker, the Company may be exposed to off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses the customer may incur. At December 31, 2016, margin accounts guaranteed by the Company were not material.

The Company is also exposed to off-balance sheet risk of loss on transactions during the period from the trade date to the settlement date, which is generally three business days. If the customer fails to satisfy its contractual obligations to the Clearing Broker, the Company may have to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. Settlement of these transactions is not expected to have a material effect on the Company's financial position.

The Company seeks to control the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and the Clearing Broker's 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.

The Company maintains cash and other deposits with banks and brokers, and, at times, such deposits exceed applicable insurance limits. The Company reduces its exposure to credit risk by maintaining such deposits with high quality financial institutions.

**9. NET CAPITAL REQUIREMENTS**

The Company's minimum net capital requirement under Rule 15c3-1 of the Securities and Exchange Commission is the greater of 6 2/3% of aggregate indebtedness (\$374,060 at December 31, 2016) or \$100,000. The Company operates pursuant to the (k)(2)(ii) exemption under SEC Rule 15c3-3 and does not hold customer funds or securities. The Company is, therefore, exempt from the reserve formula calculations and possession or control computations. At December 31, 2016, the net capital, as computed, was \$254,595. Consequently, the Company had excess net capital of \$154,595. At December 31, 2016, the percentage of aggregate indebtedness to net capital was approximately 146.9% versus an allowable percentage of 1500%.

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**10. RECONCILIATION OF NET CAPITAL**

There were no differences in the net capital computation shown on the Company's December 31, 2016 FOCUS IIA, and the computation shown on the attached Computation and Reconciliation of Net Capital pursuant to SEC Rule 15c3-1.

**11. SUBSEQUENT EVENTS**

In preparing these financial statements, the Management of the Company has evaluated events and transactions for potential recognition or disclosure through March 8, 2017, the date the financial statements were available to be issued.