



Annual Report

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Siebert
www.siebert.com



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Our Mission

Our mission is to create a strong financial future for our clients, shareholders, and strategic partners. By leveraging Siebert's strong legacy while investing in future technologies, we are committed to building a company that values our clients, shareholders, and employees.

Siebert Expansion

JANUARY 2020 Acquisition of StockCross

Acquired StockCross, a self-clearing broker-dealer, which provides numerous new business lines, additional retail customer assets, and the ability for Siebert to vertically integrate.



MAY 2020 Partnered with InvestCloud

InvestCloud will provide a variety of enhancements and upgrades to our online and mobile client experience, including a state-of-the-art Robo Advisor product.



NOVEMBER 2020 New Leaders of Securities Finance Group

Hired new leaders of Securities Finance Group, Anthony Palmeri and Jerry Losurdo. Business line achieved record months shortly thereafter.



DECEMBER 2020 Admitted As Member of Euroclear

Admission into Euroclear enhances Siebert's clearing capabilities and allows offering of additional services to clients and counterparties.



Company Structure

Key Business Lines

Siebert Financial Corp.

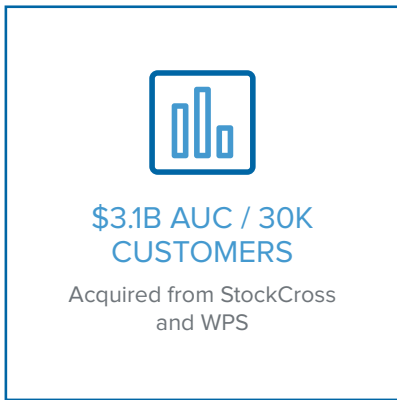
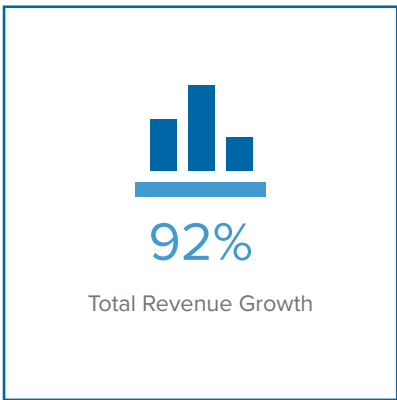
| Clearing Broker - Dealer (BD) | Prime Brokerage (BD) | Investment Advisor (RIA) | Insurance Agency |
|---------------------------------------|--------------------------------|---------------------------------|--|
| Muriel Siebert & Co., Inc. | WPS Prime Services, LLC | Siebert AdvisorNXT, Inc. | Park Wilshire Companies, Inc. |
| Clearing Operations | Prime Brokerage | Managed Money | Fixed Annuities |
| Securities Finance | | Self - Directed | Personal Property, Commercial, Life & Disability |
| Market Making | | | |
| Corporate Services | | | |
| Retail Brokerage | | | |
| 2020 Revenue \$39 Million | 2020 Revenue \$14 Million | 2020 Revenue \$1 Million | 2020 Revenue \$1 Million |



Key Metrics

New acquisitions and organic growth in key business lines generated impressive performance¹.

Impressive Performance and Exciting Growth



¹ All growth calculations refer to the year-over-year change from 2019 to 2020.
² Comparison represents change from full year of 2019 (prior to acquisition) vs. 2020.



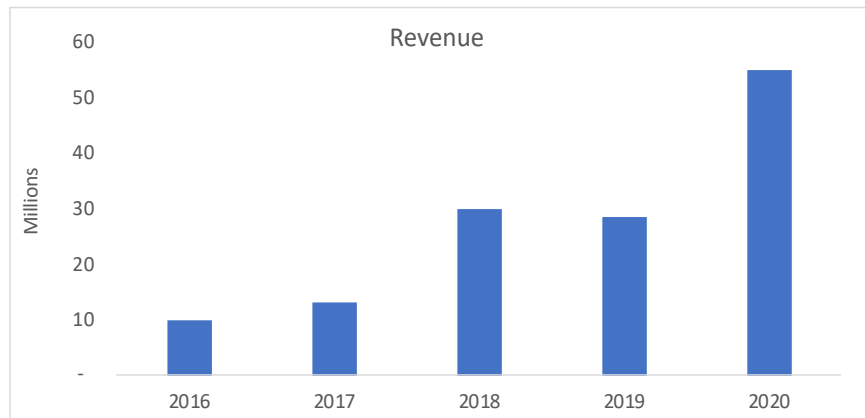
Gloria E. Gebbia
CONTROLLING SHAREHOLDER
AND BOARD MEMBER

Exceptional Performance & Continued Growth

To my fellow shareholders,

Despite a challenging year, I am pleased to report that Siebert delivered another year of strong results and momentum across our company. We grew revenue in 2020 by \$26.3 million or 92% from 2019, which was driven by both the performance of our StockCross and WPS acquisitions as well as the organic growth of our key business lines. During the year we also made numerous investments in personnel and initiatives to accelerate growth.

We have made numerous key investments in personnel and initiatives to accelerate growth.



Performance of Key Acquisitions

StockCross Financial Services, Inc. (“StockCross”)

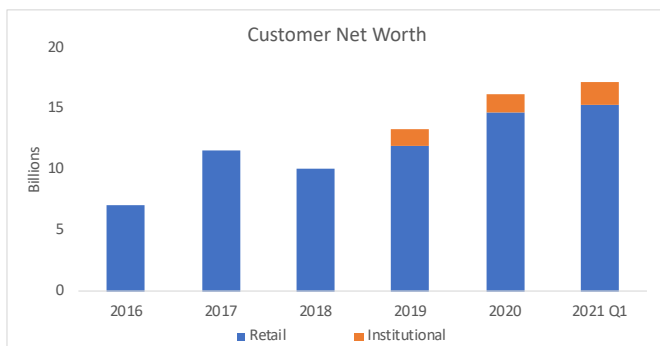
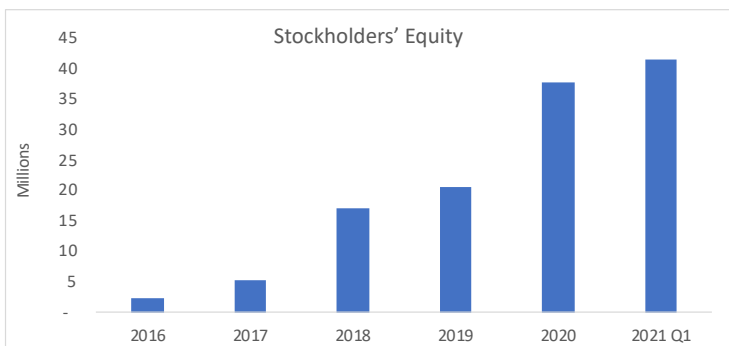
At the beginning of 2020, we acquired StockCross, a clearing broker-dealer and merged it into Muriel Siebert & Co., Inc (“MSCO”). StockCross provides an array of new business lines such as clearing operations, securities finance, market making, corporate services, and IRA custodianship. StockCross added broker-dealer self-clearing capabilities and an additional strong retail client base to Siebert. The service personnel and depth of management of the combined companies enabled us to enhance the experience of our clients and increase operational excellence.

StockCross contributed to our existing revenue streams and brought on incremental business lines that added revenue of \$7.5 million in 2020, which included approximately \$0.8 million related to corporate services. Further, StockCross added \$1.5 billion in retail customer net worth and 30,000 retail accounts. We continue to explore opportunities to capitalize on the business lines acquired from StockCross.

WPS Prime Services, LLC (“WPS”)

At the end of 2019, we acquired WPS, an established institutional brokerage, and it has performed incredibly well in its first year under our ownership.

Initiatives to grow WPS’ client base as well as expand revenue from current clients helped to deliver 15% revenue growth versus 2019. We have also improved WPS’ operational efficiency and reduced fixed costs related to technology and office space. As a result of these initiatives, WPS achieved operating income of approximately \$1.3 million in 2020, which compares to an operating loss of \$1.0 million in 2019 prior to acquisition of WPS.



New Business Developments

New Leaders of Securities Finance Group

Another exciting development was the hiring of Anthony Palmeri and Jerry Losurdo along with their team into our Securities Finance Group in November 2020. This very dynamic team immediately began building upon the success of our existing division while leveraging their industry-leading expertise and connections to further drive results.

We are seeing the impact of the new leadership as the Securities Finance Group grew revenue from \$1.6 million in 2019, prior to Siebert’s acquisition of the business line, to \$4.0 million in 2020, and is currently on track to exceed this growth in 2021. The continued expansion of this area is a key initiative for Siebert in 2021.

**150%
INCREASE**

**SECURITIES
FINANCE REVENUE
FROM 2019 TO 2020**

Expansion of Clearing Operations

In December 2020, MSCO was admitted as a member of Euroclear. The admission into Euroclear is a strategic step to enhance our clearing capabilities and provide additional services to our clients and counterparties. We anticipate finalizing our Euroclear offerings in 2021. We are in the process of expanding our clearing services in the U.S. by acting as a correspondent clearing firm for other broker-dealers and anticipate being able to offer these services in 2021.

InvestCloud Partnership

We continue to partner with InvestCloud, an innovative tech provider of flexible and fully integrated digital apps for financial services, to provide a variety of enhancements to our online and mobile client experience, including a state-of-the-art Robo Advisor product. We will have some exciting announcements to share in the future as we explore opportunities to develop technologies to meet the needs of our clients.

COVID-19

2020 brought the challenges of COVID-19 and we are very thankful for the healthcare specialists, first responders and all those on the front line in every industry helping those who have been affected during this challenging time. I am very proud of our employees and we have been able to continue to meet the needs of our clients through our technology-based platforms and services. To protect our employees, clients and business partners, we implemented remote work arrangements for nearly 100% of our employees, restricted business travel and limited access to our retail branches.

As of the date of this letter, we have reopened our branch offices while ensuring compliance with federal, state, and local laws as well as health and safety guidelines. We have taken numerous steps to ensure that our employees and customers are operating in a safe environment and will continue to respond appropriately to new developments.

We continue
to explore
opportunities
to develop
technologies
to meet the
needs of our
clients.

Closing

We have come a long way since our management team acquired Siebert at the end of 2016 and I am excited for the future. Muriel Siebert built an incredible legacy and we are thrilled to have the opportunity to build upon that legacy. Our dedicated management team continues to capitalize on opportunities, hire key talent, and make this company a top-tier financial services firm.

None of our achievements in 2020 would have been possible without our incredible team of employees. I am very proud of our employees' hard work and dedication that continues to move this company forward. Throughout the COVID-19 crisis, Siebert's employees continued to amaze me in their incredible ability to adapt, take on new roles and challenges, and provide exceptional service to our clients.

We will continue to evolve as a company while focusing on our vision of creating a strong financial future for our clients, shareholders, and strategic partners. By leveraging Siebert's strong legacy while investing in future technologies, we are committed to building a company that values our clients, shareholders, and employees.



Gloria E. Gebbia
CONTROLLING SHAREHOLDER
AND BOARD MEMBER

Forward-Looking Statements

The statements contained in this Annual Report to Shareholders that are not historical facts, including statements about our beliefs and expectations, are “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements preceded by, followed by or that include the words “may,” “could,” “would,” “should,” “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project,” “intend” and similar words or expressions. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements.

These forward-looking statements, which reflect our management’s beliefs, objectives, and expectations as of the date hereof, are based on the best judgment of our management. All forward-looking statements speak only as of the date on which they are made. Such forward-looking statements are subject to certain risks, uncertainties and assumptions relating to factors that could cause actual results to differ materially from those anticipated in such statements, including, without limitation, the following: economic, social and political conditions, global economic downturns resulting from extraordinary events such as the COVID-19 pandemic and other securities industry risks; interest rate risks; liquidity risks; credit risk with clients and counter parties; risk of liability for errors in clearing functions; systemic risk; systems failures, delays and capacity constraints; network security risks; competition; reliance on external service providers; new laws and regulations affecting our business; net capital requirements; extensive regulation, regulatory uncertainties and legal matters; failure to maintain relationships with employees, customers, business partners or governmental entities; the inability to achieve synergies or to implement integration plans and other consequences associated with risks and uncertainties detailed in our filings with the SEC, including our most recent filings on Forms 10-K and 10-Q.

We caution that the foregoing list of factors is not exclusive, and new factors may emerge, or changes to the foregoing factors may occur, that could impact our business. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise, except to the extent required by the federal securities laws.

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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2020

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-5703

Siebert Financial Corp.

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of incorporation or
organization)

11-1796714
(I.R.S. Employer Identification No.)

120 Wall Street, New York, NY
(Address of principal executive offices)

10005
(Zip Code)

(212) 644-2400

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Exchange Act:

| | | |
|---|----------------------------------|---|
| Title of each class Common Stock - \$0.01 par value | Trading Symbol(s) SIEB | Name of each exchange on which registered The Nasdaq Capital Market |
|---|----------------------------------|---|

Securities registered under Section 12(g) of the Exchange Act:

NONE

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

The aggregate market value of the Common Stock held by non-affiliates of the registrant (based upon the last sale price of the Common Stock reported on the Nasdaq Capital Market as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2020), was approximately \$43,170,000.

The number of shares of the registrant's outstanding Common Stock, as of March 1, 2021, was 31,283,364 shares.

Documents Incorporated by Reference: None

SIEBERT FINANCIAL CORP.

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Forward-Looking Statements

For purposes of this Annual Report on Form 10-K, the terms “Siebert,” “Company,” “we,” “us” and “our” refer to Siebert Financial Corp., and its subsidiaries collectively, unless the context otherwise requires.

The statements contained throughout this Annual Report on Form 10-K, including any documents incorporated by reference, that are not historical facts, including statements about our beliefs and expectations, are “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements preceded by, followed by or that include the words “may,” “could,” “would,” “should,” “believe,” “expect,” “anticipate,” “plan,” “estimate,” “target,” “project,” “intend” and similar words or expressions. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements.

These forward-looking statements, which reflect the Company’s beliefs, objectives, and expectations as of the date hereof, are based on the best judgement of management. All forward-looking statements speak only as of the date on which they are made. Such forward-looking statements are subject to certain risks, uncertainties and assumptions relating to factors that could cause actual results to differ materially from those anticipated in such statements, including, without limitation, the following: economic, social and political conditions, global economic downturns resulting from extraordinary events such as the COVID-19 pandemic and other securities industry risks; interest rate risks; liquidity risks; credit risk with clients and counterparties; risk of liability for errors in clearing functions; systemic risk; systems failures, delays and capacity constraints; network security risks; competition; reliance on external service providers; new laws and regulations affecting our business; net capital requirements; extensive regulation, regulatory uncertainties and legal matters; failure to maintain relationships with employees, customers, business partners or governmental entities; the inability to achieve synergies or to implement integration plans and other consequences associated with risks and uncertainties detailed in under *Item 1A. Risk Factors* of this Form 10-K as well as in our filings with the SEC.

We caution that the foregoing list of factors is not exclusive, and new factors may emerge, or changes to the foregoing factors may occur, that could impact our business. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise, except to the extent required by the federal securities laws.

PART I

ITEM 1. BUSINESS

Overview of Company

Siebert Financial Corp., a New York corporation, incorporated in 1934, is a holding company that conducts the following lines of business through its wholly-owned subsidiaries:

- Retail brokerage business through Muriel Siebert & Co., Inc. (“MSCO”), a Delaware corporation and broker-dealer registered with the U.S. Securities and Exchange Commission (“SEC”)
- Investment advisory services through Siebert AdvisorNXT, Inc. (“SNXT”), a New York corporation registered with the SEC as a Registered Investment Advisor (“RIA”) under the Investment Advisers Act of 1940, as amended (“Advisers Act”)
- Insurance services through Park Wilshire Companies, Inc. (“PWC”), a Texas corporation and licensed insurance agency
- Robo-advisory technology development through Siebert Technologies, LLC. (“STCH”), a Nevada limited liability company
- Prime brokerage services through WPS Prime Services, LLC (“WPS”), a Delaware limited liability company and a broker-dealer registered with the SEC
- StockCross Digital Solutions, Ltd. (“STXD”), an inactive subsidiary headquartered in Bermuda

Our headquarters are located at 120 Wall Street, New York, New York, 10005, with primary operations in New Jersey, Florida, and California. Our phone number is (212) 644-2400 and our Internet address is www.siebert.com. We have 18 branch offices throughout the U.S. and clients around the world. Our SEC filings are available through our website at www.siebert.com, where investors are able to obtain copies of our public filings free of charge. Our common stock, par value \$.01 per share (“Common Stock”) trades on the Nasdaq Capital Market under the symbol “SIEB.”

Muriel Siebert & Co., Inc.

Discount Brokerage and Related Services

MSCO became a discount broker on May 1, 1975 and is a member of The New York Stock Exchange, Inc. (“NYSE”). The focus of MSCO’s discount brokerage business is to serve retail clients seeking a wide selection of quality investment services, including traditional trading through a broker on the telephone or via the Internet.

As of December 31, 2019, MSCO cleared part of its securities transactions on a fully disclosed basis through its affiliate StockCross Financial Services, Inc. (“StockCross”), as well as National Financial Services Corp. (“NFS”), a wholly-owned subsidiary of Fidelity Investments. MSCO’s clearing agreement contract with NFS which was set to expire in July 2017 has been extended on a month-to-month basis.

As of January 1, 2020, StockCross was merged with and into MSCO, and consequently all clearing services provided by StockCross were performed by MSCO. Upon the merger with StockCross, MSCO became a self-clearing broker-dealer and added the business lines of securities lending, equity stock plan services, and market making.

MSCO serves customers who generally make their own equity investment decisions by offering a number of value-added services, including easy access to account information.

Independent Retail Execution Services

MSCO and its clearing firms monitor order flow in an effort to ensure that customers are getting the best possible trade executions.

All equity orders are routed in a manner intended to afford MSCO’s customers the opportunity for price improvement on all orders. MSCO also offers customers execution services through various market centers for an additional fee, providing customers access to numerous market centers before and after regular market hours.

Customers may also indicate online interest in buying or selling fixed income securities, including municipal bonds, corporate bonds, mortgage-backed securities, government sponsored enterprises, unit investment trusts or certificates of deposit. These transactions are serviced by MSCO’s registered representatives.

Retail Customer Service

MSCO believes that its superior customer service enhances its ability to compete with larger discount brokerage firms and provides retail customers with personal service via toll-free access to dedicated customer service personnel for all of its products and services. Customer service personnel are located in each of MSCO's branch offices. MSCO uses a variety of customer relationship management systems that enables representatives, no matter where located, to review a customer's requests.

Retirement Accounts

MSCO offers customers a variety of self-directed retirement accounts. Each IRA, SEP IRA, ROTH IRA, 401(k) and KEOGH account can be invested in mutual funds, stocks, bonds and other qualified investments in a consolidated account.

Customer Financing

Customer margin accounts are carried whereby money is lent to customers for a portion of the market value of marginable securities held in the customer's account. Margin loans are collateralized by these securities. Customers also may sell securities short in a margin account, subject to minimum equity and applicable margin requirements, and the availability of such securities to be borrowed. In permitting customers to engage in margin financing, short sale or any other transaction, MSCO assumes the risk of its customers' failure to meet their obligations in the event of adverse changes in the market affecting the value of the margined securities positions. MSCO and NFS reserve the right to set margin requirements higher than those established by the Federal Reserve System.

MSCO has established policies with respect to maximum purchase commitments for new customers or customers with inadequate collateral to support a requested purchase. Managers have some flexibility in the allowance of certain transactions. When transactions occur outside normal guidelines, MSCO monitors accounts closely until their payment obligations are completed; if the customer does not meet the commitment, MSCO takes steps to close out the position and minimize any loss. In the last five years, MSCO has not had any significant losses as a result of customers failing to meet commitments.

Information and Communications Systems

MSCO relies heavily on its data technology platform and the platform provided by its clearing agents. These platforms offer interfaces to MSCO's clearing service providers' computing systems where all customer account records are kept and are accessible through MSCO's data technology platform. MSCO's systems also utilize browser-based access and other types of data communications. MSCO's representatives use NFS systems, by way of MSCO's data technology platform, to perform daily operational functions which include trade entry, trade reporting, clearing-related activities, risk management and account maintenance.

MSCO's data technology platform offers services used in direct relation to customer activities as well as support for corporate use. Some of these services include email and messaging, market data systems and third-party trading systems, business productivity tools and customer relationship management systems. MSCO's data network is designed with redundancies in case a significant business disruption occurs.

MSCO's voice network offers a call center feature that can route and queue calls for certain departments within the organization. Additionally, the system's call manager offers reporting and tracking features which enable staff to determine how calls are being managed such as time on hold, call duration and total calls by agent.

To ensure reliability and to conform to regulatory requirements related to business continuity, MSCO maintains backup systems and backup data, leverages cloud-based technology, and has a full-time offsite disaster recovery site to ensure business continuity during a potential wide-spread disruption. However, despite the preventive and protective measures in place, in the event of a wide-spread disruption, MSCO's ability to satisfy the obligations to customers and other securities firms may be significantly hampered or completely disrupted. For more information regarding our business continuity plan, refer to the Business Continuity Statement on our website.

Client Service and Support

We provide retail customers with personal service via toll-free access to dedicated customer service personnel for all of our products and services. Customer service personnel are located in all of our branch offices across the country.

We use a variety of customer relationship management systems and utilize telephone routing systems to direct customers to the first available customer service representative regardless of branch office location to reduce wait times. We serve our customers through our phone and in-person outlets, and customers can access their account information and retrieve various forms on our website.

Cybersecurity

Cybersecurity presents significant challenges to the business community in general, as well as to the financial services industry. Increasingly, bad actors, both domestically and internationally, attempt to steal personal data and/or interrupt the normal functioning of businesses through accessing individuals' and companies' files and equipment connected to the Internet. Recently, intruders have become increasingly sophisticated and use deceptive methods to steal funds and personally identifiable information which they either take for their own purposes, release to the Internet, or hold for ransom. Regulators are increasingly requiring companies to provide more advanced levels of cybersecurity measures. We continue to maintain systems and ongoing planning measures to prevent any such attack from disrupting our services to clients as well as to prevent any loss of data concerning our clients, their financial affairs, and company-privileged information. We contract cybersecurity consultants as well as other vendors to oversee detection and defense from such attacks. *See "Item 1A. Risk Factors – We may be exposed to damage to our business or our reputation by cybersecurity breaches" for additional detail.*

Siebert AdvisorNXT, Inc.

SNXT offers customers our proprietary robo-advisory technology that trading algorithms initially developed by STCH. This technology provides clients with cost-efficient, competitively priced, automated wealth management solutions intended to maximize portfolio returns based on their specific risk tolerance. The platform utilizes Nobel Prize-winning Modern Portfolio Theory ("MPT") to create optimal portfolios for each client. We provide web-based tools to enable clients to monitor and interact with the Robo-Advisor's automated portfolio manager application. In addition, clients who opt for the "Premier" line of service also have access to traditional wealth managers to supplement the Robo-Advisor where appropriate.

MPT was developed by the economist Harry Markowitz and optimizes expected portfolio returns for specific levels of risk. The technique requires a series of calculations in which all possible combinations of potential asset classes are evaluated to determine the optimal blend of allocations for each individual client. Due to the complexity of the analysis, services like this have historically only been available to clients with large account balances who were willing to pay high fees. By combining state-of-the-art technology with rigorous quantitative research, we provide the same quality of service to clients with smaller account sizes at a lower cost.

The Robo-Advisor selects low-cost, well-managed, exchange-traded funds ("ETFs") and exchange-traded notes ("ETNs") that represent the asset classes that provide clients the necessary risk-adjusted exposure given current market conditions. In order to determine a client's risk tolerance, a prospective client answers a series of objective questions posed in the form of an interactive digital interview. Once a client's risk tolerance is determined, the Robo-Advisor's algorithm utilizes MPT to create a theoretically optimal allocation across a diverse selection of asset classes, thus tailoring a portfolio to a client's specific investment objectives and risk tolerance. The Robo-Advisor continuously monitors and periodically rebalances portfolios to address changes in market and economic conditions.

We plan to add new features and functionality to enhance this platform. An upgrade to the Robo-Advisor is planned to launch in 2021, complete with a fully integrated mobile app targeting a new generation of investors.

Park Wilshire Companies, Inc.

PWC is a full-service insurance agency founded in 2010 that we acquired in March 2018. Our acquisition of PWC has expanded our product offering to include various insurance products such as fixed annuities and property and casualty insurance.

Siebert Technologies, LLC

In August 2018, we acquired STCH which is a technology company initially tasked with developing a Robo-Advisor platform. With the acquisition of STCH, we expanded our products and services by offering a Robo-Advisor through SNXT that provides clients with an automated wealth management solution intended to maximize portfolio returns based on a client's specific risk tolerance. In September 2019, the name of this subsidiary was changed from KCA Technologies, LLC. to Siebert Technologies, LLC.

WPS Prime Services, LLC

In December 2019, we acquired WPS, a leading prime brokerage services provider. Founded in 2007, WPS is a prime brokerage business focused on providing institutional quality services to hedge funds. With a focus on capital raising and cutting-edge technology, WPS has created a platform which clients can leverage in seeking to grow their businesses. This platform offers clients a scalable solution for prime brokerage, capital raising solutions, automated separately managed account infrastructure, exceptional client service and access to custody and clearing partners. WPS' comprehensive global platform that includes institutional equity, outsourced trading, automated allocation technology and sophisticated portfolio reporting.

WPS clears its securities transactions on a fully disclosed basis through its clearing broker-dealers, The Goldman Sachs Group, Inc. ("Goldman Sachs") and Pershing LLC ("Pershing"), and are operating on a month-to-month basis with these entities.

StockCross Financial Services, Inc.

In January 2019, we acquired approximately 15% ownership of StockCross, a clearing broker-dealer that was under common ownership with Siebert. Effective January 1, 2020, we acquired the remaining 85% of StockCross' outstanding shares, and StockCross was merged with and into MSCO. As of January 1, 2020, all clearing services provided by StockCross were performed by MSCO.

The acquisition of StockCross provides new business lines such as market-making, equity stock plan services, self-clearing and custody, IRA custodianship and securities lending. Merging StockCross into MSCO increases our total net capital and assets under management as well as adds two retail branches. StockCross provides an equity stock plan service business line that offers integrated and comprehensive solutions to corporate service clients and employee participants.

Hired New Leaders of Securities Finance Group

In November 2020, we hired Anthony Palmeri and Jerry Losurdo to lead our Securities Finance Group, a division which consists primarily of our stock borrow / stock loan and related services. Mr. Palmeri and Mr. Losurdo bring their industry expertise and connections to the current strength of the division, and we have already begun to see positive results under their leadership. During 2020, we have increased the quarter-over-quarter revenue of the division as well as added a variety of new counterparties.

Russell 2000

As part of the 2019 Russell U.S. Indexes reconstitution, our stock was included in the Russell 2000[®] Index, effective after the U.S. market opened on July 1, 2019. Russell U.S. Indexes are widely used by investment managers and institutional investors for index funds and as benchmarks for active investment strategies. Approximately \$9 trillion in assets are benchmarked against Russell U.S. Indexes. Russell Indexes are part of FTSE Russell, a leading global index provider.

Competition

We encounter significant competition from full-commission, online and discount brokerage firms, including zero commission firms, as well as from financial institutions, mutual fund sponsors and other organizations. Although there has been consolidation in the industry in both the online and traditional brokerage business during recent years, we believe that additional competitors such as banks, insurance companies, providers of online financial and information services, and others will continue to be attracted to the brokerage industry. We compete with a wide variety of vendors of financial services for the same customers; however, our success in the financial services industry is a result of our high-quality customer service, responsiveness, products offered, and excellent executions.

Regulations

The securities industry in the U.S. is subject to extensive regulation under both federal and state laws. The SEC is the federal agency charged with administration of the federal securities laws. MSCO and WPS are registered as broker-dealers with the SEC. MSCO is a member of the NYSE and the Financial Industry Regulatory Authority ("FINRA"). Much of the regulation of broker-dealers has been delegated to self-regulatory organizations ("SROs"), principally FINRA and national securities exchanges such as the NYSE, which is MSCO's primary regulator with

respect to financial and operational compliance. These SROs adopt rules (subject to approval by the SEC) governing the industry and conduct periodic examinations of broker-dealers. Securities firms are also subject to regulation by state securities authorities in the states in which they do business. MSCO is registered as a broker-dealer in 50 states, the District of Columbia, and Puerto Rico. These regulations affect our business operations and impose capital, client protection, and market conduct requirements.

Dodd-Frank Act of 2010

As a result of the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 (“Dodd-Frank”), the adoption of implementing regulations by the federal regulatory agencies as well as other recent regulatory reforms, we have experienced significant changes in the laws and regulations that apply to us, how we are regulated, and regulatory expectations in the areas of compliance, risk management, corporate governance, operations, capital and liquidity.

Regulation Best Interest

Pursuant to the Dodd-Frank Act, the SEC was charged with considering whether broker-dealers should be subject to a standard of care similar to the fiduciary standard applicable to RIAs. In June 2019, the SEC adopted a package of rulemakings and interpretations related to the provision of advice by broker-dealers and investment advisers, including Regulation Best Interest and Form CRS. Among other things, Regulation Best Interest requires a broker-dealer to act in the best interest of a retail customer when making a recommendation to that customer of any securities transaction or investment strategy involving securities. Form CRS requires that broker-dealers and investment advisers provide retail investors with a brief summary document containing simple, easy-to-understand information about the nature of the relationship between the parties. Regulation Best Interest and Form CRS have a compliance date of June 30, 2020.

Regulation Best Interest Rules have impacted the conduct of our business, especially with respect to our business with our retail clients. The need for enhanced documentation for recommendations of securities transactions to broker-dealer retail clients as well as the increased supervision of sales practices and transactions have increased the amount of record-keeping and training for our sales staff. The related new rules and procedures may bring increased costs associated with compliance and enhanced technology.

We reviewed our business practices and operating models in light of the Regulation Best Interest Rules and made structural, technological and operational changes to our business leading up to the effective date of June 30, 2020 for compliance with the Regulation Best Interest Rules. As a result, we conducted thorough training of all our employees with respect to the requirements of Regulation Best Interest. Additionally, we created the Regulation Best Interest Rule’s required documents and completed each of the required mailings (both electronic and conventional) prior to the effective date. We believe that the changes made to our business processes will result in compliance with these new requirements. As business continues to be conducted under the Regulation Best Interest Rules, it is likely that additional changes may be necessary. It is noteworthy that the newly elected Congress is calling for additional regulation of the securities industry and calling for full fiduciary rules in lieu of Regulation Best Interest.

Conduct and Training

The principal purpose of regulation and discipline of broker-dealers is the protection of customers and the securities markets. The regulations to which broker-dealers are subject cover all aspects of the securities business, including training of personnel, sales methods, trading practices among broker-dealers, uses and safekeeping of customers’ funds and securities, capital structure of securities firms, record keeping, fee arrangements, disclosure to clients, and the conduct of directors, officers and employees. Additional legislation, changes in rules promulgated by the SEC and by SROs or changes in the interpretation or enforcement of existing laws and rules may directly affect the method of operation and profitability of broker-dealers. The SEC, SROs and state securities authorities may conduct administrative proceedings which can result in censure, fine, cease and desist orders or suspension or expulsion of a broker-dealer, its officers or its employees.

SIPC

As a registered broker-dealer and FINRA member organization, MSCO is required by federal law to belong to the Securities Investor Protection Corporation (“SIPC”) which provides, in the event of the liquidation of a broker-dealer, protection for securities held in customer accounts held by the firm of up to \$500,000 per customer,

subject to a limitation of \$250,000 on claims for cash balances. SIPC is principally funded through assessments on registered broker-dealers. In addition, NFS has purchased from private insurers additional account protection in the amount of \$1 billion in the event of liquidation up to the net asset value, as defined, of each account. MSCO maintains \$50 million additional account protection above SIPC coverage. Equities, bonds, mutual funds and money market funds are included at net asset value for purposes of SIPC protection and the additional protection. Neither SIPC protection nor the additional protection insures against fluctuations in the market value of securities.

MSRB

MSCO is also authorized by the Municipal Securities Rulemaking Board (“MSRB”) to affect transactions in municipal securities on behalf of its customers and has obtained certain additional registrations with the SEC and state regulatory agencies necessary to permit it to engage in certain other activities incidental to its brokerage business.

Margin Lending

Margin lending activities are subject to limitations imposed by regulations of the Federal Reserve System and FINRA. In general, these regulations provide that, in the event of a significant decline in the value of securities collateralizing a margin account, we are required to obtain additional collateral from the borrower or liquidate securities positions. Margin lending arranged by MSCO through third parties is subject to the margin rules of the Board of Governors of the Federal Reserve System and the NYSE. Under such rules, broker-dealers are limited in the amount they may lend in connection with certain purchases and short sales of securities and are also required to impose certain maintenance requirements on the amount of securities and cash held in margin accounts. In addition, those rules and rules of the Chicago Board Options Exchange govern the amount of margin customers must provide and maintain in writing uncovered options.

Investment Advisers Act of 1940

SNXT is registered with the SEC as an investment adviser pursuant to the Advisers Act. The Advisers Act, together with the SEC’s regulations and interpretations thereunder, is a highly prescriptive regulatory statute. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from fines and censures to termination of an adviser’s registration and, in the case of willful violations, can refer a matter to the United States Department of Justice for criminal prosecution.

Under the Advisers Act, an investment adviser (whether or not registered under the Advisers Act) owes fiduciary duties to its clients. These duties impose standards, requirements and limitations on, among other things, trading for proprietary, personal and client accounts; allocations of investment opportunities among clients; use of “soft dollar arrangements,” a practice that involves using client brokerage commissions to purchase research or other services that help managers make investment decisions; execution of transactions; and recommendations to clients.

As a RIA, SNXT is subject to additional requirements that cover, among other things, disclosure of information about its business to clients; maintenance of written policies and procedures; maintenance of extensive books and records; restrictions on the types of fees SNXT may charge; custody of client assets; client privacy; advertising; and solicitation of clients. The SEC has legal authority to inspect any investment adviser and typically inspects a RIA periodically to determine whether the adviser is conducting its activities in compliance with (i) applicable laws and regulations, (ii) disclosures made to clients and (iii) adequate systems, policies and procedures reasonably designed to prevent and detect violations.

Section 28(e) of the Exchange Act provides a “safe harbor” to investment managers who use commission dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the manager in the performance of investment decision-making responsibilities. SNXT, as a matter of policy, does not use “soft dollars” and as such, it has no incentive to select or recommend a broker or dealer based on any interest in receiving research or related services. Rather, as a fiduciary, SNXT selects brokers based on its clients’ interests in receiving best execution.

Bank Secrecy Act of 1970

SNXT conducts financial services activities that are subject to the Bank Secrecy Act of 1970 (“BSA”), as amended by the USA PATRIOT Act of 2001 (“PATRIOT Act”), which require financial institutions to develop and implement programs reasonably designed to achieve compliance with these regulations. The BSA and PATRIOT Act

include a variety of monitoring, recordkeeping and reporting requirements (such as currency transaction reporting and suspicious activity reporting) as well as identity verification and client due diligence requirements, which are intended to detect, report and/or prevent money laundering, and the financing of terrorism. In addition, SNXT is subject to U.S. sanctions programs administered by the Office of Foreign Assets Control.

Net Capital and Best Execution

As registered broker-dealers, MSCO and WPS are subject to the requirements of the Exchange Act relating to broker-dealers such as minimum net capital requirements under the SEC Uniform Net Capital Rule (Rule 15c3-1). MSCO is subject to “best execution” requirements for client trades under SEC guidelines and FINRA rules, and segregation of fully paid client funds and securities under the SEC Customer Protection Rule (Rule 15c3-3), administered by the SEC and FINRA.

Net capital rules are designed to protect clients, counterparties and creditors by requiring a broker-dealer to have sufficient liquid resources available to satisfy its financial obligations. Net capital is a measure of a broker-dealer’s readily available liquid assets, reduced by its total liabilities other than approved subordinated debt. Under the SEC Uniform Net Capital Rule, a broker-dealer may not repay any subordinated borrowings, pay cash dividends or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount below required levels. Failure to maintain the required regulatory net capital may subject a firm to suspension or expulsion by the NYSE or FINRA, as well as certain punitive actions by the SEC and other regulatory bodies, which ultimately could require a firm’s liquidation.

As explained in SEC guidelines and FINRA rules, brokers are required to seek the “best execution” reasonably available for their clients’ orders. In part, this requires brokers to use reasonable diligence so that the price to the client is as favorable as possible under prevailing market conditions. MSCO sends client orders to a number of market centers, including market makers and exchanges, which encourages competition and ensures redundancy. For non-directed client orders, it is our policy to route orders to market centers based on a number of factors that are more fully discussed in the Supplemental Materials of FINRA Rule 5310, including, where applicable, but not necessarily limited to, speed of execution, price improvement opportunities, differences in price disimprovement, likelihood of executions, the marketability of the order, size guarantees, service levels and support, the reliability of order handling systems, client needs and expectations, transaction costs, and whether the firm will receive remuneration for routing order flow to such market centers. Price improvement is available under certain market conditions and for certain order types and we regularly monitor executions to ensure best execution standards are met.

Consumer Financial Information Privacy

In providing services to clients, we manage, utilize and store sensitive and confidential client data, including personal data. As a result, we are subject to numerous laws and regulations designed to protect this information, such as U.S. federal and state laws governing the protection of personally identifiable information. These laws and regulations are increasing in complexity and number, change frequently and sometimes conflict. To the extent they are applicable to us, we must comply with federal and state information-related laws and regulations in the United States, including the Gramm-Leach-Bliley Act of 1999, SEC Regulation S-P, the Fair Credit Reporting Act of 1970, as amended, and Regulation S-ID, as well as the California Consumer Protection Act and further potential federal and state requirements.

Human Capital

Our success depends on our ability to attract, hire, retain and develop highly-skilled professionals in a variety of specialties, including finance, technology, compliance, business development, cybersecurity and management. Due to the complexity of our business, we compete for talent with other companies, both inside and outside of our industry, and in multiple geographical areas in the U.S.

Our human capital efforts focus on establishing a culture of service that emphasizes taking care of our employees, so they can take care of our clients. To that end, we seek employees who are approachable, proactive, collaborative, agile and innovative, and who share our commitment to excellence, integrity and service. As of March 1, 2021, we had 125 employees, one of whom was a corporate officer. None of our employees are represented by a union, and we believe that relations with our employees are good.

To maintain a high-caliber, values-driven workforce that is committed to our culture, we strive to offer total rewards, including compensation and benefits that position our company as an employer of choice. We design our

compensation to be competitive in the markets in which we compete, and closely monitor industry trends and practices to ensure we are able to attract and retain the personnel who are critical to our success. To support our employees' health and well-being, we offer competitive medical, dental and vision plans as well as other health benefits.

We believe in our employees' potential and provide training and development opportunities intended to maximize their performance and professional growth. We require all of our employees to complete courses in key regulatory areas, such as insider trading and anti-money laundering compliance.

We aim to provide a safe, inclusive environment for our employees, where they feel engaged in our business, supported in who they are and empowered to succeed. We are committed to providing a workplace that is free from violence, harassment and other unsafe or disruptive conditions, and require our personnel to attend regular training sessions and workshops on those topics. To promote safety during the COVID-19 pandemic, we have taken numerous steps to ensure that our employees and customers are operating in a safe environment by implementing measures such as social distancing, sanitizing workstations, temperature checks, requiring masks, and alternating staff.

ITEM 1A. RISK FACTORS

Regulatory Risks

Legislation has and may continue to result in changes to rules and regulations applicable to our business, which may negatively impact our business and financial results.

New laws, rules, regulations and guidance, or changes in the interpretation and enforcement of existing federal, state, foreign and self-regulatory organization (“SRO”) laws, rules, regulations and guidance may directly affect our business and the profitability of Siebert or the operation of specific business lines. In addition, new and changing laws, rules, regulation and guidance could result in limitations on the lines of business we conduct, modifications to our business practices, more stringent capital and liquidity requirements or other costs and could limit our ability to return capital to stockholders.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), enacted in 2010, required many federal agencies to adopt new rules and regulations applicable to the financial services industry and called for many studies regarding various industry practices. In particular, the Dodd-Frank Act gave the SEC discretion to adopt rules regarding standards of conduct for broker-dealers providing investment advice to retail customers.

The U.S. Department of Labor (“DOL”) has enacted regulations changing the definition of who is an investment advice fiduciary under the Employee Retirement Income Security Act of 1974 (“ERISA”), and how such advice can be provided to account holders in retirement accounts such as 401(k) plans and IRAs. The DOL’s final rule defining the term “fiduciary” and exemptions related to it in the context of ERISA and retirement accounts was vacated in June 2018 by the U.S. Court of Appeals for the Fifth Circuit. The SEC and several states then proposed heightened standard of conduct regulations, with the SEC adopting such regulations in June 2019.

The rules and interpretations adopted by the SEC in June 2019 include Regulation Best Interest and the new Form CRS Relationship Summary, which are intended to enhance the quality and transparency of retail investors’ relationships with broker-dealers and investment advisers. Regulation Best Interest enhances the broker-dealer standard of conduct beyond existing suitability obligations, requiring compliance with disclosure, care, conflict of interest and compliance obligations. The regulation requires that a broker-dealer or natural person who is an associated person of the broker-dealer shall act in the best interest of the retail customer at the time it makes a recommendation of any securities transaction or investment strategy involving securities, prioritizing the interests of the customer above any interests of the broker-dealer or its associated persons. Among other things, this requires the broker-dealer to mitigate conflicts of interest arising from financial incentives in selling securities products. The compliance date for Regulation Best Interest and Form CRS is June 30, 2020.

The new rules and processes related thereto will most likely involve increased costs, including, but not limited to, compliance costs associated with new or enhanced technology.

It is not possible to determine the extent of the impact of any new laws, regulations or initiatives that may be imposed, or whether any existing proposals will become law. Conformance with any new laws or regulations could make compliance more difficult and expensive and affect the manner in which we conduct business.

We are subject to extensive government regulation and to third party litigation risk and regulatory risk which could result in significant liabilities and reputational harm which, in turn, could materially adversely affect our business, results of operations and financial condition.

Our business is subject to extensive regulation in the U.S., at both the federal and state level. We are also subject to regulation by SROs and other regulatory bodies in the U.S., such as the SEC, the NYSE, FINRA, MSRB, the Commodity Futures Trading Commission (“CFTC”) and the National Futures Association (“NFA”). MSCO is registered as a broker-dealer in 50 states, the District of Columbia, and Puerto Rico. The regulations to which MSCO and WPS are subject as broker-dealers cover all aspects of the securities business including training of personnel, sales methods, trading practices, uses and safe keeping of customers’ funds and securities, capital structure, record keeping, fee arrangements, disclosure and the conduct of directors, officers and employees.

SNXT is registered as an investment adviser with the SEC under the Advisers Act, and its business is highly regulated. The Advisers Act imposes numerous obligations on RIAs, including fiduciary, record keeping, operational and disclosure obligations. Moreover, the Advisers Act grants broad administrative powers to regulatory agencies such as the SEC to regulate investment advisory businesses. If the SEC or other government agencies believe that

SNXT has failed to comply with applicable laws or regulations, these agencies have the power to impose fines, suspensions of a registrant and individual employees or other sanctions, which could include revocation of SNXT's registration under the Advisers Act. SNXT is also subject to the provisions and regulations of ERISA, to the extent that SNXT acts as a "fiduciary" under ERISA with respect to certain of its clients. ERISA and the applicable provisions of the federal tax laws impose a number of duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving the assets of each ERISA plan which is a client, as well as certain transactions by the fiduciaries (and certain other related parties) to such plans. Our subsidiaries, WPS and MSCO, are also regulated by the National Futures Association ("NFA") and function as a registered introducing broker.

The laws, rules and regulations, as well as governmental policies and accounting principles, governing our business and the financial services and banking industries generally have changed significantly over recent years and are expected to continue to do so. We cannot predict which changes in laws, rules, regulations, governmental policies or accounting principles will be adopted. Any changes in the laws, rules, regulations, governmental policies or accounting principles relating to our business could materially and adversely affect our business, results of operations and financial condition.

Additionally, like other participants in the financial services industry, we and our subsidiaries face the risks of lawsuits by clients and risks of regulatory proceeding against us. The outcome of regulatory proceedings and client lawsuits is uncertain and difficult to predict. An adverse resolution of any regulatory proceeding or client lawsuit against us could result in substantial costs or reputational harm to us. Further, adverse proceedings could have an adverse effect on our ability to retain key registered representatives, investment advisers and wealth managers, and to retain existing clients or attract new clients, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to net capital requirements.

The SEC, FINRA, and various other securities and commodities exchanges and other regulatory bodies in the U.S. have rules with respect to net capital requirements which affect us. These rules have the effect of requiring that at least a substantial portion of a broker-dealer's assets be kept in cash or highly liquid investments. Our compliance with the net capital requirements could limit operations that require intensive use of capital, such as underwriting or trading activities. These rules could also restrict our ability to withdraw our capital, even in circumstances where we have more than the minimum amount of required capital, which, in turn, could limit our ability to implement growth strategies. In addition, a change in such rules, or the imposition of new rules, affecting the scope, coverage, calculation or amount of such net capital requirements, or a significant operating loss or any unusually large charge against net capital, could have similar adverse effects.

Risks Related to Our Technology and Information Systems

We rely on information processing and communications systems to process and record our transactions.

Our operations rely heavily on information processing and communications systems. Our system for processing securities transactions is highly automated. Failure of our information processing or communications systems for a significant period of time could limit our ability to process a large volume of transactions accurately and rapidly. This could cause us to be unable to satisfy our obligations to customers and other securities firms and could result in regulatory violations. External events, such as an earthquake, terrorist attack or power failure, loss of external information feeds, such as security price information, as well as internal malfunctions such as those that could occur during the implementation of system modifications, could render part or all of these systems inoperative.

Failure to protect client data or prevent breaches of our information systems could expose us to liability or reputational damage.

We are dependent on information technology networks and systems to securely process, transmit and store electronic information and to communicate among our branch offices and with our clients and vendors. As the breadth and complexity of this infrastructure continues to grow, the potential risk of security breaches and cyber-attacks increases. As a financial services company, we are continuously subject to cyber-attacks by third parties. Any such security breach could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. In addition, vulnerabilities of our external service providers and other third parties could pose security risks to client information. The secure transmission of confidential information over public networks is also a critical element of our operations.

In providing services to clients, we manage, utilize and store sensitive and confidential client data, including personal data. As a result, we are subject to numerous laws and regulations designed to protect this information, such as U.S. federal and state laws governing the protection of personally identifiable information. These laws and regulations are increasing in complexity and number, change frequently and sometimes conflict. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to client data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions. Unauthorized disclosure of sensitive or confidential client data, whether through systems failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems, whether by our employees or third parties, including a cyber-attack by third parties who may deploy viruses, worms or other malicious software programs, could result in negative publicity, significant remediation costs, legal liability, and damage to our reputation and could have a material adverse effect on our results of operations. In addition, our liability insurance might not be sufficient in type or amount to cover us against claims related to security breaches, cyber-attacks and other related breaches.

We may be exposed to damage to our business or our reputation by cybersecurity breaches.

As the world becomes more interconnected through the use of the Internet and users rely more extensively on the Internet and the cloud for the transmission and storage of data, such information becomes more susceptible to incursion by hackers and other parties intent on stealing or destroying data on which we or our customers rely. We face an evolving landscape of cybersecurity threats in which hackers use a complex array of means to perpetrate cyber-attacks, including the use of stolen access credentials, malware, ransomware, phishing, structured query language injection attacks, and distributed denial-of-service attacks, among other means. These cybersecurity incidents have increased in number and severity and it is expected that these trends will continue. Should we be affected by such an incident, we may incur substantial costs and suffer other negative consequences, which may include:

- Remediation costs, such as liability for stolen assets or information, repairs of system damage, and incentives to customers or business partners in an effort to maintain relationships after an attack;
- Increased cybersecurity protection costs, which may include the costs of making organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants;
- Lost revenues resulting from the unauthorized use of proprietary information or the failure to retain or attract customers following an attack;
- Litigation and legal risks, including regulatory actions by state and federal regulators; and
- Loss of reputation.

Increasingly, intruders attempt to steal significant amounts of data, including personally identifiable data and either hold such data for ransom or release it onto the Internet, exposing our clients to financial or other harm and thereby significantly increasing our liability in such cases. Our regulators have introduced programs to review our protections against such incidents which, if they determined that our systems do not reasonably protect our clients' assets and their data, could result in enforcement activity and sanctions.

We have and continue to introduce systems and software to prevent any such incidents and review and increase our defenses to such issues through the use of various services, programs and outside vendors. We contract cybersecurity consultants and also review and revise our cybersecurity policy to ensure that it remains up to date. In the event that we experience a material cybersecurity incident or identify a material cybersecurity threat, we will make all reasonable efforts to properly disclose it in a timely fashion. It is impossible, however, for us to know when or if such incidents may arise or the business impact of any such incident.

As a result of such risks, we have and are likely to incur significant costs in preparing our infrastructure and maintaining it to resist any such attacks.

An increase in volume on our systems or other events could cause them to malfunction.

Most of our trade orders are received and processed electronically. This method of trading is heavily dependent on the integrity of the electronic systems supporting it. While we have never experienced a significant failure of our trading systems, heavy stress placed on our systems during peak trading times could cause our systems to operate at

unacceptably low speeds or fail altogether. Any significant degradation or failure of our systems or the systems of third parties involved in the trading process (e.g., online and Internet service providers, record keeping and data processing functions performed by third parties, and third party software), even for a short time, could cause customers to suffer delays in trading. These delays could cause substantial losses for customers and could subject us to claims from these customers for losses. There can be no assurance that our network structure will operate appropriately in the event of a subsystem, component or software failure. In addition, we cannot assure that we will be able to prevent an extended systems failure in the event of a power or telecommunications failure, an earthquake, terrorist attack, fire or any act of God. Any systems failure that causes interruptions in our operations could have a material adverse effect on our business, financial condition and operating results.

Rapid market or technological changes may render our technology obsolete or decrease the attractiveness of our products and services to our clients.

We must continue to enhance and improve our technology and electronic services. The electronic financial services industry is characterized by significant structural changes, increasingly complex systems and infrastructures, changes in clients' needs and preferences, and new business models. If new industry standards and practices emerge and our competitors release new technology before us, our existing technology, systems and electronic trading services may become obsolete or our existing business may be harmed.

Our future success will depend on our ability to:

- Enhance our existing products and services;
- Develop and/or license new products and technologies that address the increasingly sophisticated and varied needs of our clients and prospective clients;
- Continue to attract highly-skilled technology personnel; and
- Respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis.

Developing our electronic services, our implementation and utilization of our Robo-Advisor and other technology entails significant technical and business risks. We may use new technologies ineffectively or we may fail to adapt our electronic trading platform, information databases and network infrastructure to client requirements or emerging industry standards. If we face material delays in introducing new services, products and enhancements, our clients may forego the use of our products and use those of our competitors.

Further, the adoption of new Internet, networking or telecommunications technologies may require us to devote substantial resources to modify and adapt our services. We cannot assure that we will be able to successfully implement new technologies or adapt our proprietary technology and transaction-processing systems to client requirements or emerging industry standards. We cannot assure that we will be able to respond in a timely manner to changing market conditions or client requirements.

Risks Related to Our Business Operations

Potential strategic acquisitions and other business growth could increase costs and regulatory and integration risks.

Acquisitions involve risks that could adversely affect our business. We may pursue acquisitions of businesses and technologies. Acquisitions and other transactions entail numerous risks, including:

- Difficulties in the integration of acquired operations, services and products;
- Failure to achieve expected synergies;
- Diversion of management's attention from other business concerns;
- Assumption of unknown material liabilities of acquired companies;
- Amortization of acquired intangible assets, which could reduce future reported earnings;
- Potential loss of clients or key employees of acquired companies; and
- Dilution to existing stockholders.

As part of our growth strategy, we regularly consider and from time to time engage in discussions and negotiations regarding transactions such as acquisitions, mergers and combinations within our industry. The purchase price for possible acquisitions could be paid in cash through the issuance of Common Stock or other securities, borrowings or a combination of these methods.

Our transactions are typically subject to closing conditions including regulatory approvals and the absence of material adverse changes in the business, operations or financial condition of the entity or part of an entity being acquired or sold. To the extent we enter into an agreement to buy or sell an entity or part of an entity, there can be no guarantee that the transaction will close when expected or at all. If a material transaction does not close our stock price could decline.

We cannot be certain that we will be able to identify, consummate and successfully integrate acquisitions, and no assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. For example, we could begin negotiations that we subsequently decide to suspend or terminate for a variety of reasons. However, opportunities may arise that we will evaluate and any transactions that we consummate would involve risks and uncertainties to us. These risks could cause the failure of any anticipated benefits of an acquisition to be realized, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be unable to realize the anticipated benefits of our cost cutting efforts or it may take longer than anticipated for us to realize any benefits from increased cost efficiencies or economies of scale, if at all.

Our realization of the benefits anticipated as a result of cost cutting efforts and other business efforts and changes will depend in part on the ability of our management team to implement our business plan. We cannot assure shareholders that there will not be substantial costs associated with these activities or other negative consequences as a result of these changes. These effects include, but are not limited to, incurring unexpected costs or delays in connection with implementation of a modified business model, or the failure of our business to perform as expected, which could harm our results of operations.

We depend on our ability to attract and retain key personnel.

We are dependent upon our new and continuing senior management for our success and the loss of the services of any of these individuals could significantly harm our business, financial condition and operating results.

Our customers may fail to pay us.

A principal credit risk to which we are exposed on a regular basis is that our customers may fail to pay for their purchases or fail to maintain the minimum required collateral for amounts borrowed against securities positions maintained by them. We cannot assure that our practices and/or the policies and procedures we have established will be adequate to prevent a significant credit loss.

Our advisory services subject us to additional risks.

We provide investment advisory services to investors. Through our RIA, SNXT, we offer robo-advisory and investment services. The risks associated with these investment advisory activities include those arising from possible conflicts of interest, unsuitable investment recommendations, inadequate due diligence, inadequate disclosure and fraud. Realization of these risks could lead to liability for client losses, regulatory fines, civil penalties and harm to our reputation and business.

Risks Related to COVID-19

The continuation of the COVID-19 pandemic could adversely affect our business, financial condition, liquidity and results of operations.

The COVID-19 outbreak has caused significant volatility and disruption in the financial markets both globally and in the U.S. If COVID-19, or another highly infectious or contagious disease, continues to spread or the response to contain it is unsuccessful, we could experience material adverse effects on our business, financial condition, liquidity, and results of operations. The extent of such effects will depend on future developments which are highly uncertain and cannot be predicted, including the geographic spread of the virus, the overall severity of the disease, the duration of the outbreak, the measures that may be taken by various governmental authorities in response to the outbreak (such as quarantines and travel restrictions) and the possible further impacts on the global economy. The continued spread of COVID-19 could also negatively impact the availability of key personnel necessary to conduct our business.

Certain actions taken by U.S. or other governmental authorities, including the Federal Reserve, to reduce interest rates may adversely affect our results of operations.

During the first quarter of 2020, the Federal Reserve cut the federal funds target overnight rate twice for a total of 150 basis points to near zero. These developments have had, and may continue to have, a negative impact on our revenue from margin interest, marketing, and distribution fees as well as interest income.

Investor behavior may fundamentally change as a result of COVID-19 in both the near and long term which could have an adverse effect on our operations.

We cannot foresee whether the outbreak of COVID-19 will be effectively contained, nor can we predict the severity and duration of its impact. As such, impacts of COVID-19 to our business are highly uncertain and we will continue to assess the impact as the situation develops. The disruptions to the U.S. and global economies and financial markets may cause investors to be more cautious and to limit their investments. Trading of securities may be materially and adversely affected with more investors seeking stability. Investment activity may also be negatively impacted by general macroeconomic conditions and consumer confidence, including the impacts of job losses and any recession, resulting from the COVID-19 pandemic. Clients holding savings with us in retirement or investment accounts may be required to liquidate some or all of their savings to pay living expenses. All of these factors could materially and adversely impact our revenue streams.

Risks Related to Our Common Stock

There may be a limited public market for our Common Stock; Volatility.

9,236,962 shares of Common Stock, or approximately 30% of our shares of Common Stock outstanding, are currently held by non-affiliates as of March 1, 2021. A stock with a small number of shares held by non-affiliates, known as the “float,” will generally be more volatile than a stock with a large float. Although our Common Stock is traded on the Nasdaq Capital Market, there can be no assurance that an active public market will continue.

Our principal shareholder has the ability to control key decisions submitted to a vote of our shareholders.

Gloria E. Gebbia, who is a director of Siebert and the managing member of Kennedy Cabot Acquisition, LLC (“KCA”), has, along with other family members, the power to elect the entire Board of Directors and, except as otherwise provided by law or our Certificate of Incorporation or by-laws, to approve any action requiring shareholder approval without a shareholders meeting.

The price of our Common Stock in the public markets has experienced, and may in the future experience, extreme volatility due to a variety of factors, many of which are beyond our control.

Since our Common Stock started trading on the Nasdaq Capital Market, our Common Stock has been relatively thinly traded and at times been subject to price volatility. Recently our Common Stock has experienced extreme price volatility. From January 1, 2021 to January 28, 2021, the average close price of our Common Stock was \$3.93 per share. On January 29, 2021, the price increased to a high of \$18.50 per share and 33,821,000 shares were traded. From February 1, 2021 to February 28, 2021, the average close price was \$5.60 per share. The average daily trading volume from March 1, 2020 to March 1, 2021 was approximately 200,000 shares per day. We have not experienced any material changes in our financial condition or results of operations that explain such price volatility or trading volume.

We believe that the trading price of our Common Stock has at times been influenced by trading factors other than industry or Company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as may be expressed on financial trading and other social media sites), speculation in the press, in the investment community, or on the internet, including on online forums and social media, about Siebert, our industry or our securities access to margin debt, trading in options and other derivatives on our Common Stock, and the amount and status of short interest in our securities (including a “short squeeze”). A “short squeeze” is a technical market condition that occurs when the price of a stock increases substantially, forcing market participants who had taken a position that its price would fall (i.e., who had sold the stock “short”), to buy it, which in turn may create significant, short-term demand for the stock not for fundamental reasons, but rather due to the need for such market participants to acquire the stock in order to forestall the risk of even greater losses. A “short squeeze” condition in the market for a stock can lead to short-term conditions involving very high volatility and trading that may or may not track fundamental valuation models.

As a result of the foregoing, investors in our Common Stock may be subject to the risk of significant, short-term price volatility of our Common Stock and the trading price of our Common Stock could decline for reasons unrelated to our business, financial condition, or results of operations. Further, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Our future ability to pay dividends to holders of our Common Stock is subject to the discretion of our Board of Directors and will be limited by our ability to generate sufficient earnings and cash flows.

Payment of future cash dividends on our Common Stock will depend on our ability to generate earnings and cash flows. However, sufficient cash may not be available to pay such dividends. Payment of future dividends, if any, will be at the discretion of our Board of Directors and will depend upon a number of factors that the Board of Directors deems relevant, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business and general business conditions. If we are unable to generate sufficient earnings and cash flows from our business, we may not be able to pay dividends on our Common Stock.

Our ability to pay cash dividends on our Common Stock is also dependent on the ability of our subsidiaries to pay dividends or capital distributions to the Company. MSCO and WPS are subject to requirements of the SEC and FINRA relating to liquidity, capital standards and the use of client funds and securities, which may limit funds available for payments to the Company.

Risks Related to Our Industry and Market

Securities market volatility and other securities industry risk could adversely affect our business.

Most of our revenues are derived from our securities brokerage business. Like other businesses operating in the securities industry, our business is directly affected by volatile trading markets, fluctuations in the volume of market activity, economic and political conditions, upward and downward trends in business and finance at large, legislation and regulation affecting the national and international business and financial communities, currency values, inflation, market conditions, the availability and cost of short-term or long-term funding and capital, the credit capacity or perceived credit-worthiness of the securities industry in the marketplace and the level and volatility of interest rates. We also face risks relating to losses resulting from the ownership of securities, counterparty failure to meet commitments, customer fraud, employee fraud, issuer fraud, errors and misconduct, failures in connection with the processing of securities transactions and litigation. A reduction in our revenues or a loss resulting from our ownership of securities or sales or trading of securities could have a material adverse effect on our business, results of operations and financial condition. In addition, as a result of these risks, our revenues and operating results may be subject to significant fluctuations from quarter to quarter and from year to year.

A prolonged economic slowdown, volatility in the markets, a recession, and uncertainty in the markets could impair our business and harm our operating results.

Our businesses are, and will continue to be, susceptible to economic slowdowns, recessions and volatility in the markets, which may lead to financial losses for our customers, and a decrease in revenues and operating results. In addition, global macroeconomic conditions and U.S. financial markets remain vulnerable to the potential risks posed by exogenous shocks, which could include, among other things, political and financial uncertainty in the U.S. and the European Union, renewed concern about China's economy, complications involving terrorism and armed conflicts around the world, or other challenges to global trade or travel, such as might occur in the event of a wider pandemic involving COVID-19. More generally, because our business is closely correlated to the macroeconomic outlook, a significant deterioration in that outlook or an exogenous shock would likely have an immediate negative impact on our overall results of operations.

There is intense competition in the brokerage industry.

We encounter significant competition from full-commission, no commission, online and other discount brokerage firms, as well as from financial institutions, mutual fund sponsors and other organizations many of which are significantly larger and better capitalized than we are. Over the past several years, price wars and lower or no commission rates in the discount brokerage business in general have strengthened our competitors. In addition, while the decline of commissions has been ongoing for decades, some of our competitors charging zero commissions on trades could potentially have an adverse effect on our commission revenue.

The securities brokerage industry has experienced significant consolidation, which may continue in the future, likely increasing competitive pressures in the industry. Consolidation could enable other firms to offer a broader range of products and services than we do, or offer them on better terms, such as higher interest rates paid on cash held in client accounts. We believe that such changes in the industry will continue to strengthen existing competitors and attract additional competitors such as banks, insurance companies, providers of online financial and information services, and others. Many of these competitors are larger, more diversified, have greater capital resources, and offer a wider range of services and financial products than we do. We compete with a wide variety of vendors of financial services for the same customers. We may not be able to compete effectively with current or future competitors.

Some competitors in the discount brokerage business offer services which we may not offer. In addition, some competitors have continued to offer flat rate execution fees that are lower than some of our published rates. Industry-wide changes in trading practices are expected to cause continuing pressure on fees earned by discount brokers for the sale of order flow. Continued or increased competition from ultra-low cost, flat-fee brokers and broader service offerings from other discount brokers could limit our growth or lead to a decline in our customer base which would adversely affect our business, results of operations and financial condition.

Lower price levels in the securities markets may reduce our profitability.

Lower price levels of securities may result in (i) reduced volumes of securities, options and futures transactions, with a consequent reduction in our commission revenues, and (ii) losses from declines in the market value of securities we hold in investment. In periods of low volume, our levels of profitability are further adversely affected because certain of our expenses remain relatively fixed. Sudden sharp declines in market values of securities and the failure of issuers and counterparties to perform their obligations can result in illiquid markets which, in turn, may result us having difficulty selling securities. Such negative market conditions, if prolonged, may lower our revenues. A reduction in our revenues could have a material adverse effect on our business, results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently maintain 18 branch offices, one of which is our corporate headquarters. Customers can visit our branch offices to obtain market information, place orders, open accounts, deliver and receive checks and securities, and obtain related customer services in person. Nevertheless, most of our activities are conducted on the Internet or by telephone and mail. We operate our business out of the following branch offices:

| | <u>Approximate Square Feet</u> |
|---|------------------------------------|
| Corporate Headquarters | |
| New York, NY – 120 Wall Street | 250 |
| Service and Other Office Spaces | |
| Beverly Hills, CA – 190 N Canon. | 900 |
| Beverly Hills, CA – 9464 Wilshire | 8,600 |
| Boca Raton, FL | 1,600 |
| Boston, MA | 1,700 |
| Calabasas, CA | 3,200 |
| Dallas, TX | 250 |
| Horsham, PA | 2,000 |
| Houston, TX | 3,200 |
| Jersey City, NJ | 11,000 |
| Miami, FL | 11,600 |
| New York, NY – 1500 Broadway | 5,300 |
| Omaha, NE | 2,900 |
| Rye Brook, NY | 800 |
| Seal Beach, CA | 800 |
| Tampa, FL | 1,000 |
| Troy, MI | 250 |
| Tustin, CA | 400 |

ITEM 3. LEGAL PROCEEDINGS

We are party to certain claims, suits and complaints arising in the ordinary course of business. In the opinion of management, all such matters are without merit, or involve amounts which would not have a significant effect on our financial position.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock traded on the Nasdaq Global Market until June 29, 2011 when our Common Stock started trading on the Nasdaq Capital Market, under the symbol "SIEB". The high and low sales prices of our Common Stock reported by Nasdaq during the following calendar quarters were as follows:

| | 2020 | | 2019 | |
|----------------------|--------|--------|---------|---------|
| | High | Low | High | Low |
| First Quarter | \$9.41 | \$6.15 | \$14.54 | \$10.80 |
| Second Quarter | \$7.83 | \$5.04 | \$12.00 | \$ 8.17 |
| Third Quarter | \$5.28 | \$3.15 | \$12.36 | \$ 8.71 |
| Fourth Quarter | \$4.60 | \$3.13 | \$12.10 | \$ 8.18 |

The closing sale price of our Common Stock as reported on the Nasdaq Capital Market on March 1, 2021 was \$4.89 per share. As of March 1, 2021, there were 100 holders of record of our Common Stock based on information provided by our transfer agent. The number of stockholders of record does not reflect the number of individual or institutional stockholders that beneficially own our stock because most stock is held in the name of nominees. Based on information available to us, we believe there are approximately 5,789 beneficial holders of our Common Stock as of March 1, 2021.

Dividend Policy

Our Board of Directors periodically considers whether to declare dividends. In considering whether to pay such dividends, our Board of Directors will review our earnings, capital requirements, economic forecasts and such other factors as are deemed relevant. Some portion of our earnings will be retained to provide capital for the operation and expansion of our business.

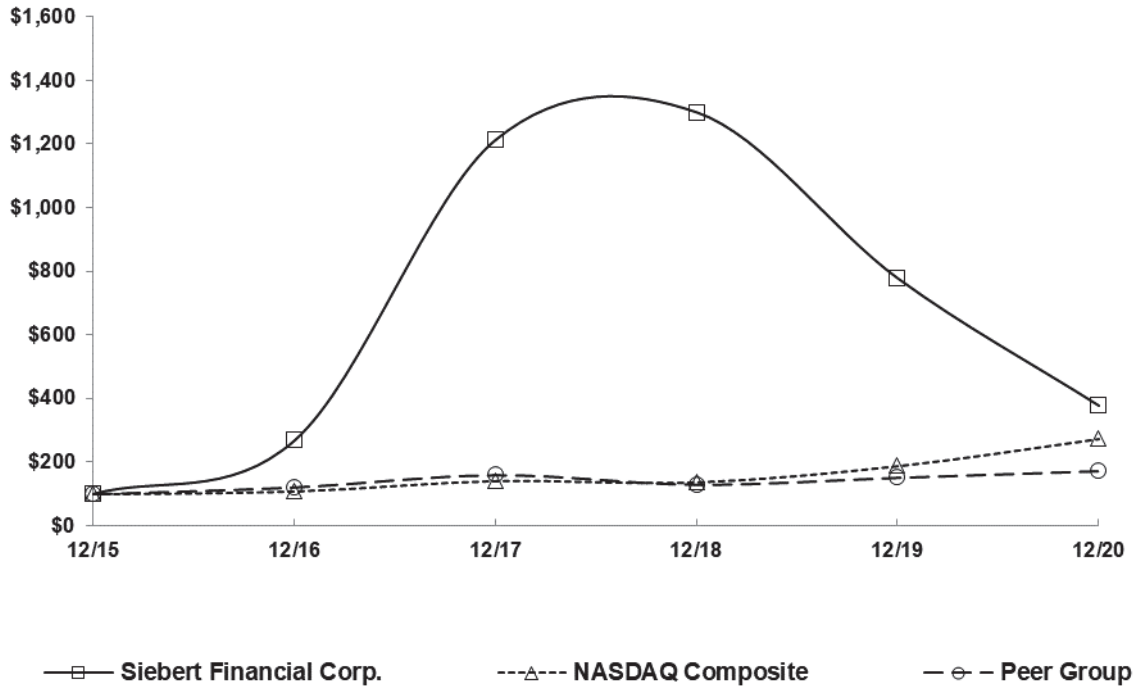
Share Price Volatility

Since our Common Stock started trading on the Nasdaq Capital Market, our Common Stock has been relatively thinly traded and at times been subject to price volatility. Recently, our Common Stock has experienced extreme price volatility. From January 1, 2021 to January 28, 2021, the average close price of our Common Stock was \$3.93 per share. On January 29, 2021, the price increased to a high of \$18.50 per share and 33,821,000 shares were traded. From February 1, 2021 to February 28, 2021, the average close price was \$5.60 per share. The average daily trading volume from March 1, 2020 to March 1, 2021 was approximately 200,000 shares per day. We have not experienced any material changes in our financial condition or results of operations that explain such price volatility or trading volume.

Performance Graph

The graph below compares our Common Stock performance from December 31, 2015 through December 31, 2020 against the performance of the Nasdaq Composite Index and a customized peer group.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Siebert Financial Corp., the NASDAQ Composite Index,
and a Peer Group



*\$100 invested on 12/31/15 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

| | Cumulative Total Return* | | | | | |
|---------------------------------|--------------------------|--------|----------|----------|--------|--------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Siebert Financial Corp. | 100.00 | 267.97 | 1,213.95 | 1,300.28 | 777.83 | 377.67 |
| Nasdaq Composite | 100.00 | 108.87 | 141.13 | 137.12 | 187.44 | 271.64 |
| Peer Group | 100.00 | 121.02 | 158.72 | 129.48 | 150.66 | 171.13 |

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial information should be read in conjunction with our consolidated financial statements and the related notes thereto.

(In thousands except share and per share data)

| | Year Ended December 31, | | | | |
|---|-------------------------|------------|------------|------------|------------|
| | 2020 | 2019* | 2018 | 2017 | 2016 |
| Consolidated Statements of Operations Data: | | | | | |
| Revenue | \$ 54,872 | \$ 47,777 | \$ 30,036 | \$ 13,110 | \$ 9,812 |
| Net income / (loss) | \$ 2,975 | \$ 3,236 | \$ 11,962 | \$ 2,157 | \$ (5,578) |
| Net income / (loss) per share of Common Stock | | | | | |
| Basic and diluted | \$ 0.10 | \$ 0.11 | \$ 0.44 | \$ 0.10 | \$ (0.25) |
| Weighted average shares outstanding (basic and diluted) | 30,637,794 | 30,455,962 | 27,157,188 | 22,507,798 | 22,085,126 |
| Performance Metrics: | | | | | |
| Year over year revenue increase / (decrease) | 28% | 59%** | 129% | 34% | (3%) |
| Income / (loss) before income taxes margin | 6% | 10%** | 25% | 18% | (57%) |

| | As of December 31, | | | | |
|---|--------------------|-----------|----------|---------|---------|
| | 2020 | 2019* | 2018 | 2017 | 2016 |
| Consolidated Statements of Financial Condition Data: | | | | | |
| Cash and cash equivalents | \$ 3,632 | \$ 4,670 | \$ 7,229 | \$3,765 | \$2,730 |
| Total Assets | \$1,372,987 | \$538,067 | \$18,177 | \$6,025 | \$3,816 |
| Total Liabilities | \$1,335,001 | \$504,932 | \$ 1,003 | \$ 813 | \$1,563 |
| Total Stockholders' equity | \$ 37,986 | \$ 33,135 | \$17,174 | \$5,212 | \$2,253 |
| Cash dividends declared on common shares | — | — | — | — | \$ 0.20 |

* Statement of financial condition and statement of income as of and for the year ended December 31, 2019 represent the pro forma combination of Siebert and StockCross balances, which corresponds to the presentation of the financial statements within this report. See "Note 3 – Acquisitions" for additional detail. The periods prior to 2019 presented in the table above represent Siebert's standalone results.

** Siebert standalone results for 2019 were \$28,593,000 in revenue and \$3,607,000 in net income, with an income before income taxes margin of 17%.

ITEM 7. MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. In addition to our historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Part I, Item 1A, "Risk Factors."

Overview

We are a financial services company and provide a wide variety of financial services to our clients. We operate in the following business lines through our wholly-owned subsidiaries:

- Retail brokerage business through MSCO, a Delaware corporation and broker-dealer registered with the SEC
- Investment advisory services through SNXT, a New York corporation registered with the SEC as a RIA under Advisers Act
- Insurance services through PWC, a Texas corporation and licensed insurance agency
- Robo-advisory technology development through STCH, a Nevada limited liability company
- Prime brokerage services through WPS, a Delaware limited liability company and a broker-dealer registered with the SEC

Results in the businesses in which we operate are highly correlated to general economic conditions and, more specifically, to the direction of the U.S. equity and fixed-income markets. Market volatility, overall market conditions, interest rates, economic, political and regulatory trends, and industry competition are among the factors which could affect us and which are unpredictable and beyond our control. These factors affect the financial decisions made by market participants who include investors and competitors, impacting their level of participation in the financial markets. In addition, in periods of reduced financial market activity, profitability is likely to be adversely affected because certain expenses remain relatively fixed, including salaries and related costs, portions of communications costs and occupancy expenses. Accordingly, earnings for any period should not be considered representative of earnings to be expected for any other period.

COVID-19

Impact

Overview

The World Health Organization declared the spread of COVID-19 a worldwide pandemic in March 2020. Since that time the COVID-19 pandemic has adversely impacted the economic environment, leading to lower interest rates across the curve and heightened volatility in the financial markets. We are actively monitoring the impact of COVID-19 and the possible effects of the roll-out of various vaccines on our business, financial condition, liquidity, operations, employees, clients and business partners.

Financial Impact

The COVID-19 pandemic had varied impacts across our business. In the first quarter of 2020, the Federal Reserve cut the federal funds target overnight rate twice for a total of 150 basis points to near zero. This decline in interest rates led to a decrease in our revenue from margin interest, marketing and distribution fees as well as interest income, and may continue to have a negative impact on these revenue streams in the foreseeable future as we do not anticipate short-term interest rates to recover to the level at the beginning of 2020 during 2021.

Market volatility caused by the pandemic resulted in an increase in revenue streams related to our institutional clients within WPS as well as a higher volume of principal transactions and commissions and fees within our retail customer base.

Management Response

Operations

In response to the pandemic and for the protection of our employees, clients and business partners, we implemented remote work arrangements for nearly 100% of our employees, restricted business travel and temporarily closed some of our branch offices. With our ability to meet a vast majority of our clients' needs through our technology-based platforms and services, these arrangements did not materially affect our ability to maintain our business operations.

As of the date of this report, we have reopened our branch offices while ensuring compliance with federal, state, and local laws as well as health and safety guidelines. We have taken numerous steps to ensure that our employees and customers are operating in a safe environment by implementing measures such as social distancing, sanitizing workstations, temperature checks, requiring masks, and alternating staff. Throughout this challenging time, our unwavering focus on continuing to earn our clients' trust is made possible by the significant contributions of our employees, and we remain committed to serving our clients while protecting our employees' wellbeing.

Expense Reduction

To offset the decrease in certain revenue streams associated with COVID-19, we have reduced the salary of higher-level employees and made a reduction in force in certain areas of our business. In addition, some members of our board of directors reduced their annual fees during 2020.

We are strategically evaluating our clearing relationship opportunities within our institutional operations to increase profitability. We are assessing all of our vendors to identify areas where we can optimize our cost structure while maintaining operational efficiency and quality of the customer experience. As of the date of this report, we are actively involved in contract negotiations with key vendors to reduce many of our fixed costs.

In addition, we have evaluated our branch offices and are transitioning out of legacy office space into more cost-efficient locations. We anticipate the benefits of these transitions to provide cost reductions beginning in the second quarter of 2021 and are looking into ways to further consolidate our office space.

We do not believe any of the changes described above will have a negative impact on the operations or financials of our business.

Liquidity and Capital Resources

The situation surrounding COVID-19 has not materially impacted our liquidity position or future outlook as we have been able to meet all obligations and believe we will be able to do so in the foreseeable future.

Conclusion

We note that the ultimate impact of COVID-19 on our business, results of operations, financial condition and cash flows is dependent on future developments, including the duration of the pandemic and the related length of its impact on the global economy, which are uncertain and cannot be predicted at this time. We are currently monitoring the COVID-19 situation and will continue to respond to meet the demands of our clients as well as protect our employees.

Significant Events

Hired New Leaders of Securities Finance Group

In November 2020, we hired Anthony Palmeri and Jerry Losurdo to lead our Securities Finance Group, which generally consists of our stock borrow / stock loan and related services. Mr. Palmeri joined from JPMorgan Chase & Co. where he was an Executive Director, and Mr. Losurdo joined from TD Prime Services, LLC where, as a Managing Director, he led its Securities Lending and Equity Finance division. During the fourth quarter of 2020, our Securities Finance Group achieved its highest quarterly revenue of over \$1.5 million, which represents an increase of over 500% from the fourth quarter of 2019.

New Fin-Tech Partnership with InvestCloud

In May 2020, we announced a partnership with InvestCloud Inc. ("InvestCloud"), a tech provider of flexible and fully integrated digital apps for financial services, to provide a variety of enhancements and upgrades to our

online and mobile client experience, including a state-of-the-art Robo Advisor product. We will implement InvestCloud's full suite of applications, ranging from intuitive client-facing portals and mobile apps to back-office operational automation, as well as centralize our digital transformation into a single partner.

Expansion of Clearing Operations

In December 2020, MSCO was admitted as a member of Euroclear. The admission into Euroclear is a strategic step in our ability to enhance our clearing capabilities and provide additional services to our clients and counterparties. We anticipate finalizing our Euroclear offerings early in 2021. In addition, we are in the process of expanding our clearing services in the U.S. by acting as a correspondent clearing firm for other broker-dealers and anticipate being able to offer these services in early 2021.

StockCross Acquisition

Overview

Established in 1971, StockCross was one of the largest privately-owned brokerage firms in the nation and its operations consisted primarily of market making, fixed-income products distribution, online and broker-assisted equity trading, securities lending, and equity stock plan services.

In January 2019, we acquired approximately 15% ownership of StockCross which was accounted for under the equity method. Effective January 1, 2020, we acquired the remaining 85% of StockCross' outstanding shares in exchange for 3,298,774 shares of our common stock and StockCross was merged with and into MSCO. As of January 1, 2020, the business and operations of StockCross became part of MSCO, and all clearing and other services provided by StockCross were performed by MSCO. In addition, as of January 1, 2020, our equity method investment in StockCross was eliminated.

Accounting for Acquisition

Prior to and as of the date of our acquisition of StockCross, Siebert and StockCross were entities under common control of Gloria E. Gebbia, our principal stockholder, and members of her immediate family (collectively, the "Gebbia Family"). The acquisition represented a change in reporting entity and as such, the companies have been presented on a combined basis for all periods presented in the financial statements. As such, this presentation is also reflected in the section below comparing our financial statements from 2020 to 2019.

We acquired various assets and liabilities from StockCross as of the acquisition date, the fair values of which were assumed to be the historical carrying amounts. The excess of the purchase price over the fair value of the net assets acquired was eliminated due to the transaction being between entities under common control. *See "Note 3 – Acquisitions" for additional detail on the transaction with StockCross and the corresponding accounting.*

Recent Results

The business lines acquired from StockCross have added new revenue streams to our statements of income. These new revenue streams include interest income from clearing operations, market making, and stock borrow / stock loan, all of which have contributed approximately \$7.5 million of revenue for the year ended December 31, 2020, of which included approximately \$793,000 related to equity stock plan services.

In terms of our existing revenue streams, StockCross added incremental commissions and fees, margin interest, marketing and distribution fees, and principal transactions from their client base and operations. Our existing expenses primarily related to employee compensation, occupancy, clearing and technology costs have also increased from the corresponding increase in StockCross' revenue and operations. *See "Note 13 – Revenue Recognition" for further detail on our revenue streams and corresponding accounting policies.*

The acquisition of StockCross has also impacted our statements of financial condition as the nature of StockCross' business requires the presentation of various assets and corresponding liabilities related to the new self-clearing business line on the statements of financial condition.

Further, at the time of acquisition, StockCross added approximately \$1.5 billion in retail customer net worth and approximately 30,000 retail accounts to Siebert.

WPS Acquisition

Effective December 1, 2019, we acquired all of the issued and outstanding membership interests of WPS, a prime brokerage services provider, for a cash consideration of approximately \$7.1 million, and WPS became a wholly-owned subsidiary of Siebert.

The acquisition resulted in approximately \$1,989,000 of goodwill and we acquired two intangible assets, WPS' customer relationships and trade name. We also acquired other assets consisting mostly of receivables from broker-dealers and clearing organizations and assumed liabilities consisting mostly of accounts payable and accrued expenses.

Since we acquired WPS at the end of 2019, we have reduced fixed costs related to technology, office space, and have also increased the overall operational efficiency of the company. In addition, WPS revenue increased by approximately 15% in 2020 due to market conditions as well as organic growth of the business. The net effect of these developments has resulted in WPS achieving operating income of approximately \$1.3 million in 2020, an increase of \$2.3 million from an operating loss of \$1.0 million in 2019.

Client Account and Activity Metrics

The following tables set forth metrics we use in analyzing our client account and activity trends for the periods indicated. Retail customers are customers who have accounts with MSCO and institutional customers were acquired from WPS as part of the acquisition effective December 1, 2019.

We acquired StockCross in January 2020; however, the client account and client activity metrics for Siebert and StockCross have been presented on a combined basis for all periods shown below to maintain consistency to the presentation of the financial statements. As such, the results of StockCross are included in metrics for the 2019 data shown below.

Client Account Metrics – Total Assets Under Management

| | As of December 31, | | | |
|---|--------------------|---------|------------|---------------|
| | 2020 | | 2019 | |
| | Total | Siebert | StockCross | Combined 2019 |
| Total assets under management (in billions) | \$16.2 | \$13.3 | \$1.5 | \$14.8 |

- Total assets under management represents the total of our retail and institutional customer net worth

Client Account Metrics – Retail Customers

| | As of December 31, | | | |
|---|--------------------|---------|------------|---------------|
| | 2020 | | 2019 | |
| | Total | Siebert | StockCross | Combined 2019 |
| Retail customer net worth (in billions) | \$ 14.6 | \$ 11.9 | \$ 1.5 | \$ 13.4 |
| Retail customer margin debit balances (in billions) | \$ 0.5 | \$ 0.3 | \$ 0.1 | \$ 0.4 |
| Retail customer credit balances (in billions) | \$ 0.7 | \$ 0.5 | \$ 0.1 | \$ 0.6 |
| Retail customer money market fund value (in billions) . . . | \$ 0.8 | \$ 0.7 | \$ 0.0 | \$ 0.7 |
| Retail customer accounts | 110,699 | 76,718 | 30,187 | 106,905 |

- Retail customer net worth represents the total value of securities and cash in the retail customer accounts after deducting margin debits
- Retail customer margin debit balances represents credit extended to our customers to finance their purchases against current positions
- Retail customer credit balances represents client cash held in brokerage accounts
- Retail customer money market fund value represents all retail customers accounts invested in money market funds
- Retail customer accounts represents the number of retail customers

Client Account Metrics – Institutional Customers

| | As of December 31, | |
|---|--------------------|-------|
| | 2020 | 2019 |
| Institutional customer net worth (in billions)..... | \$1.6 | \$1.4 |

- Institutional customer net worth represents the total value of securities and cash in the customer accounts after deducting margin debits and short positions. We did not have institutional customers until our purchase of WPS in December 2019.

Client Activity Metrics

| | Year Ended December 31, | | | |
|--|-------------------------|----------|------------|---------------|
| | 2020 | | 2019 | |
| | Total | Siebert | StockCross | Combined 2019 |
| Total retail trades..... | 471,662 | 276,018 | 40,256 | 316,274 |
| Average commission per retail trade..... | \$ 15.31 | \$ 17.86 | \$ 17.70 | \$ 17.84 |

- Total retail trades represent retail trades that generate commissions
- Average commission per retail trade represents the average commission generated for all types of retail customer trades

Statements of Income and Financial Condition

Overview

The following table sets forth metrics we use in analyzing our financial performance for the periods indicated:

| | Year Ended December 31, | | | | |
|---|-------------------------|--------------|--------------|---------------|---------------|
| | 2020 | | 2019 | | |
| | Total | Siebert | StockCross | Pro Forma Adj | Combined 2019 |
| Revenue..... | \$54,872,000 | \$28,593,000 | \$14,442,000 | \$(258,000) | \$42,777,000 |
| Income / (loss) before income taxes.... | \$ 3,196,000 | \$ 4,725,000 | \$ (507,000) | \$ 66,000 | \$ 4,284,000 |
| Net income / (loss)..... | \$ 2,975,000 | \$ 3,607,000 | \$ (419,000) | \$ 48,000 | \$ 3,236,000 |

Effective January 1, 2020, we acquired StockCross and the acquisition represented a change in reporting entity due to common ownership. As such, Siebert and StockCross have been presented on a combined basis for all periods presented in the financial statements. In addition, we acquired WPS in December 2019 which added new revenue streams and corresponding expenses to our statement of income for the year ended December 31, 2020. See “*Note 3 – Acquisitions*” for additional detail on the transaction with StockCross and WPS and the corresponding accounting.

During the first quarter of 2020, the Federal Reserve cut the federal funds target overnight rate twice for a total of 150 basis points to near zero, which led a decrease in our revenue streams related to interest in 2020. Market volatility during 2020 resulted in a benefit for revenue streams related to institutional clients within WPS as well as principal transactions and commission income within our retail customer base. Our stock loan / stock borrow business line has grown significantly from 2019 due to new management within the business line as well as the addition of a substantial number of new counterparties.

Statements of Income for the Year Ended December 31, 2020 and 2019

Revenue

Commissions and fees for the year ended December 31, 2020 were \$20,179,000 and increased by \$10,429,000 from the corresponding period in the prior year, primarily due to the addition of \$9,187,000 in WPS commissions and fees in 2020, as well as strong market conditions during the first and fourth quarter of 2020.

Margin interest, marketing and distribution fees for the year ended December 31, 2020 were \$10,183,000 and decreased by 4,527,000 from the corresponding period in the prior year, primarily due to the reduction of the federal funds rate to near zero, partially offset by the addition of \$1,255,000 in WPS margin interest income in 2020.

Principal transactions for the year ended December 31, 2020 were \$11,850,000 and increased by \$2,832,000 from the corresponding period in the prior year, primarily due to strong market conditions during the first and fourth quarter of 2020.

Interest income for the year ended December 31, 2020 was \$4,012,000 and decreased by \$223,000 from the corresponding period in the prior year, primarily due to the reduction of the federal funds rate to near zero, which was almost fully offset by the addition of \$2,341,000 in WPS interest income in 2020.

Market making revenue for the year ended December 31, 2020 was \$2,042,000 and increased by \$298,000 from the corresponding period in the prior year, primarily due to favorable market conditions during 2020.

Stock borrow / stock loan revenue for the year ended December 31, 2020 was \$4,045,000 and increased by \$2,438,000 from the corresponding period in the prior year, primarily due to the organic growth of the business, the addition of key personnel, expansion of our stock locate capabilities, and additional counterparty relationships.

Advisory fees for the year ended December 31, 2020 were \$1,142,000 and increased by \$341,000 from the corresponding period in the prior year, primarily due to overall expansion of the advisory business line which included revenue growth related to our Robo-Advisor.

Other income for the year ended December 31, 2020 was \$1,419,000 and increased by \$507,000 from the corresponding period in the prior year, primarily due to the addition of \$143,000 in WPS other income in 2020 and an increase in payment for order flow.

Operating Expenses

Employee compensation and benefits for the year ended December 31, 2020 were \$28,502,000 and increased by \$8,537,000 from the corresponding period in the prior year, primarily due to the addition of \$6,511,000 in WPS salaries and commission payouts in 2020 as well as increased commission payouts corresponding to the increase in principal transaction, commissions and fees and stock loan / stock borrow revenue in 2020.

Clearing fees, including execution costs for the year ended December 31, 2020 were \$5,107,000 and increased by \$1,761,000 from the corresponding period in the prior year, primarily due to the addition of \$2,485,000 in WPS clearing fees in 2020, partially offset by a decrease in other clearing costs due to the economies of scale from the acquisition of StockCross.

Technology and communications expenses for the year ended December 31, 2020 were \$4,622,000 and increased by \$2,752,000 from the corresponding period in the prior year, primarily due to the addition of \$1,213,000 in WPS technology expenses in 2020 as well as development work with InvestCloud related to our online platform and Robo-Advisor.

Other general and administrative expenses for the year ended December 31, 2020 were \$2,364,000 and decreased by \$1,497,000 from the corresponding period in the prior year, primarily due to the expansion of our Jersey City branch office and the establishment of our Miami branch office occurred in 2019 as well as a reduction in travel related expenses in 2020 due to COVID-19.

Data processing expenses for the year ended December 31, 2020 were \$2,797,000 and increased by \$716,000 from the corresponding period in the prior year, primarily due to increased technology and clearing costs corresponding to increased trading activity.

Rent and occupancy expenses for the year ended December 31, 2020 were \$2,767,000 and increased by \$197,000 from the corresponding period in the prior year, primarily due to the increase of \$409,000 in rent from the addition of WPS branch offices in 2020, partially offset by a decrease in various occupancy expenses.

Professional fees for the year ended December 31, 2020 were \$2,864,000 and decreased by \$711,000 from the corresponding period in the prior year, primarily due to a reduction in legal fees and other professional services as a result of the transaction with StockCross, partially offset by the addition of \$432,000 in WPS professional fees in 2020.

Depreciation and amortization expenses for the year ended December 31, 2020 were \$1,566,000 and increased by \$564,000 from the corresponding period in the prior year, primarily due to the depreciation and amortization of incremental purchases of fixed assets and software as well as the amortization related to the intangible assets acquired from WPS.

Referral fees for the year ended December 31, 2020 were \$738,000 and increased by \$652,000 from the corresponding period in the prior year, primarily due to the commission payouts to other broker-dealers for WPS in 2020.

Interest expense for the year ended December 31, 2020 was \$349,000 and increased by \$214,000 from the corresponding period in the prior year, primarily due to the interest on the promissory note to finance part of the acquisition of WPS and the interest on the line of credit with East West Bank.

Advertising and promotion expense for the year ended December 31, 2020 was \$2,000 and increased by \$2,000 from the corresponding period in the prior year.

Provision For Income Taxes

Provision for income taxes for the year ended December 31, 2020 was \$221,000 and decreased by \$827,000 from the corresponding period in the prior year. See “*Note 16 - Income Taxes*” for additional detail.

Statements of Financial Condition as of December 31, 2020 and 2019

Assets

Assets as of December 31, 2020 were \$1,372,987,000 and increased by \$834,920,000 from December 31, 2019, primarily due to the increase in securities borrowed, cash and securities segregated for regulatory purposes, and receivables from broker-dealers and clearing organizations.

Liabilities

Liabilities as of December 31, 2020 were \$1,335,001,000 and increased by \$830,069,000 from December 31, 2019, primarily due to the increase in securities loaned and payables to customers.

Liquidity and Capital Resources

Overview

In terms of the overall performance of the business in relation to liquidity, for the periods presented we have had strong operating cash flows as well as a reasonable and predictable level of investing activities which are mostly related to software and internal technology development and marginal leasehold improvements.

Despite lower interest rates and the effects of COVID-19, we have performed well and have sufficient cash flows to meet our liquidity needs over the periods presented. We believe our ability to generate cash flows will continue into the foreseeable future.

We have a variety of sources of borrowing capability. In 2019, we had overnight demand borrowing capability with BMO Harris Bank and Texas Capital Bancshares, Inc. (“Texas Capital Bank”) as well as notes payable to Gloria E. Gebbia. During 2020, we secured a line of credit from East West Bancorp, Inc. (“East West Bank”) to finance part of our acquisition of WPS and other operating needs of the business.

The indicators of our liquidity are cash and cash equivalents, and as of the date of this report, there are not any known or material events that we would expect to use large amounts of our liquid assets to cover expenses. As of December 31, 2020, we have a sufficient amount of remaining availability on our various credit lines to facilitate incremental capital needs.

We believe that our operating cash flows, cash and cash equivalents, borrowing capacity, and overall access to capital markets are sufficient to fund our operating, investing and financing requirements for the next twelve months.

Cash and Cash Equivalents

Our cash and cash equivalents are unrestricted and are used to fund our working capital needs. Our cash and cash equivalents as of December 31, 2020 and 2019 were \$3.6 and \$4.7 million, respectively. We had no cash equivalents as of December 31, 2020 and 2019.

Net Capital, Reserve Accounts, Segregation of Funds, and Other Regulatory Requirements

MSCO is subject to the Uniform Net Capital Rules of the SEC (Rule 15c3-1) and the Customer Protection Rule (15c3-3) of the Securities Exchange Act of 1934 and maintains capital and segregated cash reserves in excess of regulatory requirements. Requirements under these regulations may vary; however, MSCO has adequate reserves and

contingency funding plans in place to sufficiently meet any regulatory requirements. In addition to net capital requirements, as a self-clearing broker-dealer, MSCO is subject to cash deposit and collateral requirements with clearing houses, such as the Depository Trust and Clearing Corporation (“DTCC”) and Options Clearing Corporation, which may fluctuate significantly from time to time based upon the nature and size of clients’ trading activity and market volatility.

As of December 31, 2019, StockCross was also subject to the PAB Account Rule 15c3-3 of the SEC which requires segregation of funds in a special reserve account for the exclusive benefit of proprietary accounts of introducing broker-dealers. Effective upon our acquisition of StockCross on January 1, 2020, MSCO no longer had a PAB requirement.

WPS, as a member of FINRA, is subject to the SEC Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn, or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. WPS is also subject to the CFTC’s minimum financial requirements which require that WPS maintain net capital, as defined, equal to the greater of its requirements under Regulation 1.17 under the Commodity Exchange Act or Rule 15c3-1.

For the years ended December 31, 2020 and 2019, MSCO, StockCross, and WPS had sufficient net capital to meet their respective liquidity and regulatory capital requirements. *See “Note 17 – Capital Requirements” for more detail on our capital requirements.*

Sources of Liquidity

Line of Credit with East West Bank

On July 22, 2020, we entered into a Loan and Security Agreement with East West Bank. In accordance with the terms of this agreement, we have the ability to borrow term loans in an aggregate principal amount not to exceed \$10 million during the two-year period after July 22, 2020. Our obligations under the agreement are guaranteed pursuant to a guarantee agreement by and among, John J. Gebbia, Gloria E. Gebbia and a trust for which they are mutually co-trustees.

As of December 31, 2020, we have drawn down a \$5.0 million term loan under this agreement and have an outstanding balance of \$4.7 million. We have an additional \$5.0 million remaining to draw down from this line of credit. *See “Note 11 – Long-Term Debt” for more detail on this agreement.*

Future annual minimum payments for the line of credit with East West Bank as of December 31, 2020 were as follows:

| | <u>Amount</u> |
|------------|--------------------|
| 2021..... | \$ 998,000 |
| 2022..... | 998,000 |
| 2023..... | 998,000 |
| 2024..... | <u>1,661,000</u> |
| Total..... | <u>\$4,655,000</u> |

Overnight Financing

We have available lines of credit for short term overnight demand borrowing of up to \$15 million with both BMO Harris Bank and Texas Capital Bank as of December 31, 2020. As of December 31, 2020, we had no outstanding loan balances with either institution. There are no commitment fees or other restrictions on the credit lines. MSCO utilizes customer or firm securities as a pledge for short-term borrowing needs.

Notes Payable – Related Party

As of December 31, 2020, we had \$5.2 million in notes payable to Gloria E. Gebbia, all of which have maturity dates in 2021. As of December 31, 2019, we had \$8 million in notes payable to Gloria E. Gebbia, all of which have maturity dates by November 2021. We have sufficient liquidity to meet all maturities of these notes. *See “Note 12 – Notes Payable - Related Party” for more detail.*

Statements of Cash Flows

For the year ended December 31, 2020, our income before provision for income taxes was approximately \$93.5 million less than our cash flow from operations primarily due a net increase in securities loaned and payables to customers, partially offset by an increase in receivables from clearing broker-dealers.

For the year ended December 31, 2019, our income before provision for income taxes was approximately \$20.1 million less than our cash flow from operations primarily due to a net increase in receivables from customers.

For the year ended December 31, 2020, we had positive operating cash flow and we had a minor investing cash outflow related to software development. We had a financing cash inflow for the line of credit secured with East West Bank and for the shares issued for employee stock purchases, which was partially offset by a financing cash outflow for the maturation of a portion of the notes payable – related party.

For the year ended December 31, 2019, we had positive operating cash flow. We had investing cash outflows related to the purchase of WPS, the development of our Jersey City and Miami offices, and incremental software assets. We had a financing cash outflow related to the acquisition of StockCross and a financing cash inflow related to securing a note payable – related party.

While we note that our liquid cash and cash equivalents has decreased as of December 31, 2020 from the prior year, we note that since the change of ownership, we have had positive operating cash flow, no liquidity issues, and there are no planned large capital expenditures for the foreseeable future. As such, we believe we will have sufficient cash flows to fund our operations.

Leases

As of December 31, 2020, the remaining balance of our lease payments for operating leases with initial terms of greater than one year was \$1.4 million for 2021. The remaining balance of our lease payments for these leases after 2021 was \$1.4 million.

In addition to these leases, as of December 31, 2020, we had an operating lease agreement for an office space in Beverly Hills, California with a term of approximately 5 years. The total commitment of the lease is approximately \$1.6 million, and the lease will commence on March 1, 2021. *See “Note 9 – Leases” for more detail on our lease arrangements and corresponding disclosures.*

Off-Balance Sheet Arrangements

We enter into various transactions to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk.

In the normal course of business, our customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose us to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and we have to purchase or sell the financial instrument underlying the contract at a loss.

Our customer securities activities are transacted on either a cash or margin basis. In margin transactions, we extend credit to our customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers’ accounts. In connection with these activities, we execute and clear customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations.

Such transactions may expose us to off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy obligations, we may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer’s obligations.

We seek to control the risks associated with our customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. We monitor required margin levels daily and pursuant to such guidelines, require customers to deposit additional collateral or to reduce positions when necessary.

Our customer financing and securities settlement activities may require us to pledge customer securities as collateral in support of various secured financing sources such as bank loans and securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, we may

be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy customer obligations. On a daily basis, we control this risk by monitoring the market value of securities pledged and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, we establish credit limits for such activities and continuously monitor compliance.

There were no material losses for unsettled customer transactions for the years ended December 31, 2020 and 2019.

Uncertain Tax Positions

We account for uncertain tax positions in accordance with the authoritative guidance issued under ASC 740-10, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC 740-10 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements.

We recognize interest and penalties related to unrecognized tax benefits on the provision for income taxes line in the statements of income. Accrued interest and penalties would be included on the related tax liability line in the statements of financial condition.

As of December 31, 2020, we recorded an uncertain tax position of \$1,105,000 related primarily to our 2017 to 2019 amended tax returns, as the anticipated tax refunds exceed the amount that meets the more-likely-than-not recognition threshold.

Prepaid Service Contract

We have entered into an agreement with InvestCloud for development work related to our online platform and Robo-Advisor. As part of this agreement, we have an obligation to pay for the license fees associated with the InvestCloud Platform for a three-year term. For the year ended December 31, 2020, we have incurred \$764,000 of expense related to this contract. See “*Note 5 – Prepaid Service Contract*” for more detail.

Related Party Disclosures

During the course of business, we enter into various agreements and transactions with related parties. See “*Note 21 – Related Party Disclosures*” for more detail on our related party disclosures.

Fair Value Measurements

We have securities that are valued using the fair value framework under ASC 820 within our assets and liabilities as of December 31, 2020 and 2019. The majority of these assets are level 1 U.S. government securities and equity securities as well as level 2 equity securities in the line items “Cash and securities segregated for regulatory purposes” and “Securities owned, at fair value” in the statements of financial condition. The liabilities consist of relatively small amounts of level 1 and level 2 equity securities in the line item “Securities sold, not yet purchased, at fair value.” See “*Note 6 – Fair Value Measurements*” for more detail.

Impairment

We have concluded that as of December 31, 2020, there have been no impairments to the carrying value of our goodwill and other tangible and intangible assets.

Segment

We concluded as of December 31, 2020, Siebert is comprised of a single operating segment based on the factors related to management’s decision-making framework as well as management evaluating performance and allocating resources based on assessments of Siebert from a consolidated perspective.

New Accounting Pronouncements

We evaluated all recently issued and adopted accounting pronouncements during the reporting period and determined that other than ASU 2018-15, ASU 2018-07, and ASU 2016-02, the new accounting pronouncements have not and will not have a material impact on our consolidated financial statements. See *“Note 2 – Summary of Significant Accounting Policies”* for more detail on the new accounting pronouncements and their impact on our financial statements.

Subsequent Events

Acquired 5% Interest in OpenHand

Pursuant to a stock purchase agreement dated as of January 31, 2021, we acquired an interest of 5% of OpenHand Holdings, Inc. (“OpenHand”) common stock for consideration of a total of \$2,231,000 consisting of \$850,000 in cash and 329,654 restricted shares of our Common Stock valued at \$1,381,000 or \$4.19 per share.

OpenHand is a subscription-based brokerage platform that will provide zero-commission trading for equity and option transactions and credit its members daily with rebates of revenues generated by the clients, less operational expenses. Siebert will be the exclusive broker-dealer for all OpenHand account services and will benefit from their cloud-based technology which uses Amazon Web Services. Through this strategic, operational, regulatory, and technological partnership, OpenHand and the Siebert clients will benefit from numerous financial and operational efficiencies.

The value of the restricted stock was determined using the thirty-day trading average. We agreed to register the shares issued to OpenHand by filing a selling shareholder registration statement.

We also received an option to purchase an additional 7.5% of OpenHand for approximately \$4.5 million, based upon a \$60 million valuation of OpenHand.

Regulatory Matters

On January 22, 2021, the California Department of Financial Protection and Innovation proposed that StockCross enter into a consent order related to StockCross and one of its registered representatives for activities that occurred prior to its acquisition by Siebert. The California proposed order seeks an aggregate amount of approximately \$900,000 in relation to this matter. Based on the facts of the matter as well as historical resolutions, we do not believe that the matter will have a material impact on our financial statements.

Critical Accounting Policies

Overview

We generally follow accounting policies standard in the brokerage industry and believe that our policies appropriately reflect our financial position and results of operations. Our management team makes significant estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities included in the consolidated financial statements. The estimates relate primarily to revenue and expense items in the normal course of business as to which we receive no confirmations, invoices, or other documentation, at the time the books are closed for a period. We use our best judgment, based on our knowledge of revenue transactions and expenses incurred, to estimate the amount of such revenue and expenses. We are not aware of any material differences between the estimates used in closing our books for the last five years and the actual amounts of revenue and expenses incurred when we subsequently receive the actual confirmations, invoices or other documentation.

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of our consolidated financial statements requires us to make judgments and estimates that may have a significant impact on our financial results. We believe that the following areas are particularly subject to management’s judgments and estimates and could materially affect our results of operations and financial position. See *“Note 2 – Summary of Significant Accounting Policies”* for additional detail on our significant accounting policies.

Revenue recognition

We have appropriate revenue recognition policies for each our revenue streams. See *“Note 13 – Revenue Recognition”* for additional detail on our revenue recognition policies.

Estimates of effective income tax rates, uncertain tax positions, deferred income taxes and related valuation allowances.

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all 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. If we determine that we would be able to realize deferred taxes in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We recognize interest and penalties related to unrecognized tax benefits on the provision for income taxes line in the statements of income. Accrued interest and penalties would be included on the related tax liability line in the statements of financial condition.

Goodwill, and other intangible assets

Goodwill is recognized as a result of business combinations and represents the excess of the purchase price over the fair value of net tangible assets and identifiable intangible assets acquired.

The valuation of goodwill and acquired intangible assets requires significant judgment and estimates by management. For example, the valuation of certain intangible assets required management's estimates of future earnings and cash flows as well as judgment in determining market approaches. The useful life of the finite lived intangible assets was determined based on management's estimate of the period over which those intangible assets are expected to provide economic benefit. Management applies judgment in conducting impairment testing for goodwill and intangible assets, including estimates of fair value based on the income or market approach and estimates required to determine the useful lives of finite lived intangible assets.

We test goodwill and all intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least annually. If our estimates of fair value change due to future events differing significantly from the forecasts used to determine fair value or there are changes in our business or other factors, we will assess the amount of impairment and recognize it in our financial statements during that reporting period.

We also evaluate the useful life of finite lived intangible assets on an annual basis to determine if events or trends warrant a change in estimate of the useful life. Changes in the estimated useful lives of finite lived intangible assets could result in the recognition of an impairment or a change in the remaining life of these assets.

We have concluded that as of December 31, 2020, there have been no impairments to the carrying value of Siebert's goodwill or intangible assets.

See "Note 2 – Summary of Significant Accounting Policies" and "Note 10 – Goodwill and Intangible Assets, Net" for additional detail on the valuation and impairment policies governing goodwill and acquired intangible assets.

Accruals for contingent liabilities

Accruals for contingent liabilities related to legal and regulatory claims as well as employee healthcare expenses under our self-insured plan reflect an estimate of probable losses. In making such estimates for legal and regulatory claims, we consider many factors, including the progress of the matter, prior experience and the experience of others

in similar matters, available defenses, insurance coverage, indemnification provisions and the advice of legal counsel and other experts. In making such estimates for employee healthcare expenses, we consider many factors, including trends of health insurance expenses and our insurance reserve limits. We believe that our present insurance coverage and reserves are sufficient to cover currently estimated exposures, but there can be no assurance that we will not incur liabilities in excess of recorded reserves or in excess of our insurance limits. Significant judgment is required in making these estimates, and the actual cost may be materially different than the estimated costs. *See “Note 19 – Commitments, Contingencies, and Other” for additional detail.*

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Instruments Held For Trading Purposes

We do not directly engage in derivative transactions, have no interest in any special purpose entity and have no liabilities, contingent or otherwise, for the debt of another entity.

Financial Instruments Held For Purposes Other Than Trading

We generally invest our cash and cash equivalents temporarily in dollar denominated bank account(s). These investments are not subject to material changes in value due to interest rate movements.

Customer transactions are cleared through clearing brokers on a fully disclosed basis and self-cleared by MSCO. If customers do not fulfill their contractual obligations, any loss incurred in connection with the purchase or sale of securities at prevailing market prices to satisfy customer obligations may be incurred by Siebert. We regularly monitor the activity in customer accounts for compliance with margin requirements. We are exposed to the risk of loss on unsettled customer transactions if customers and other counterparties are unable to fulfill their contractual obligations. There were no material losses for unsettled customer transactions in the last five years.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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SIEBERT FINANCIAL CORP.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Siebert Financial Corp:

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Siebert Financial Corp. & Subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits 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 consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, 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 consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Deferred Tax Asset valuation allowance

As described in Note 16 to the consolidated financial statements, the Company's consolidated net deferred tax asset balance of \$4,857,000 primarily related to net operating loss carryforwards. As disclosed by management, the Company has evaluated whether it is more likely than not that some portion or the entire deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible and/or net operating losses can be utilized. The Company considered all positive and negative evidence when determining the amount of the net deferred tax assets that are more likely than not to be realized. This evidence includes, but is not limited to, historical earnings, scheduled reversal of taxable temporary differences, tax planning strategies, and projected future taxable income. We identified the valuation allowance over the deferred tax asset as a critical audit matter. The assessment of future realization, particularly auditing management's forecast of future operating results, involves significant judgment by management and, in turn, a high degree of auditor judgment, subjectivity, and effort.

The primary procedures we performed to address this critical audit matter included:

- Testing management’s process for forecasting future taxable income and whether any factors exist that may materially bear on the Company’s ability to achieve sufficient taxable income to utilize remaining net operating loss carryforwards.
- Evaluating whether management’s assumptions were reasonable by considering the past performance of the Company and whether such assumptions were consistent with evidence obtained in other areas of the audit.

The Company’s acquisition of StockCross Financial Services, Inc.

As described in Notes 1 and 3 to the consolidated financial statements, the Company acquired the remaining 85% interest in StockCross Financial Services, Inc. Management has concluded that this is an entity under common control with Siebert Financial Corp. and that the transaction represented a change in the reporting unit, and as such, the companies have been presented on a combined basis for all periods presented in the consolidated financial statements. We identified the accounting for this transaction as a critical audit matter. The determination of common control requires management to evaluate the direct and indirect ownership of each entity and elements of control, as well as the period for which common control existed. The determination of a change in reporting unit requires management to exercise significant judgment regarding whether there is a change in the specific subsidiaries that make up the group of entities for which consolidated financial statements are presented. Auditing these aspects of the transaction involved a high degree of subjectivity and complexity.

The primary procedures we performed to address this critical audit matter included:

- Identifying and testing the direct and indirect ownership of each entity and identifying the period for which common control existed.
- Evaluating the composition of the Company’s subsidiaries that make up the group of entities which are consolidated.
- Testing the underlying accounting information and assumptions utilized in management’s combination of the historical results of Siebert Financial Corp. and StockCross Financial Services, Inc. from the date that common control existed.

/s/ Baker Tilly US, LLP

We have served as the Company’s auditor since 2017.

New York, New York

March 10, 2021

SIEBERT FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | <u>December 31, 2020</u> | <u>December 31, 2019*</u> |
|--|--------------------------|---------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 3,632,000 | \$ 4,670,000 |
| Cash and securities segregated for regulatory purposes | 324,924,000 | 224,924,000 |
| Receivables from customers | 95,358,000 | 86,331,000 |
| Receivables from broker-dealers and clearing organizations | 15,815,000 | 3,524,000 |
| Other receivables | 1,692,000 | 762,000 |
| Prepaid service contract - current | 809,000 | — |
| Prepaid expenses and other assets | 2,095,000 | 970,000 |
| Securities borrowed | 905,785,000 | 193,529,000 |
| Securities owned, at fair value | <u>2,623,000</u> | <u>3,018,000</u> |
| Total Current assets | 1,352,733,000 | 517,728,000 |
| Deposits with broker-dealers and clearing organizations | 7,209,000 | 4,951,000 |
| Prepaid service contract – non-current | 1,004,000 | — |
| Furniture, equipment, and leasehold improvements, net | 762,000 | 1,150,000 |
| Software, net. | 1,334,000 | 1,888,000 |
| Lease right-of-use assets | 2,290,000 | 3,951,000 |
| Deferred tax assets | 4,857,000 | 5,388,000 |
| Intangible assets, net | 809,000 | 1,022,000 |
| Goodwill | <u>1,989,000</u> | <u>1,989,000</u> |
| Total Assets. | <u>\$1,372,987,000</u> | <u>\$538,067,000</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Current liabilities | | |
| Payables to customers | \$ 380,524,000 | \$308,091,000 |
| Payables to non-customers. | 11,570,000 | 8,063,000 |
| Drafts payable. | 4,021,000 | 2,834,000 |
| Payables to broker-dealers and clearing organizations. | 1,810,000 | 523,000 |
| Accounts payable and accrued liabilities | 3,777,000 | 2,443,000 |
| Securities loaned. | 920,811,000 | 170,443,000 |
| Securities sold, not yet purchased, at fair value | 21,000 | 116,000 |
| Interest payable. | — | 10,000 |
| Notes payable - related party. | 5,200,000 | 8,000,000 |
| Current portion of lease liabilities. | 1,314,000 | 2,227,000 |
| Current portion of long-term debt. | <u>998,000</u> | <u>—</u> |
| Total Current liabilities | 1,330,046,000 | 502,750,000 |
| Lease liabilities, less current portion. | 1,298,000 | 2,182,000 |
| Long-term debt, less current portion. | <u>3,657,000</u> | <u>—</u> |
| Total Liabilities. | 1,335,001,000 | 504,932,000 |

Numbers are rounded for presentation purposes. See notes to consolidated financial statements.

| | <u>December 31, 2020</u> | <u>December 31, 2019*</u> |
|---|--------------------------|---------------------------|
| Commitments and Contingencies | | |
| Stockholders' equity | | |
| Common stock, \$.01 par value; 100 million shares authorized; 30,953,710 and 30,459,804 shares issued and outstanding as of December 31, 2020 and 2019, respectively** | 309,000 | 304,000 |
| Additional paid-in capital. | 21,768,000 | 19,897,000 |
| Retained earnings | <u>15,909,000</u> | <u>12,934,000</u> |
| Total Stockholders' equity | <u>37,986,000</u> | <u>33,135,000</u> |
| Total Liabilities and stockholders' equity | <u>\$1,372,987,000</u> | <u>\$538,067,000</u> |

* Statement of financial condition as of December 31, 2019 represents the pro forma combination of Siebert and StockCross balances. See "Note 3 – Acquisitions" for additional detail.

** Shares outstanding as of December 31, 2019 represents the combined total of the Company's shares outstanding and the shares issued for the Company's acquisition of StockCross. See "Note 1 – Organization and Basis of Presentation" for additional detail. Shares authorized were 100 million and 49 million as of December 31, 2020 and 2019, respectively.

Numbers are rounded for presentation purposes. See notes to consolidated financial statements.

SIEBERT FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| | Year Ended | |
|--|---------------------|---------------------|
| | December 31, | |
| | <u>2020</u> | <u>2019*</u> |
| Revenue | | |
| Commissions and fees | \$20,179,000 | \$ 9,750,000 |
| Margin interest, marketing and distribution fees | 10,183,000 | 14,710,000 |
| Principal transactions | 11,850,000 | 9,018,000 |
| Interest income | 4,012,000 | 4,235,000 |
| Market making | 2,042,000 | 1,744,000 |
| Stock borrow / stock loan | 4,045,000 | 1,607,000 |
| Advisory fees | 1,142,000 | 801,000 |
| Other income | 1,419,000 | 912,000 |
| Total Revenue | <u>54,872,000</u> | <u>42,777,000</u> |
| Expenses | | |
| Employee compensation and benefits | 28,502,000 | 19,965,000 |
| Clearing fees, including execution costs | 5,107,000 | 3,346,000 |
| Technology and communications | 4,622,000 | 1,870,000 |
| Other general and administrative | 2,364,000 | 3,861,000 |
| Data processing | 2,797,000 | 2,081,000 |
| Rent and occupancy | 2,767,000 | 2,570,000 |
| Professional fees | 2,864,000 | 3,575,000 |
| Depreciation and amortization | 1,566,000 | 1,002,000 |
| Referral fees | 738,000 | 86,000 |
| Interest expense | 349,000 | 135,000 |
| Advertising and promotion | — | 2,000 |
| Total Expenses | <u>51,676,000</u> | <u>38,493,000</u> |
| Income before provision for income taxes | <u>3,196,000</u> | <u>4,284,000</u> |
| Provision for income taxes | 221,000 | 1,048,000 |
| Net income | <u>\$ 2,975,000</u> | <u>\$ 3,236,000</u> |
| Net income per share of common stock | | |
| Basic and diluted | <u>\$ 0.10</u> | <u>\$ 0.11</u> |
| Weighted average shares outstanding | | |
| Basic and diluted | <u>30,637,794</u> | <u>30,455,962</u> |

* Statement of income for the year ended December 31, 2019 represents the pro forma combination of Siebert and StockCross balances. See "Note 3 – Acquisitions" for additional detail.

Numbers are rounded for presentation purposes. See notes to consolidated financial statements.

SIEBERT FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

| | <u>Number of Shares Issued</u> | <u>\$.01 Par Value</u> | <u>Additional Paid-In Capital</u> | <u>Retained Earnings</u> | <u>Total</u> |
|---|------------------------------------|----------------------------|---------------------------------------|------------------------------|---------------------|
| Balance – January 1, 2019. | 27,157,188 | \$271,000 | \$ 7,641,000 | \$ 9,262,000 | \$17,174,000 |
| Net income | — | — | — | 3,236,000 | 3,236,000 |
| Shares issued for StockCross purchase* | 3,302,616 | 33,000 | 12,256,000 | 436,000 | 12,725,000 |
| Balance – December 31, 2019. | <u>30,459,804</u> | <u>304,000</u> | <u>19,897,000</u> | <u>12,934,000</u> | <u>33,135,000</u> |
| Shares issued for payment of professional services | 193,906 | 2,000 | 1,125,000 | — | 1,127,000 |
| Employee stock purchases | 300,000 | 3,000 | 797,000 | — | 800,000 |
| Adjustment for deferred tax asset valuation . | — | — | (51,000) | — | (51,000) |
| Net income | — | — | — | 2,975,000 | 2,975,000 |
| Balance – December 31, 2020. | <u>30,953,710</u> | <u>\$309,000</u> | <u>\$21,768,000</u> | <u>\$15,909,000</u> | <u>\$37,986,000</u> |

* Represents the purchase of the net assets of StockCross less Siebert's 15% equity method investment in StockCross and also includes other pro forma adjustments. See the statement of financial condition within "Note 3 – Acquisitions" for additional detail.

Numbers are rounded for presentation purposes. See notes to consolidated financial statements.

SIEBERT FINANCIAL CORP. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | |
|--|----------------------------|---------------|
| | 2020 | 2019 |
| Cash Flows From Operating Activities | | |
| Net income | \$ 2,975,000 | \$ 3,236,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred income tax expense | 479,000 | 490,000 |
| Depreciation and amortization | 1,566,000 | 1,002,000 |
| Changes in | | |
| Receivables from customers | (9,027,000) | (6,424,000) |
| Receivables from and deposits with broker-dealers and clearing organizations | (14,549,000) | 383,000 |
| Securities borrowed | (712,256,000) | 104,438,000 |
| Securities owned, at fair value | 395,000 | 2,717,000 |
| Prepaid expenses and other assets | (2,055,000) | 271,000 |
| Prepaid service contract | (686,000) | — |
| Payables to customers | 72,433,000 | 30,308,000 |
| Payables to non-customers | 3,507,000 | (7,179,000) |
| Drafts payable | 1,187,000 | 289,000 |
| Payables to broker-dealers and clearing organizations | 1,287,000 | 585,000 |
| Accounts payable and accrued liabilities | 1,334,000 | (505,000) |
| Securities loaned | 750,368,000 | (105,796,000) |
| Securities sold, not yet purchased, at fair value | (95,000) | 69,000 |
| Interest payable | (10,000) | 10,000 |
| Lease liabilities | (136,000) | 458,000 |
| Net cash provided by operating activities | 96,717,000 | 24,352,000 |
| Cash Flows From Investing Activities | | |
| Segregated cash acquired in a business acquisition | — | 152,000 |
| Cash paid in a business acquisition, net of cash and cash equivalents acquired | — | (3,824,000) |
| Purchase of furniture, equipment, and leasehold improvements | (13,000) | (1,010,000) |
| Purchase of software | (397,000) | (1,262,000) |
| Net cash used in investing activities | (410,000) | (5,944,000) |
| Cash Flows From Financing Activities | | |
| Notes payable – related party | (2,800,000) | 2,000,000 |
| Long-term debt | 4,655,000 | — |
| Employee stock purchases | 800,000 | — |
| Purchase of StockCross common stock | — | (3,424,000) |
| Return of capital distribution - StockCross | — | (1,600,000) |
| Treasury stock sales - StockCross | — | 172,000 |
| Net cash provided by / (used in) financing activities | 2,655,000 | (2,852,000) |
| Net increase / (decrease) in cash and cash equivalents, and cash and securities segregated for regulatory purposes | 98,962,000 | 15,556,000 |

Numbers are rounded for presentation purposes. See notes to consolidated financial statements.

| | Year Ended December 31, | |
|---|----------------------------|----------------------|
| | 2020 | 2019 |
| Cash and cash equivalents, and cash and securities segregated for regulatory purposes - beginning of year | 229,594,000 | 214,038,000 |
| Cash and cash equivalents, and cash and securities segregated for regulatory purposes - end of year | <u>\$328,556,000</u> | <u>\$229,594,000</u> |
| Cash and cash equivalents - end of year | \$ 3,632,000 | \$ 4,670,000 |
| Cash and securities segregated for regulatory purposes - end of year | <u>324,924,000</u> | <u>224,924,000</u> |
| Cash and cash equivalents, and cash and securities segregated for regulatory purposes - end of year | <u>\$328,556,000</u> | <u>\$229,594,000</u> |
| Supplemental cash flow information | | |
| Cash paid during the year for income taxes | \$ 167,000 | \$ 636,000 |
| Cash paid during the year for interest | \$ 359,000 | \$ 125,000 |
| Non-cash investing and financing activities | | |
| Shares issued for payment of professional services | \$ 1,127,000 | \$ — |

Numbers are rounded for presentation purposes. See notes to consolidated financial statements.

SIEBERT FINANCIAL CORP. & SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Siebert Financial Corp., a New York corporation, incorporated in 1934, is a holding company that conducts the following lines of business through its wholly-owned subsidiaries:

- Retail brokerage business through Muriel Siebert & Co., Inc. (“MSCO”), a Delaware corporation and broker-dealer registered with the SEC
- Investment advisory services through Siebert AdvisorNXT, Inc. (“SNXT”), a New York corporation registered with the SEC as a RIA under the Advisers Act
- Insurance services through Park Wilshire Companies, Inc. (“PWC”), a Texas corporation and licensed insurance agency
- Robo-advisory technology development through Siebert Technologies, LLC (“STCH”), a Nevada limited liability company
- Prime brokerage services through WPS Prime Services, LLC (“WPS”), a Delaware limited liability company and a broker-dealer registered with the SEC
- StockCross Digital Solutions, Ltd. (“STXD”), an inactive subsidiary headquartered in Bermuda

For purposes of this Annual Report on Form 10-K, the terms “Siebert,” “Company,” “we,” “us,” and “our” refer to Siebert Financial Corp. and its subsidiaries collectively, unless the context otherwise requires.

The Company is headquartered in New York, New York, with primary operations in New Jersey, Florida, and California. The Company has 18 branch offices throughout the U.S. and clients around the world. The Company’s SEC filings are available through the Company’s website at www.siebert.com, where investors can obtain copies of the Company’s public filings free of charge. The Company’s common stock, par value \$.01 per share, trades on the Nasdaq Capital Market under the symbol “SIEB.”

The Company primarily operates in the securities brokerage and asset management industry and has no other reportable segments. All of the Company’s revenues for the years ended December 31, 2020 and 2019 were derived from its operations in the U.S.

As of December 31, 2020, the Company is comprised of a single operating segment based on the factors related to management’s decision-making framework as well as management evaluating performance and allocating resources based on assessments of the Company from a consolidated perspective.

Acquisition of WPS Prime Services, LLC

Effective December 1, 2019, the Company acquired 100% of the member interests in WPS Prime Services, LLC and WPS became wholly-owned subsidiary of the Company. The operating results for the 31-day period ended December 31, 2019 were included in the Company’s statement of income.

Acquisition of StockCross

On January 25, 2019, the Company purchased approximately 15% of the outstanding shares of StockCross Financial Services, Inc. (“StockCross”). Subsequently, the Company acquired the remaining 85% of StockCross’ outstanding shares in exchange for 3,298,774 shares of the Company’s common stock. Effective January 1, 2020, StockCross was merged with and into MSCO, and as of January 1, 2020, all clearing and other services provided by StockCross were performed by MSCO.

Change in Reporting Entity

As of the date of the Company’s acquisition of StockCross, the Company and StockCross were entities under common control of the Gebbia Family. The acquisition represented a change in reporting entity and as such, the companies have been presented on a combined basis for all periods presented in the consolidated financial statements (“financial statements”). See “*Note 3 – Acquisitions*” for additional detail on the transaction with StockCross and the corresponding accounting.

COVID-19

The challenges posed by the COVID-19 pandemic on the global economy increased significantly starting in the first quarter of 2020. COVID-19 has spread across the globe during 2020 and has impacted economic activity worldwide. In response to COVID-19, national and local governments around the world instituted certain measures, including travel bans, prohibitions on group events and gatherings, shutdowns of certain businesses, curfews, shelter-in-place orders and recommendations to practice social distancing.

The Company instituted a number of temporary closures of branch offices; however, as of the date of the filing of this report, all of the Company's branch offices have been re-opened while maintaining compliance with federal, state and local mandates and guidelines. The Company has taken numerous steps to ensure that its employees and customers are operating in a safe environment by implementing measures such as social distancing, sanitizing workstations, temperature checks, requiring masks, and alternating staff. The financial impact on the Company from the COVID-19 pandemic has been varied as revenue streams related to interest rates have decreased while revenue streams from commissions and fees and principal transactions have largely benefited from the market volatility associated with the pandemic.

The Company is actively monitoring the impact of COVID-19 on its business, financial condition, liquidity, operations, employees, clients and business partners. Based on management's assessment as of December 31, 2020, the ultimate impact of COVID-19 on the Company's business, results of operations, financial condition and cash flows is dependent on future developments, including the duration of the pandemic and the related length of its impact on the global economy, which are uncertain and cannot be predicted at this time.

See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional detail on COVID-19 and its impact on the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as established by the Financial Accounting Standards Board ("FASB") to ensure consistent reporting of financial condition. The consolidated financial statements include the accounts of Siebert and its wholly-owned subsidiaries and upon consolidation, all intercompany balances and transactions are eliminated. The U.S. dollar is the functional currency of the Company and numbers are rounded for presentation purposes.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

These estimates relate primarily to revenue and expenses in the normal course of business as to which the Company receives no confirmations, invoices, or other documentation at the time the books are closed. The Company uses its best judgment, based on knowledge of these revenue transactions and expenses incurred, to estimate the amount of such revenue and expenses. Actual results could differ from those estimates. The Company is not aware of any material differences between the estimates used in closing the Company's books for the last five years and the actual amounts of revenue and expenses incurred when the Company subsequently receives the actual confirmations, invoices, or other documentation.

Estimates are used in intangible asset valuations and useful lives, depreciation, income taxes, and the contingent liabilities related to legal and healthcare expenses. The Company also estimates the valuation allowance for its deferred tax assets based on the more likely than not criteria. The Company believes that its estimates are reasonable.

Accounting for Acquisitions

ASC 805 is used for accounting in business acquisitions. ASC 805 requires that goodwill be recognized separately from assets acquired and liabilities assumed at their acquisition date fair values. Goodwill, as of the date of acquisition, is determined as the excess of the consideration transferred net of the acquisition date fair values of

assets acquired and liabilities assumed. Fair value estimates at acquisition date may be assessed internally or externally using third parties. As part of the valuation and appraisal process, the third-party appraiser prepares a report assigning estimated acquisition date fair values to assets and liabilities. These fair value estimations are subjective and require careful consideration and sound judgment. Management reviews the third-party reports for fairness of the assigned values.

Concentrations of Credit Risk

The Company is engaged in various trading and brokerage activities whose contra-parties include broker-dealers, banks and other financial institutions.

In the event contra-parties do not fulfill their obligations, the Company may sustain a loss if the market value of the instrument is different from the contract value of the transaction. The risk of default primarily depends upon the credit worthiness of the contra-parties involved in the transactions. It is the Company's policy to review, as necessary, the credit standing of each contra-party with which it conducts business. The Company has experienced no material historical losses in relation to its contra-parties for the years ended December 31, 2020 and 2019.

As of December 31, 2020 and 2019, the Company maintained its cash balances at various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. The Company is subject to credit risk to the extent that the financial institution with which it conducts business is unable to fulfill its contractual obligations and deposits exceed FDIC limits.

Cash and Cash Equivalents

Cash and cash equivalents are all cash balances that are unrestricted. The Company has defined cash equivalents as highly liquid investments with original maturities of less than 90 days that are not held for sale in the ordinary course of business. As of December 31, 2020 and 2019, the Company did not hold any cash equivalents. At time, cash balances may exceed FDIC insured limits.

Cash and Securities Segregated For Regulatory Purposes

MSCO is subject to Exchange Act Rule 15c3-3, referred to as the "Customer Protection Rule," which requires segregation of funds in a special reserve account for the exclusive benefit of customers. Effective upon the Company's acquisition of StockCross on January 1, 2020, the requirements and special reserve accounts of MSCO and StockCross were combined. *See "Note 17 – Capital Requirements" for additional detail.*

As of December 31, 2020 and 2019, MSCO had \$0 and \$1.3 million of securities segregated for regulatory purposes, respectively.

Receivables From and Payables To Customers

Accounts receivable from and payable to customers include amounts due and owed on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Receivables from customers are reported at their outstanding principal balance, adjusted for any allowance for doubtful accounts. An allowance is established when collectability is not reasonably assured. When the receivable from a brokerage client is considered to be impaired, the amount of impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations. Securities beneficially owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the statements of financial condition. No valuation allowance for doubtful accounts was necessary as of December 31, 2020 and 2019.

Receivables From, Payables To, and Deposits With Broker-Dealers and Clearing Organizations

Accounts receivable from and payable to broker-dealers includes receivables from or payables to MSCO and WPS clearing broker-dealers, fail-to-deliver and fail-to-receive items, deposits with clearing organizations, and amounts receivable for unsettled regular-way transactions.

The Company operates on a month-to-month basis with its clearing broker-dealers and their fees are offset against the Company's revenues on a monthly basis. *See "Note 4 – Receivables from, Payables to, and Deposits with Broker-Dealers and Clearing Organizations" for additional detail.*

MSCO customer transactions for the year ended December 31, 2020 were both self-cleared and cleared on a fully disclosed basis through National Financial Services Corp. (“NFS”). MSCO customer transactions for the year ended December 31, 2019 were cleared on a fully disclosed basis through NFS and StockCross, the latter of which was an affiliate. As of January 1, 2020, all clearing and other services provided by StockCross were performed by MSCO and all MSCO deposits with StockCross were eliminated.

WPS customer transactions clear on a fully disclosed basis through The Goldman Sachs Group, Inc. (“Goldman Sachs”) and Pershing LLC (“Pershing”). Amounts payable to broker-dealers and clearing organizations are offset against amounts receivables from broker-dealers and clearing organizations. Receivables from these broker-dealers and clearing organizations are subject to clearing agreements and include the net receivable from net monthly revenues as well as cash on deposit.

The Company evaluates receivables from broker-dealers and clearing organizations and other receivables for collectability noting no amount was considered uncollectable as of December 31, 2020 and 2019. No valuation allowance is recognized for these receivables as the Company does not have a history of losses from these receivables and does not anticipate losses in the future. See “*Note 13 – Revenue Recognition*” for additional detail on the accounting policies for the revenue related to these receivables.

Securities Borrowed and Securities Loaned

Securities borrowed are recorded at the amount of cash collateral advanced. Securities borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. Securities loaned are recorded at the amount of cash collateral received. For securities borrowed and loaned, the Company monitors the market value of the securities and obtains or refunds collateral as necessary.

Securities Owned and Securities Sold, Not Yet Purchased at Fair Value

Securities owned, at fair value represent marketable securities owned by the Company at trade-date valuation. Securities sold, not yet purchased, at fair value represent marketable securities sold by the Company prior to purchase at trade-date valuation. See “*Note 6 – Fair Value Measurements*” for additional detail.

Furniture, Equipment, and Leasehold Improvements, Net

Furniture, equipment, and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally not exceeding four years. Leasehold improvements are amortized over the shorter of their estimated useful life or the remaining lease term unless the lease transfers ownership of the underlying asset to the lessee, or the lessee is reasonably certain to exercise an option to purchase the underlying asset, in which case the lessee will amortize over the estimated useful life of the leasehold improvements.

Software, Net

The Company capitalizes certain costs for software such as website and other internal technology development and amortizes them over their useful life, generally not exceeding three years. Depending on the terms of the contract, the Company either records costs from software hosting arrangements as prepaid assets and amortizes them over the contract term, or the costs are expensed as incurred.

The Company enters into certain software hosting arrangements where the cost associated professional development services is capitalized and then amortized over the term of the contract.

Other software costs such as routine maintenance and various data services to provide market information to customers are expensed as incurred.

Payables to Non-Customers

Payables to non-customers includes amounts due on cash and margin transactions on accounts owned and controlled by principal officers and directors of MSCO. Payables to non-customers amounts include any amounts received from interest on credit balances.

Payables to non-customers also include amounts due on cash transactions owned and controlled by the Company’s proprietary accounts of introducing broker-dealers. Effective upon the Company’s acquisition of StockCross on January 1, 2020, the Company no longer had any proprietary accounts of introducing broker-dealers.

Drafts Payable

Drafts payable represent checks drawn by the Company against customer accounts which remained outstanding and had not cleared the bank as of the end of the period.

Intangible Assets, Net

Certain identifiable intangible assets the Company acquires such as customer relationships and trade names are amortized over their estimated useful lives on a straight-line basis. Amortization expense associated with such intangible assets is included in the “Depreciation and amortization” line item on the statements of income.

The Company evaluates intangible assets for impairment on an annual basis or when events or changes indicate the carrying value may not be recoverable. The Company also evaluates the remaining useful lives of intangible assets on an annual basis or when events or changes warrants the remaining period of amortization to be revised. The Company currently does not have any intangible assets with indefinite lives other than goodwill.

Goodwill

Goodwill is recognized as a result of business combinations and represents the excess of the purchase price over the fair value of net tangible assets and identifiable intangible assets. The Company evaluates goodwill for impairment on an annual basis or when events or changes indicate the carrying value may not be recoverable. The Company has the option of performing a qualitative assessment of goodwill to determine whether it is more likely than not that the fair value of its equity is less than the carrying value. If it is more likely than not that the fair value exceeds the carrying value, then no further testing is necessary; otherwise, the Company must perform a two-step quantitative assessment of goodwill. The Company may elect to bypass the qualitative assessment and proceed directly to performing a two-step quantitative assessment.

Revenue Recognition

Revenue from contracts with customers and counterparties includes commissions and fees, principal transactions, market making, stock borrow / stock loan, advisory fees, margin interest, marketing and distribution fees, interest income, and other income. The recognition and measurement of revenue 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 contract; and whether constraints on variable consideration should be applied due to uncertain future events.

As of December 31, 2020 and 2019, the acquisition of new entities did not impact the Company’s existing revenue streams as the acquired entities had consistent application of the revenue recognition guidance.

Advertising Costs

Advertising costs are expensed as incurred and were \$0 and \$2,000 for the years ended December 31, 2020, and 2019, respectively.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that the Company believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all 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. If the Company determines that it would be able to realize deferred taxes in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company recognizes interest and penalties related to unrecognized tax benefits on the provision for income taxes line in the statements of income. Accrued interest and penalties would be included on the related tax liability line in the statements of financial condition.

Capital Stock

The authorized capital stock of the Company consists of a single class of common stock. Shares authorized were 100 million and 49 million as of December 31, 2020 and 2019, respectively.

Per Share Data

Basic earnings per share is calculated by dividing net income by the weighted average number of outstanding common shares during the year. Diluted earnings per share is calculated by dividing net income by the number of shares outstanding under the basic calculation and adding, all dilutive securities, which consist of options. The Company has no dilutive securities as of December 31, 2020 and 2019.

Non-Cash Investing and Financing Activities

The Company entered into a promissory note of \$3 million with Gloria E. Gebbia to finance part of the acquisition of WPS. This was a non-cash item for the Company for the year ended December 31, 2019 as the \$3 million was paid directly from Gloria E. Gebbia to WPS. *See “Note 12 – Notes Payable - Related Party” for additional detail.*

Recently Issued Accounting Pronouncements

ASU 2019-12 - In December 2019, the FASB issued ASU No. 2019-12, “Simplifying the Accounting for Income Taxes.” This guidance removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This guidance is effective for fiscal years beginning after December 15, 2020. The guidance in this update has various elements, some of which are applied on a prospective basis and others on a retrospective basis with earlier application permitted. The Company is currently evaluating the effect of this new standard; however, the Company believes there will be no material impact to its financial statements.

Recently Adopted Accounting Pronouncements

ASU 2020-04 / ASU 2021-01 - In March 2020, the FASB issued Accounting Standards Update (“ASU”), which was subsequently amended in January 2021, related to contracts or hedging relationships that reference London Interbank Offered Rate (“LIBOR”) or other reference rates that are expected to be discontinued due to reference rate reform. The new standard provides for optional expedients and other guidance regarding the accounting related to modifications of contracts, hedging relationships and other transactions affected by reference rate reform. The amendment in ASU 2021-01 clarifies that all derivative instruments affected by changes to interest rates used for discounting, margining or contract price alignment are in the scope of Accounting Standards Codification (“ASC”) 848. The Company adopted the new standards as of January 1, 2020 and determined they were immaterial to the Company’s financial statements as of December 31, 2020.

ASU 2018-15 - In August 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-15, Intangibles, Goodwill and Other Internal-Use Software, (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which requires customers to apply the same criteria for capitalizing implementation costs incurred in a cloud computing arrangement that is hosted by the vendor as they would for an arrangement that has a software license. The standard is effective for interim and annual periods beginning after December 15, 2019 and early adoption is permitted. The standard can be adopted prospectively or

retrospectively. The Company adopted this new standard on January 1, 2020 and there was no material impact to the Company's financial statements as the only transactions impacted by this new standard occurred during the year ended December 31, 2020. See "Note 5 – Prepaid Service Contract" for additional detail.

ASU 2018-13 - In August 2018, the FASB issued ASU 2018-13, Fair value Measurement (Accounting Standards Codification ("ASC") 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes certain disclosures, modifies certain disclosures and adds additional disclosures. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019 and early adoption is permitted. The Company adopted the new standard on its effective date, January 1, 2020, and determined it was immaterial to the Company's financial statements as of December 31, 2020.

ASU 2018-07 - In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718). ASU 2018-07 is intended to reduce cost and complexity of financial reporting for non-employee share-based payments. Currently, the accounting requirements for non-employee and employee share-based payments are significantly different. ASU 2018-07 expands the scope of Topic 718, which currently only includes share-based payments to employees, to include share-based payments to non-employees for goods or services. Consequently, the accounting for share-based payments to non-employees and employees will be substantially aligned. This ASU supersedes Subtopic 505-50, "Equity - Equity-Based Payments to Nonemployees." The amendments to ASU 2018-07 are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than a company's adoption date of ASU No. 2014-09, (Topic 606), "Revenue from Contracts with Customers." The Company adopted this new standard on January 1, 2020 and there was no material impact to the Company's financial statements as the only transactions impacted by this new standard occurred during the year ended December 31, 2020. See "Note 5 – Prepaid Service Contract" for additional detail.

ASU 2017-04 – In January 2017, the FASB amended the guidance to simplify the test for goodwill impairment by eliminating Step 2 from the goodwill impairment test. The amended guidance requires the Company to perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized at the amount by which the carrying amount exceeds the fair value of the reporting unit; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Income tax effects resulting from any tax-deductible goodwill should be considered when measuring the goodwill impairment loss, if applicable. The Company will still have the option to perform a qualitative assessment to conclude whether it is more likely than not that the carrying amount of the Company exceeds its fair value. The guidance will be effective for interim and annual periods beginning January 1, 2020, and must be applied prospectively. Early adoption is permitted. The Company adopted the new standard on January 1, 2020 and determined that it did not impact the Company as goodwill was not impaired as of December 31, 2020.

ASU 2016-02 – In February 2016, the FASB established ASC 842, Leases, by issuing ASU 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use model that requires a lessee to recognize a lease right-of-use asset and lease liability on the statement of financial condition for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of income. The new standard is effective for the Company on January 1, 2019, with early adoption permitted. The Company adopted the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the consolidated financial statements as its date of initial application. The Company adopted the new standard on January 1, 2019 and used the effective date as the date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Company elected the "package of practical expedients," which permits the Company not to reassess under the new standard the Company's prior conclusions about lease identification, lease classification and initial direct costs. The Company has not elected the hindsight practical expedient at transition.

The new standard also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company will not recognize lease right-of-use assets or lease liabilities. As of December 31, 2020, the financial statements for the periods presented reflect the changes from this accounting guidance.

Management has evaluated other recently issued accounting pronouncements and does not believe that any of these pronouncements will have a significant impact on the Company's financial statements and related disclosures as of December 31, 2020.

3. Acquisitions

StockCross

Overview of Acquisition

Established in 1971, StockCross was one of the largest privately-owned brokerage firms in the nation and its operations consisted primarily of market making, fixed-income products distribution, online and broker-assisted equity trading, securities lending, and equity stock plan services.

Prior to being acquired by the Company, StockCross and the Company were affiliated entities through common ownership and had various related party transactions. In January 2019, the Company acquired approximately 15% ownership of StockCross. Effective January 1, 2020, the Company acquired the remaining 85% of StockCross' outstanding shares and StockCross was merged with and into MSCO. The purchase price paid was approximately \$29,750,000 or 3,298,774 shares of the Company's restricted common stock which was issued in connection with the acquisition. Prior to the acquisition, MSCO had a clearing agreement with StockCross whereby StockCross provided custody and clearing services to MSCO for its securities broker-dealer business; however, as of January 1, 2020, all clearing and other services provided by StockCross were performed by MSCO.

Accounting for Acquisition

Prior to and as of the date of the acquisition, the Company and StockCross were entities under common control of the Gebbia Family. As such, the acquisition was accounted for as a transaction between entities under common control.

This common-control transaction does not meet the definition of a business combination in accordance with GAAP because there was no change in control over the net assets.

The acquisition represented a change in reporting entity. As such, upon the closing of the acquisition, the net assets of the Company were combined with those of StockCross at their historical carrying amounts. The companies have been presented on a combined basis for all periods presented in the financial statements in a manner similar to a pooling of interests, as the period of common control existed prior to the periods presented in the financial statements. Accordingly, the historical financial statements of the Company have been presented under the "as if pooling" method.

The statement of income for the year ended December 31, 2019 reflects the elimination of StockCross' other income and the Company's corresponding custody and clearing fees resulting from the fully disclosed clearing relationship between MSCO and StockCross. In addition, the Company's loss recognized as part of its equity method investment in StockCross for the year ended December 31, 2019 was eliminated upon consolidation. These adjustments to pre-tax income were tax affected using an estimated effective tax rate of 28.0%.

The statement of financial condition as of December 31, 2019 reflects the elimination of intercompany payables and receivables between the Company and StockCross as part of their ongoing business relationship and reflects the elimination of the Company's 15% ownership of StockCross. The statement of financial condition as of December 31, 2019 reflects an adjustment to increase the Company's common stock by the par value of the shares issued in connection with the transaction and to eliminate the par value of StockCross' common stock. The adjustments also increase additional paid-in capital for the net difference, as well as the change in retained earnings from the adjustments in the statement of income.

Prior to the Company's acquisition of StockCross, StockCross sold its treasury stock totaling \$172,000 to third parties and the Company purchased approximately 15% of the outstanding shares of StockCross from an unrelated party for \$3,665,000. On September 5, 2019, StockCross made a return of capital distribution in the

aggregate amount of \$1.6 million, of which the Company received approximately 15%, or \$241,000. All of these cash transactions are reflected in the “Cash flows from financing activities” section of the statements of cash flows for the year ended December 31, 2019.

Pro forma data may not be indicative of the results that would have been obtained had these events occurred at the beginning of the periods presented, nor is it intended to be a projection of future results.

Assets Acquired and Liabilities Assumed

The Company acquired various assets and assumed liabilities from StockCross which were recorded at their historical carrying amounts and summarized below:

| | <u>Historical Carrying Value</u> |
|--|--------------------------------------|
| Assets acquired | |
| Cash and cash equivalents | \$ 1,588,000 |
| Cash and securities segregated for regulatory purposes | 224,814,000 |
| Receivables from customers | 86,331,000 |
| Receivables from broker-dealers and clearing organizations | 3,105,000 |
| Other receivables | 627,000 |
| Prepaid expenses and other assets | 346,000 |
| Securities borrowed | 193,529,000 |
| Securities owned, at fair value | 3,018,000 |
| Furniture, equipment, and leasehold improvements, net | 19,000 |
| Lease right-of-use assets | 1,141,000 |
| Deferred tax assets | <u>407,000</u> |
| Total Assets acquired | 514,925,000 |
| Liabilities assumed | |
| Payables to customers | 308,091,000 |
| Payables to non-customers | 9,151,000 |
| Drafts payable | 2,834,000 |
| Payables to broker-dealers and clearing organizations | 1,406,000 |
| Accounts payable and accrued liabilities | 963,000 |
| Securities loaned | 170,443,000 |
| Securities sold, not yet purchased, at fair value | 28,000 |
| Notes payable – related party | 5,000,000 |
| Lease liabilities | <u>1,295,000</u> |
| Total Liabilities assumed | <u>499,211,000</u> |
| Net Assets acquired | <u>\$ 15,714,000</u> |

WPS

Overview of Acquisition

WPS is a Delaware limited liability company originally organized as a corporation under the laws of the State of Florida in 2007. WPS is a registered broker-dealer with the SEC and Commodity Futures Trading Commission (“CFTC”), and is a member of the FINRA, National Futures Association (“NFA”), and SIPC. WPS operations consist primarily of trade execution and risk management services for customers and is an introducing broker for the transactions of institutional customers.

Prior to being acquired by the Company, WPS was comprised of two members, Weeden Investors L.P. (“WILP”), a Delaware limited partnership, and Weeden Securities Corporation (“WSC”), a Delaware corporation, and was managed by a Board of Managers.

Effective December 1, 2019, the Company purchased 100% of the member interests of WPS from WILP and WSC and WPS became a wholly-owned subsidiary of the Company. The purchase price was approximately \$7.1 million paid in cash and the Company borrowed \$3 million in a promissory note payable to Gloria E. Gebbia to finance part of the purchase. The operating results for the 31-day period ended December 31, 2019 were included in the Company’s statement of income for the year ended December 31, 2019.

Accounting for Acquisition

The transaction was accounted for under the acquisition method of accounting for business combinations pursuant to ASC 805 - Business Combinations. ASC 805, requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the proposed acquisition date. ASC 820 - Fair Value Measurements, which establishes a framework for measuring fair values, defines fair value 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.”

Assets Acquired and Liabilities Assumed

The Company was required to allocate the WPS purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values as of November 30, 2019. The excess of the purchase price over those fair values was recorded as goodwill. In accordance with ASC 805, the Company was required to finalize the fair value of net assets of the business combination on the acquisition date. As of December 31, 2019, the Company completed its allocation of the WPS purchase price and adjustments were made for tax considerations.

In determining the fair value of assets acquired and liabilities assumed, the Company primarily used discounted cash flow analyses and market approaches. Inputs to the discounted cash flow analyses and other aspects of the allocation of purchase price required judgment. The more significant inputs used in the discounted cash flow analyses and other areas of judgment included assumptions such as future revenue growth or attrition rates, projected margins, discount rates used to present value future cash flows, the amount of synergies expected from the acquisition, and the economic useful life of assets.

The following table summarizes the Company’s allocation of the purchase price as of the date of acquisition:

| | Estimated Fair Value |
|--|-----------------------------|
| Cash and cash equivalents | \$ 301,000 |
| Cash segregated for regulatory purpose | 152,000 |
| Receivables from broker-dealers and clearing organizations | 4,616,000 |
| Furniture, equipment, and leasehold improvements, net | 41,000 |
| Software, net | 51,000 |
| Intangible assets, net | 1,057,000 |
| Lease right-of-use assets | 214,000 |
| Prepaid expenses and other assets | <u>271,000</u> |
| Total Assets acquired | 6,703,000 |
| | |
| Accounts payable and accrued liabilities | 1,353,000 |
| Lease liabilities | <u>214,000</u> |
| Total Liabilities assumed | 1,567,000 |
| | |
| Net Assets acquired | 5,136,000 |
| Goodwill | <u>1,989,000</u> |
| Purchase price | <u>\$7,125,000</u> |

The transaction resulted in \$1,989,000 of goodwill, all of which is expected to be deductible for tax purposes.

Financial Results from WPS

The following table summarizes the revenue and net income from operations of WPS included in the Company's statement of income for the year ended December 31, 2019 since the date of acquisition (for the 31-day period ended December 31, 2019):

| | <u>Year Ended December 31, 2019</u> |
|----------------------|---|
| Revenue | \$968,000 |
| Net income | \$203,000 |

Pro Forma Statements

The following pro forma summary presents the statement of income of the Company as if the acquisition of WPS had occurred on January 1, 2019, inclusive of pro forma adjustments (unaudited). WPS financial statements have already been consolidated as part of the Company's financial statements for the period presented for 2020.

The pro forma results include adjustments made for the consolidation of both entities. These adjustments take into consideration the interest expense on the promissory note used in financing the acquisition, the amortization of the acquired intangible assets, as well as the tax effect of pro forma adjustments using an estimated effective rate of 28.0%.

Pro forma data may not be indicative of the results that would have been obtained had these events occurred at the beginning of the periods presented, nor is it intended to be a projection of future results.

| | <u>Year Ended December 31, 2019</u> |
|----------------------|---|
| Revenue | \$53,938,000 |
| Net income | \$ 1,704,000 |

4. Receivables From, Payables To, and Deposits With Broker-Dealers and Clearing Organizations

Amounts receivable from, payables to, and deposits with broker-dealers and clearing organizations consisted of the following as of the periods indicated:

| | <u>As of December 31, 2020</u> | <u>As of December 31, 2019</u> |
|--|------------------------------------|------------------------------------|
| Receivables from and deposits with broker-dealers and clearing organizations | | |
| DTCC / OCC / NSCC | \$17,841,000 | \$3,059,000 |
| Goldman Sachs | 2,430,000 | 2,841,000 |
| Pershing Capital | 1,266,000 | 1,192,000 |
| NFS | 1,061,000 | 1,328,000 |
| Securities fail-to-deliver | 379,000 | 43,000 |
| Globalshares | 46,000 | 2,000 |
| ICBC | — | 10,000 |
| Total Receivables from and deposits with broker-dealers and clearing organizations | \$23,023,000 | \$8,475,000 |
| Payables to broker-dealers and clearing organizations | | |
| Securities fail-to-receive | <u>\$ 1,810,000</u> | <u>\$ 523,000</u> |
| Total Payables to broker-dealers and clearing organizations | \$ 1,810,000 | \$ 523,000 |

Under the DTCC shareholders' agreement, MSCO is required to participate in the DTCC common stock mandatory purchase. As of December 31, 2020, MSCO had shares of DTCC common stock valued at approximately \$937,000 which is included within the line item "Deposits with broker-dealers and clearing organizations" in the statements of financial condition. As of December 31, 2019, StockCross had shares of DTCC common stock valued at approximately \$359,000.

5. Prepaid Service Contract

On April 21, 2020, the Company entered into a Master Services Agreement (“MSA”), with InvestCloud, Inc. (“InvestCloud”). Pursuant to the MSA, InvestCloud agreed to provide the Company with the InvestCloud Platform, a new client and back end interface and related functionalities for the Company’s key operations. The Company agreed to pay InvestCloud as consideration therefore during the initial three-year term an annual license fee of \$600,000 as well as an upfront professional service fee of \$1.0 million for one-time configuration, installation and customization of the software. Following the initial three-year term, the MSA will automatically renew for additional one-year terms unless terminated by the Company upon 120 days’ notice.

In connection with the MSA, InvestCloud entered into a Side Letter Agreement with the Company pursuant to which InvestCloud acquired 193,906 shares of the Company’s restricted common stock (the “Shares”) at a per share price of \$5.81 (the Company’s share price as of the close of May 12, 2020) for a total of \$1.1 million for professional services, which approximates the cost of services to be provided, to integrate the InvestCloud Platform into the Company’s existing systems and Robo-Advisor. The Shares were issued to InvestCloud on May 12, 2020 without registration under the Securities Act of 1933 in reliance upon the exemption provided in Section 4(a)(2) thereunder. This transaction is reflected in the “Non-cash investing and financing activities” section of the statements of cash flows.

In accordance with ASU 2018-15, Intangibles, Goodwill and Other Internal-Use Software, the Company initially recorded a prepaid asset equal to the \$2.1 million of the total professional services related to the development work performed by InvestCloud, which is within the line item “Prepaid service contract” on the statements of financial condition. The Company amortizes this asset over the 3-year term of the contract, a period during which the arrangement is noncancelable. The license fees related to the Company’s use of the InvestCloud Platform are prepaid three months in advance and are also within the line item “Prepaid service contract” on the statements of financial condition. These prepaid license fees are amortized over the three-month term. The amortization for all the prepaid assets related to InvestCloud is within the line item “Technology and Communications” on the statements of income.

The Company recorded \$219,000 in expense related to share-based payments to InvestCloud for professional services and the total cost related to InvestCloud was \$764,000 for the year ended December 31, 2020.

6. Fair Value Measurements

Overview

ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy of fair value inputs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach, as specified by ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 - Quoted prices (unadjusted) in active markets for an identical asset or liability that the Company can assess at the measurement date.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability.

The availability of observable inputs can vary from security to security and is affected by a variety of factors, such as the type of security, the liquidity of markets, and other characteristics particular to the security. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. As such, the degree of judgment exercised in determining fair value is greatest for instruments categorized in level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

A description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis is as follows:

U.S. government securities: U.S. government securities are valued using quoted market prices and as such, valuation adjustments are not applied. Accordingly, U.S. government securities are generally categorized in level 1 of the fair value hierarchy.

Corporate bonds and convertible preferred stock: The fair value of corporate bonds and convertible preferred stock are determined using recently executed transactions, market price quotations (when observable), bond spreads, or credit default swap spreads obtained from independent external parties such as vendors and brokers, adjusted for any basis difference between cash and derivative instruments. The spread data used is for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. When position-specific external price data is not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond, or single-name credit default swap spreads and recovery rates as significant inputs. Corporate bonds and convertible preferred stocks are generally categorized in level 2 of the fair value hierarchy.

Equity securities: Equity securities are valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized in level 1 of the fair value hierarchy. Securities quoted in inactive markets or with observable inputs are categorized into level 2. If there are no observable inputs or quoted prices, securities are categorized as level 3 assets in the fair value hierarchy. Level 3 assets are not actively traded and subjective estimates based on managements' assumptions are utilized for valuation.

Certificates of deposit: Certificates of deposit included in investments are valued at cost, which approximates fair value. When certificates of deposits are held directly with banking institutions and issued directly to the Company, these are categorized within cash and cash equivalents in level 2 of the fair value hierarchy. When certificates of deposits are available for trading, they are categorized within securities owned, at fair value in level 2 of the fair value hierarchy.

Fair Value Hierarchy Tables

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of the periods presented.

| | As of December 31, 2020 | | | |
|---|-------------------------|------------------|------------|--------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Securities owned, at fair value | | | | |
| U.S. government securities* | \$2,029,000 | \$ — | \$— | \$2,029,000 |
| Certificates of deposit | — | 91,000 | — | 91,000 |
| Corporate bonds | — | 24,000 | — | 24,000 |
| Equity securities | 345,000 | 134,000 | — | 479,000 |
| Total Securities owned, at fair value | <u>\$2,374,000</u> | <u>\$249,000</u> | <u>\$—</u> | <u>\$2,623,000</u> |
| Liabilities | | | | |
| Securities sold, not yet purchased, at fair value | | | | |
| Equity securities | \$ — | \$ 21,000 | \$— | \$ 21,000 |
| Total Securities sold, not yet purchased, at fair value | <u>\$ —</u> | <u>\$ 21,000</u> | <u>\$—</u> | <u>\$ 21,000</u> |

| | As of December 31, 2019 | | | |
|---|-------------------------|------------------|------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Cash and securities segregated for regulatory purposes | | | | |
| U.S. government securities** | \$1,311,000 | — | — | \$1,311,000 |
| Securities owned, at fair value | | | | |
| U.S. government securities* | \$2,007,000 | \$ — | \$ — | \$2,007,000 |
| Corporate bonds | — | 25,000 | — | 25,000 |
| Equity securities | 453,000 | 245,000 | 288,000 | 986,000 |
| Total Securities owned, at fair value | <u>\$2,460,000</u> | <u>\$270,000</u> | <u>\$288,000</u> | <u>\$3,018,000</u> |
| Liabilities | | | | |
| Securities sold, not yet purchased, at fair value | | | | |
| Equity securities | \$ 88,000 | \$ 28,000 | \$ — | \$ 116,000 |
| Total Securities sold, not yet purchased, at fair value | <u>\$ 88,000</u> | <u>\$ 28,000</u> | <u>\$ —</u> | <u>\$ 116,000</u> |

* As of December 31, 2020 and 2019, these U.S. government securities mature on 08/31/21

** As of December 31, 2019, these U.S. government securities mature on 02/29/20

| | Changes in Level 3 Equity Assets | | |
|-----------------------------|----------------------------------|---|-------------------------|
| | Year Ended December 31, 2020 | | |
| | Amount | Valuation Technique | Reason for Change |
| Balance – January 1, 2020 | \$ 288,000 | Liquidation value based on valuation report | |
| Transfers out of level 3 | (288,000) | | Sale of equity security |
| Balance – December 31, 2020 | <u>\$ —</u> | | |

The following represents financial instruments in which the ending balances as of December 31, 2020 and 2019 are not carried at fair value in the statements of financial condition:

Receivables and other assets: Receivables from broker-dealers and clearing organizations, receivables from customers, other receivables, prepaid service contact, and prepaid expenses and other assets are recorded at amounts that approximate fair value and are classified as level 2 under the fair value hierarchy.

Securities borrowed and securities loaned: Securities borrowed and securities loaned are recorded at amounts which approximate fair value and are primarily classified as level 2 under the fair value hierarchy. The Company's securities borrowed and securities loaned balances represent amounts of equity securities borrow and loan contracts and are marked-to-market daily in accordance with standard industry practices which approximate fair value.

Payables: Payables to customers, payables to non-customers, drafts payable, payables to broker-dealers and clearing organizations, accounts payable and accrued liabilities, interest payable, and taxes payable are recorded at amounts that approximate fair value due to their short-term nature and are classified as level 2 under the fair value hierarchy.

Notes payable – related party: The carrying amount of the notes payable – related party approximates fair value due to the relative short-term nature of the borrowing. Under the fair value hierarchy, the notes payable – related party is classified as level 2.

Line of credit: The carrying amount of the line of credit with East West Bank approximates fair value due to the relative short-term nature of the borrowing. Under the fair value hierarchy, the line of credit is classified as level 2.

7. Furniture, Equipment, and Leasehold Improvements, Net

Furniture, equipment, and leasehold improvements consisted of the following as of the periods indicated:

| | As of December 31, | |
|---|--------------------|--------------------|
| | 2020 | 2019 |
| Leasehold improvements | \$1,389,000 | \$1,389,000 |
| Equipment | 170,000 | 170,000 |
| Furniture and fixtures | 166,000 | 154,000 |
| Total Furniture, equipment, and leasehold improvements | 1,725,000 | 1,713,000 |
| Less accumulated depreciation | (963,000) | (563,000) |
| Total Furniture, equipment, and leasehold improvements, net | <u>\$ 762,000</u> | <u>\$1,150,000</u> |

Total depreciation expense for furniture, equipment, and leasehold improvements was \$402,000 and \$405,000 for the years ended December 31, 2020 and 2019, respectively.

8. Software, Net

Software consisted of the following as of the periods indicated:

| | As of December 31, | |
|--|---------------------|--------------------|
| | 2020 | 2019 |
| Robo-Advisor | \$ 763,000 | \$ 763,000 |
| Other Software | 2,170,000 | 1,771,000 |
| Total Software | 2,933,000 | 2,534,000 |
| Less accumulated amortization – Robo-Advisor | (509,000) | (254,000) |
| Less accumulated amortization – Other software | (1,090,000) | (392,000) |
| Total Software, net | <u>\$ 1,334,000</u> | <u>\$1,888,000</u> |

Total amortization of software was \$951,000 and \$562,000 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, the Company estimates future amortization of software assets of \$870,000, \$390,000, and \$74,000, in the years ended December 31, 2021, 2022, and 2023, respectively.

9. Leases

As of December 31, 2020, the Company rents office space under operating leases expiring in 2021 through 2024, and the Company has no financing leases. The leases call for base rent plus escalations as well as other operating expenses. The following table represents the Company's lease right-of-use assets and lease liabilities on the statements of financial condition. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the statements of financial condition. The Company acquired two leases from both its acquisition of StockCross and WPS, the impact of which is reflected in the following disclosures.

As of December 31, 2020, the Company does not believe that any of the renewal options under the existing leases are reasonably certain to be exercised; however, the Company will continue to assess and monitor the lease renewal options on an ongoing basis.

| | As of December 31, | |
|-------------------------------------|--------------------|-------------|
| | 2020 | 2019 |
| Assets | | |
| Lease right-of-use assets | \$2,290,000 | \$3,951,000 |
| Liabilities | | |
| Lease liabilities | \$2,612,000 | \$4,409,000 |

The calculated amounts of the lease right-of-use assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company leases some miscellaneous office equipment, but they are immaterial and therefore the Company records the costs associated with this office equipment on the statements of income rather than capitalizing them as lease right-of-use assets. The Company determined a discount rate of 5.0% would approximate the Company's cost to obtain financing given its size, growth, and risk profile.

| | <u>As of December 31,</u> | |
|---|---------------------------|-------------|
| | <u>2020</u> | <u>2019</u> |
| Weighted average remaining lease term – operating leases (in years) | 2.2 | 2.7 |
| Weighted average discount rate – operating leases | 5.0% | 5.0% |

The following table represents lease costs and other lease information. The Company has elected the package of practical expedients and as a result, expired leases and classification of leases per ASC 840 were not assessed as of the transition date. In addition, the Company has elected the practical expedient to not separate lease and non-lease components, and as such, the variable lease cost primarily represents variable payments such as common area maintenance and utilities which are usually determined by the leased square footage in proportion to the overall office building.

| | <u>Year Ended December 31,</u> | |
|--|--------------------------------|--------------------|
| | <u>2020</u> | <u>2019</u> |
| Operating lease cost | \$2,314,000 | \$1,764,000 |
| Short-term lease cost | 102,000 | 446,000 |
| Variable lease cost | 351,000 | 360,000 |
| Sublease income | — | — |
| Total Rent and occupancy | <u>\$2,767,000</u> | <u>\$2,570,000</u> |
| Cash paid for amounts included in the measurement of lease liabilities | | |
| Operating cash flows from operating leases | \$2,457,000 | \$1,876,000 |
| Lease right-of-use assets obtained in exchange for new lease liabilities | | |
| Operating leases | \$2,353,000 | \$5,732,000 |

Lease Commitments

Future annual minimum payments for operating leases with initial terms of greater than one year as of December 31, 2020 were as follows:

| <u>Year</u> | <u>Amount</u> |
|---|--------------------|
| 2021 | \$1,405,000 |
| 2022 | 756,000 |
| 2023 | 543,000 |
| 2024 | <u>56,000</u> |
| Remaining balance of lease payments | 2,760,000 |
| Less difference between undiscounted cash flows and discounted cash flows | <u>146,000</u> |
| Lease liabilities | <u>\$2,614,000</u> |

As of December 31, 2020, the Company had an operating lease agreement for an office space in Beverly Hills, California with a term of approximately 5 years. The total commitment of the lease is approximately \$1.6 million, and the lease will commence on March 1, 2021.

Rent and occupancy expenses were \$2,767,000 and \$2,570,000 for the years ended December 31, 2020 and 2019, respectively.

10. Goodwill and Intangible Assets, Net

Goodwill

As of December 31, 2020 and 2019, the Company's carrying amount of goodwill was \$1,989,000, all of which came from the Company's acquisition of WPS.

The goodwill from the acquisition consisted of WPS providing a new customer base of institutional clients, several strategic clearing relationships, as well as substantial cross-selling opportunities for the institutional and retail clients. The addition of WPS brings economies of scale in terms of operational and administrative functions as well as a skilled management team within the institutional space to Siebert. See “Note 3 – Acquisitions” for more detail on the acquisition of WPS.

Intangible Assets, Net

As a result of the Company’s acquisition of WPS, the Company acquired intangible assets consisting of WPS customer relationships and trade name, the fair values of which were \$987,000 and \$70,000, respectively, as of the acquisition date. The Company recorded intangible assets which are subject to amortization over their estimated useful lives. The intangible assets are deductible for tax purposes.

Pursuant to the Company’s agreement with the original owners of WPS, the Company agreed to discontinue using the name of Weeden Prime Services, LLC and filed to change it to WPS Prime Services, LLC in May 2020. As of December 31, 2020, the WPS trade name was fully amortized.

The following tables summarize information related to the intangible assets as of the dates indicated.

| | <u>Date Acquired</u> | <u>Original Useful Life</u> | <u>Remaining Useful Life</u> | | |
|--------------------------------------|----------------------|-----------------------------|--------------------------------|--|--|
| | | | <u>As of December 31, 2020</u> | | |
| WPS Customer Relationships | 11/30/19 | 6.0 years | 4.9 years | | |
| WPS Trade Name | 11/30/19 | 0.5 years | — | | |

| | <u>Purchase Price</u> | <u>2019</u> | <u>Balance as of</u> | <u>2020</u> | <u>Balance as of</u> |
|--------------------------------------|-----------------------|---------------------|--------------------------|---------------------|--------------------------|
| | | <u>Amortization</u> | <u>December 31, 2019</u> | <u>Amortization</u> | <u>December 31, 2020</u> |
| WPS Customer Relationships | \$ 987,000 | \$23,000 | \$ 964,000 | \$155,000 | \$809,000 |
| WPS Trade Name | 70,000 | 12,000 | 58,000 | 58,000 | — |
| Total Intangible assets | <u>\$1,057,000</u> | <u>\$35,000</u> | <u>\$1,022,000</u> | <u>\$213,000</u> | <u>\$809,000</u> |

The weighted average remaining useful life for the above intangible assets as of December 31, 2020 was 4.9 years.

The Company expects its aggregate annual amortization expense for existing amortizable intangible assets for the below periods to be as follows:

| | <u>Amount</u> |
|---|------------------|
| 2021 | \$165,000 |
| 2022 | 165,000 |
| 2023 | 165,000 |
| 2024 | 165,000 |
| 2025 | <u>149,000</u> |
| Total future amortization expense | <u>\$809,000</u> |

Impairment

For the years ended December 31, 2020 and 2019, management concluded that there have been no impairments to the carrying value of the Company’s goodwill and other tangible and intangible assets.

11. Long-Term Debt

Line of Credit with East West Bank

On July 22, 2020, the Company entered into a Loan and Security Agreement with East West Bank. In accordance with the terms of this agreement, the Company has the ability to borrow term loans in an aggregate principal amount not to exceed \$10 million during the two-year period after July 22, 2020. The Company’s obligations under the agreement are secured by a lien on all of the Company’s cash, dividends, stocks and other monies and property from time to time received or receivable in exchange for the Company’s equity interests in and any other rights to payment

from the Company's subsidiaries; any deposit accounts into which the foregoing is deposited and all substitutions, products, proceeds (cash and non-cash) arising out of any of the foregoing. Each term loan will have a term of four years, beginning when the draw is made. The repayment schedule will utilize a five-year (60 month) amortization period, with a balloon on the remaining amount due at the end of four years.

Term loans made pursuant to the agreement shall bear interest at the prime rate as reported by the Wall Street Journal, provided that the minimum interest rate on any term loan will not be less than 3.25%. In addition to the foregoing, on the date that each term loan is made, the Company shall pay to the lender an origination fee equal to 0.25% of the principal amount of such term loan. Pursuant to the loan agreement, the Company paid all lender expenses in connection with the loan agreement.

This agreement contains certain financial and non-financial covenants. The financial covenants are that the Company must maintain a debt service coverage ratio of 1.35 to 1, an effective tangible net worth of a minimum of \$25 million, and MSCO must maintain a net capital ratio that is not less than 10% of aggregate debit items. Certain other non-financial covenants include that the Company must promptly notify East West Bank of the creation or acquisition of any subsidiary that at any time owns assets with a value of \$100,000 or greater. As of December 31, 2020 and the date of the filing of this report, the Company was in compliance with all of its covenants related to this agreement.

In addition, the Company's obligations under the agreement are guaranteed pursuant to a guarantee agreement by and among, John J. Gebbia, individually and as a co-trustee of the John and Gloria Living Trust, U/D/T December 8, 1994 (the "Trust") and Gloria E. Gebbia, individually and as a co-trustee of the Trust.

As of December 31, 2020, the Company has drawn down a \$5.0 million term loan under this agreement and has an outstanding balance of \$4.7 million. The Company has an additional \$5.0 million remaining to draw down from this line of credit.

Remaining Payments

Future annual minimum payments for the line of credit with East West Bank as of December 31, 2020 were as follows:

| | <u>Amount</u> |
|------------|--------------------|
| 2021..... | \$ 998,000 |
| 2022..... | 998,000 |
| 2023..... | 998,000 |
| 2024..... | <u>1,661,000</u> |
| Total..... | <u>\$4,655,000</u> |

The interest expense and cash interest paid related to this line of credit was both \$54,000 for the year ended December 31, 2020. The effective interest rate related to this line of credit was 3.25% for the year ended December 31, 2020.

12. Note Payables - Related Party

As of December 31, 2020, the Company had various notes payable to Gloria E. Gebbia, the Company's principal stockholder, the details of which are presented below:

| <u>Description</u> | <u>Issuance Date</u> | <u>Face Amount</u> | <u>Unpaid Principal Amount</u> |
|--|----------------------|--------------------|--------------------------------|
| 4.00% due May 31, 2021..... | December 1, 2020 | \$2,200,000 | \$2,200,000 |
| 4.00% due November 30, 2021*..... | November 30, 2020 | <u>3,000,000</u> | <u>3,000,000</u> |
| Total Notes payable – related party..... | | <u>\$5,200,000</u> | <u>\$5,200,000</u> |

* This note payable is subordinated to MSCO and is subordinated to the claims of general creditors, approved by FINRA, and are included in MSCO's calculation of net capital and the capital requirements under FINRA and SEC regulations.

As of December 31, 2019, the Company had various notes payable to Gloria E. Gebbia, the details of which are presented below:

| <u>Description</u> | <u>Issuance Date</u> | <u>Face Amount</u> | <u>Unpaid Principal Amount</u> |
|---|----------------------|--------------------|--------------------------------|
| 4.00% due December 2, 2020 | December 2, 2019 | \$3,000,000 | \$3,000,000 |
| 2.75% due November 30, 2020* | November 30, 2018 | 3,000,000 | 3,000,000 |
| 1.75% due September 4, 2020* | September 4, 2020 | <u>2,000,000</u> | <u>2,000,000</u> |
| Total Notes payable – related party | | <u>\$8,000,000</u> | <u>\$8,000,000</u> |

* These notes payable are subordinated to MSCO and are subordinated to the claims of general creditors, approved by FINRA, and are included in MSCO’s calculation of net capital and the capital requirements under FINRA and SEC regulations. Subsequently, a rate adjustment was completed on March 3, 2020. These notes were acquired as part of the transaction with StockCross and no consideration was paid or received as part of the renegotiation. MSCO subsequently repaid the notes on September 4, 2020 and November 30, 2020, respectively.

The Company’s interest expense for these notes for the year ended December 31, 2020 and 2019 was \$276,000 and \$106,000, respectively. Cash paid for these notes for the year ended December 31, 2020 and 2019 was \$286,000 and \$96,000, respectively.

The Company’s interest payable was \$0 and \$10,000 as of December 31, 2020 and December 31, 2019, respectively, for notes payable – related party.

13. Revenue Recognition

Overview of Revenue

The primary sources of revenue for the Company are as follows:

Commissions and Fees

The Company earns commission revenue for executing trades for clients in individual equities, options, insurance products, futures, fixed income securities, as well as certain third-party mutual funds and ETFs. Commission revenue associated with combined trade execution and clearing services, as well as trade execution services on a standalone basis, is recognized at a point in time on the trade date when the performance obligation is satisfied. 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.

Principal Transactions

Principal transactions primarily represent riskless transactions in which the Company, after executing a solicited order, buys or sells securities as principal and at the same time buys or sells the securities with a markup or markdown to satisfy the order. Principal transactions are recognized at a point in time on the trade date when the performance obligation is satisfied. 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.

Market Making

Market making is revenue generated from the buying and selling of securities. Market making transactions are recorded on a trade-date basis as the securities transactions occur. 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 counterparty. Securities owned are recorded at fair market value at the end of the reporting period.

Stock Borrow / Stock Loan

The Company borrows securities on behalf of retail clients to facilitate short trading, loans excess margin securities from client accounts, facilitates borrow and loan contracts for broker-dealer counterparties, and provides stock locate services to broker-dealer counterparties. The Company does not utilize stock borrow / stock loan

activities for the purpose of financing transactions. Stock borrow / stock loan revenue is reported on a monthly basis net of expense. The performance obligation is satisfied on the contract 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 counterparty.

For the year ended December 31, 2020, stock borrow / stock loan revenue was \$4,045,000 (\$10,068,000 gross revenue less \$6,023,000 expenses). For the year ended December 31, 2019, stock borrow / stock loan revenue was \$1,607,000 (\$10,137,000 gross revenue minus \$8,530,000 expenses).

Advisory Fees

The Company earns advisory fees associated with managing client assets. The performance obligation related to this revenue stream is satisfied over time; however, the advisory fees are variable as they are charged as a percentage of the client's total asset value, which is determined at the end of the quarter.

Margin Interest, Marketing and Distribution fees

Margin interest, marketing and distribution fees consists of two components: margin interest and 12b1 fees resulting from rebates in money market funds. Margin interest is the net interest charged to customers for holding financed margin positions, and 12b1 fees are fees paid to the Company related to trailing payments from money market funds. Margin interest, marketing and distribution fees are recorded as earned.

Interest Income

The Company earns interest from clients' accounts, net of payments to clients' accounts, and on the Company's bank balances and is recorded as earned.

Other Income

Other income represents fees generated from correspondent clearing fees, corporate services client fees, payment for order flow, and transactional fees generated from client accounts. Transactional fees are recorded concurrently with the related activity. Other income is recorded as earned.

Categorization of Revenue

The following table presents the Company's major revenue categories and when each category is recognized:

| Revenue Category | Year Ended December 31, | | Timing of Recognition |
|--|--------------------------------|---------------------|------------------------------|
| | 2020 | 2019 | |
| Trading Execution and Clearing Services | | | |
| Commissions and fees | \$20,179,000 | \$ 9,750,000 | Recorded on trade date |
| Principal transactions | 11,850,000 | 9,018,000 | Recorded on trade date |
| Market making | 2,042,000 | 1,744,000 | Recorded on trade date |
| Stock borrow / stock loan | 4,045,000 | 1,607,000 | Recorded as earned |
| Advisory fees | <u>1,142,000</u> | <u>801,000</u> | Recorded as earned |
| Total Trading Execution and Clearing Services | 39,258,000 | 22,920,000 | |
| Other Income | | | |
| Margin interest, marketing and distribution fees | | | |
| Margin interest | 8,725,000 | 11,502,000 | Recorded as earned |
| 12b1 fees | <u>1,458,000</u> | <u>3,208,000</u> | Recorded as earned |
| Total Margin interest, marketing and distribution fees . . | 10,183,000 | 14,710,000 | |
| Interest income | 4,012,000 | 4,235,000 | Recorded as earned |
| Other income | <u>1,419,000</u> | <u>912,000</u> | Recorded as earned |
| Total Other Income | <u>15,614,000</u> | <u>19,857,000</u> | |
| Total Revenue | <u>\$54,872,000</u> | <u>\$42,777,000</u> | |

The following table presents each revenue category and its related performance obligation:

| <u>Revenue Stream</u> | <u>Performance Obligation</u> |
|---|--|
| Commissions and fees, Principal transactions, Market making, Stock borrow / stock loan, Advisory fees | Provide financial services to customers and counterparties |
| Margin interest, marketing and distribution fees, Interest income, Other income | n/a |

Soft Dollar Arrangement

As a result of the acquisition of WPS, the Company has soft dollar and commission sharing arrangements with customers that fall both within, and outside of, the safe harbor provisions of Rule 28(e) of the Securities Exchange Act of 1934 (“Rule 28(e)”), as amended. These soft dollar arrangements were determined to be a separate performance obligation that should be allocated a portion of the transaction price.

Under these arrangements, the Company charges additional dollars on customer trades and uses these fees to pay third parties for research, brokerage services, market data, and related expenses (“research services”) on behalf of clients. The Company is an agent in these arrangements, as it does not control the research services before they are transferred to the customer. As such, the revenue from these agreements are recognized net of cost in the statements of income in the line item “Commissions and fees.”

The Company paid client expenses of approximately \$693,000 and \$48,000 for the years ended December 31, 2020 and 2019, respectively. The Company had an outstanding receivable and payable of approximately \$4,000 and \$230,000, respectively, as of December 31, 2020. The Company had an outstanding receivable and payable of approximately \$31,000 and \$158,000, respectively, as of December 31, 2019.

The receivable and payable related to soft dollar arrangements are in the line items “Other receivables” and “Accounts payable and accrued liabilities,” respectively, on the statement of financial condition.

As of December 31, 2020 and 2019, no allowance for uncollectible commissions was necessary as the Company believes all commissions receivable and prepaid research services expenses will be realized.

Other Items

For the years ended December 31, 2020 and 2019, there were no costs capitalized related to obtaining or fulfilling a contract with a customer, and thus the Company has no balances for contract assets or contract liabilities.

The Company concludes that its revenue streams have the same underlying economic factors, and as such, no disaggregation of revenue is required.

14. Employee Stock Purchases

On November 10, 2020, the Company issued 150,000 shares of its restricted common stock (the “Shares”) to each of Anthony Palmeri and Gerard Losurdo, each new employees of MSCO, as part of their employment agreements. Mr. Palmeri and Mr. Losurdo each paid the Company approximately \$400,000 for their Shares, which was equal to 70% of the closing price of the common stock as reported on Nasdaq on November 9, 2020. The Shares issued to Mr. Palmeri and Mr. Losurdo are subject to a three-year restriction on transfer commencing on the day of issuance.

The issuance of the Shares were each approved by unanimous written consent of the Company’s board of directors. The shares were issued to Mr. Palmeri and Mr. Losurdo as part of their employment agreements in accordance with Nasdaq Listing Rule 5635(c)(4). The Shares were issued without registration under the Securities Exchange Act of 1933, as amended in reliance upon the exemption provided in Section 4(a)(2) thereunder.

The above transaction had no impact to the Company’s statements of income, but is reflected in the Company’s statement of financial condition, statement of changes in stockholders’ equity, and statement of cash flows within cash flows from financing activities for the year ended December 31, 2020.

15. Referral Fees

Upon the acquisition of WPS, the Company has agreements with various third parties to share commissions and pay fees as defined in the respective agreements. These expenses were approximately \$738,000 and \$86,000 for the years ended December 31, 2020 and 2019, which are presented in the line item “Referral fees” in the statement of income.

16. Income Taxes

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was enacted in response to the COVID-19 pandemic. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period which the new legislation is enacted. The CARES Act made various tax law changes including among other things (i) increased the limitation under IRC Section 163(j) for 2019 and 2020 to permit additional expensing of interest (ii) enacted a technical correction so that qualified improvement property can be immediately expensed under IRC Section 168(k) and (iii) made modifications to the federal net operating loss rules including permitting federal net operating losses incurred in 2018, 2019, and 2020 to be carried back to the five preceding taxable years in order to generate a refund of previously paid income taxes and (iv) enhanced recoverability of AMT tax credits. The CARES Act did not have a significant impact on the financial statements.

The Company’s provision for income taxes is comprised of the following:

| | <u>Year Ended December 31,</u> | |
|--|--------------------------------|--------------------|
| | <u>2020</u> | <u>2019</u> |
| Current | | |
| Federal | \$(176,000) | \$ 288,000 |
| State and local | <u>(82,000)</u> | <u>270,000</u> |
| Total Current | (258,000) | 558,000 |
| Deferred | | |
| Federal | \$ 161,000 | \$ 229,000 |
| State and local | <u>318,000</u> | <u>261,000</u> |
| Total Deferred | <u>479,000</u> | <u>490,000</u> |
| Total Provision for income taxes | <u>\$ 221,000</u> | <u>\$1,048,000</u> |

The Company’s effective tax rate differs from the U.S. federal statutory income tax rate of 21% for 2020 and 2019 as follows:

| | <u>Year Ended December 31,</u> | |
|---|--------------------------------|---------------|
| | <u>2020</u> | <u>2019</u> |
| Federal statutory income tax rate | 21.0% | 21.0% |
| Tax amortization of intangible assets | (8.8%) | (1.3%) |
| Permanent differences | 1.5% | 0.9% |
| State and local taxes, net of federal benefit | 2.5% | 4.3% |
| Change in valuation allowance | (5.2%) | — |
| Other | <u>(4.1%)</u> | <u>(0.4%)</u> |
| Effective tax rate | <u>6.9%</u> | <u>24.5%</u> |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

| | <u>As of December 31,</u> | |
|--|---------------------------|----------------------|
| | <u>2020</u> | <u>2019</u> |
| Deferred tax assets: | | |
| Net operating losses | \$ 6,043,000 | \$ 6,876,000 |
| Lease liabilities | 722,000 | 810,000 |
| Share-based compensation | 61,000 | — |
| Intangible assets | <u>2,000</u> | <u>—</u> |
| Subtotal | <u>6,828,000</u> | <u>7,686,000</u> |
| Less: Valuation allowance | <u>(1,070,000)</u> | <u>(1,236,000)</u> |
| Total Deferred tax assets | 5,758,000 | 6,450,000 |
| Deferred tax liabilities: | | |
| Fixed assets | <u>\$ (901,000)</u> | <u>\$(1,062,000)</u> |
| Total Deferred tax liabilities | <u>(901,000)</u> | <u>(1,062,000)</u> |
| Net Deferred tax assets | <u>\$ 4,857,000</u> | <u>\$ 5,388,000</u> |

In assessing the Company's ability to recover its deferred tax assets, the Company evaluated whether it is more likely than not that some portion or the entire deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible and/or net operating losses can be utilized. The Company considered all positive and negative evidence when determining the amount of the net deferred tax assets that are more likely than not to be realized. This evidence includes, but is not limited to, historical earnings, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income.

Based on historical operating profitability, positive trend of earnings and projected future taxable income, the Company concluded as of December 31, 2020 that certain of its U.S. deferred tax assets are realizable on a more-likely-than-not basis. The Company maintains a valuation allowance on certain federal net operating losses that are expected to expire unutilized and certain state net operating losses. The Company's valuation allowance decreased by \$166,000 during 2020. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's deferred income tax assets satisfy the realization standards, the valuation allowance will be reduced accordingly.

As of December 31, 2020, the Company had U.S. federal net operating loss carryforwards of approximately \$13.8 million, of which (i) \$12.8 million expire in varying amounts starting in 2033 to 2036 if not utilized, and (ii) \$1.0 million have an indefinite carryforward period, but are only available to offset 80% of future taxable income. The U.S. federal net operating loss carryforwards are subject to annual limitation under Section 382 of the Internal Revenue Code.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

| | <u>As of December 31,</u> | |
|---|---------------------------|-------------|
| | <u>2020</u> | <u>2019</u> |
| Balance at beginning of period | \$ — | \$— |
| Additions for tax positions taken during current year | 1,105,000 | — |
| Additions for tax positions taken during prior year | — | — |
| Reductions for tax positions taken during prior years | — | — |
| Settlements | — | — |
| Expirations of statutes of limitations | <u>—</u> | <u>—</u> |
| Balance at end of period | <u>\$1,105,000</u> | <u>\$—</u> |

Of the amounts reflected above as of December 31, 2020, the entire amount would reduce the Company's effective tax rate if recognized. The Company records accrued interest and penalties related to income tax matters as part of the provision for income taxes. For the year ended December 31, 2020 and December 31, 2019, the Company recognized expense related to interest and penalties on unrecognized tax benefits of \$0 and \$0, respectively. The Company does not believe that the amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company files a federal income tax return and income tax returns in various state tax jurisdictions. The Company is not currently under examination by the IRS or any state or local taxing authority for any tax year. The open tax years for the federal and state income tax filings is generally 2017 through 2020.

17. Capital Requirements

MSCO and StockCross

Net Capital

MSCO is subject to the Uniform Net Capital Rules of the SEC (Rule 15c3-1) of the Securities Exchange Act of 1934. Under the alternate method permitted by this rule, net capital, as defined, shall not be less than the lower of \$1 million or 2% of aggregate debit items arising from customer transactions. As of December 31, 2020, MSCO's net capital was \$27.5 million, which was approximately \$25.2 million in excess of its required net capital of \$2.3 million, and its percentage of aggregate debit balances to net capital was 24%.

As of December 31, 2019, MSCO's net capital was \$4.4 million, which was \$4.2 million in excess of its required net capital of \$250,000. As of December 31, 2019, StockCross' net capital was \$18.8 million, which was \$16.7 million in excess of its required net capital of \$2.1 million, and its percentage of aggregate debit balances to net capital was 18%. Effective upon the Company's acquisition of StockCross on January 1, 2020, the capital of MSCO and StockCross was combined.

Special Reserve Account

MSCO is subject to Customer Protection Rule 15c3-3 which requires segregation of funds in a special reserve account for the exclusive benefit of customers. As of December 31, 2020, MSCO had cash deposits of \$324.9 million in the special reserve accounts which was \$5.0 million in excess of the deposit requirement of \$319.9 million. After adjustments for deposit(s) and / or withdrawal(s) made on January 2, 2021, MSCO had \$1.0 million in excess of the customer reserve requirement.

As of December 31, 2019, MSCO did not have any special reserve accounts. As of December 31, 2019, StockCross had deposits of \$223.4 million (cash of \$222.1 million and securities with fair value of \$1.3 million) in the special reserve account which was \$4 million in excess of the deposit requirement of \$219.4 million. After adjustments for deposit(s) and / or withdrawal(s) made on January 2, 2020, StockCross had \$1 million in excess of the customer reserve requirement. Effective upon the Company's acquisition of StockCross on January 1, 2020, the requirements and special reserve accounts of MSCO and StockCross were combined.

As of December 31, 2019, StockCross was also subject to the PAB Account Rule 15c3-3 of the SEC which requires segregation of funds in a special reserve account for the exclusive benefit of proprietary accounts of introducing broker-dealers. As of December 31, 2019, StockCross had segregated cash of \$1.4 million under rule 15c3-3. As of December 31, 2019, StockCross had \$1.4 million in the special reserve account which was \$282,000 in deficit of the deposit requirement of \$1.7 million. After adjustments for deposit(s) and / or withdrawal(s) made on January 2, 2020, StockCross had \$218,000 in excess of the PAB reserve requirement. Effective upon the Company's acquisition of StockCross on January 1, 2020, MSCO no longer had a PAB requirement.

WPS

Net Capital

WPS, as a member of FINRA, is subject to the SEC Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn, or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. WPS is also subject to the CFTC's minimum financial requirements which require that WPS maintain net capital, as defined, equal to the greater of its requirements under Regulation 1.17 under the Commodity Exchange Act or Rule 15c3-1.

As of both December 31, 2020 and 2019, WPS net capital was approximately \$3.9 million which was approximately \$3.7 million in excess of its minimum requirement of \$250,000 under 15c3-1.

Special Reserve Account

As of December 31, 2019, cash of \$110,000 for WPS was segregated in a special reserve bank account for the benefit of customers.

18. Financial Instruments with Off-Balance Sheet Risk

The Company enters into various transactions to meet the needs of customers, conduct trading activities, and manage market risks and is, therefore, subject to varying degrees of market and credit risk.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

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. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations.

Such transactions may expose the Company to off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations.

The Company seeks to control the risks 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.

The Company's customer financing and securities settlement activities may require the Company to pledge customer securities as collateral in support of various secured financing sources such as bank loans and securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. On a daily basis, the Company controls this risk by monitoring the market value of securities pledged and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and continuously monitors compliance.

19. Commitments, Contingencies and Other

Legal and Regulatory Matters

The Company is party to certain claims, suits and complaints arising in the ordinary course of business.

On January 22, 2021, the California Department of Financial Protection and Innovation proposed that StockCross enter into a consent order related to StockCross and one of its registered representatives for activities that occurred prior to its acquisition by Siebert. The California proposed order seeks an aggregate amount of approximately \$900,000 in relation to this matter. Based on the facts of the matter as well as historical resolutions, the Company does not believe that the matter will have a material impact on the Company's financial statements.

As of December 31, 2020, all other legal matters are without merit or involve amounts which would not have a significant effect on the financial statements of the Company.

Overnight Financing

The Company has available lines of credit for short term overnight demand borrowing of up to \$15 million with both BMO Harris Bank and Texas Capital Bank as of December 31, 2020. As of December 31, 2020, the Company had no outstanding loan balances with either institution. There are no commitment fees or other restrictions on the credit lines. MSCO utilizes customer or firm securities as a pledge for short-term borrowing needs.

The interest expense and the cash paid related to the utilization of these credit lines were both \$18,000 and \$29,000 for the year ended December 31, 2020 December 31, 2019, respectively. There were no fees associated with the utilization of these credit lines for the years ended December 31, 2020 or December 31, 2019.

General Contingencies

In the normal course of its business, the Company indemnifies and guarantees certain service providers against specified potential losses in connection with their acting as an agent of, or providing services to, the Company. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company is self-insured with respect to employee health claims. The Company maintains stop-loss insurance for certain risks and has a health claim reinsurance limit capped at approximately \$50,000 per employee. The estimated liability for self-insurance claims is initially recorded in the year in which the event of loss occurs and may be subsequently adjusted based upon new information and cost estimates. Reserves for losses represent estimates of reported losses and estimates of incurred but not reported losses based on past and current experience. Actual claims paid and settled may differ, perhaps significantly, from the provision for losses. This adds uncertainty to the estimated reserves for losses. Accordingly, it is at least possible that the ultimate settlement of losses may vary significantly from the amounts included in the financial statements.

As part of this plan, the Company recognized expenses of \$1,308,000 and \$876,000 for the years ended December 31, 2020 and 2019, respectively.

The Company had an accrual of \$69,000 as of December 31, 2020, which represents the historical estimate of future claims to be recognized for claims incurred during the period.

The Company believes that its present insurance coverage and reserves are sufficient to cover currently estimated exposures, but there can be no assurance that the Company will not incur liabilities in excess of recorded reserves or in excess of its insurance limits.

20. Employee Benefit Plans

The Company through its affiliate, Kennedy Cabot Acquisition, LLC (“KCA”), sponsors a defined-contribution retirement plan under Section 401(k) of the Internal Revenue Code that covers substantially all employees. Participant contributions to the plan are voluntary and are subject to certain limitations. The Company may also make discretionary contributions to the plan. No contributions were made by the Company or KCA for the years ended December 31, 2020 and 2019.

21. Related Party Disclosures

StockCross

StockCross and the Company were under common ownership, and prior to January 1, 2020, StockCross served as one of the clearing broker-dealers for the Company. The StockCross clearing agreement with the Company provided that StockCross passed through all revenue and charged the Company for related clearing expenses. Outside of the clearing agreement, the Company had an expense sharing agreement with StockCross for its Beverly Hills and Jersey City branch offices, and StockCross paid some vendors for miscellaneous expenses which it passed through to the Company.

In January 2019, the Company purchased approximately 15% of StockCross’ outstanding shares from an outside party. Effective January 1, 2020, the Company acquired the remaining 85% of StockCross in exchange for 3,298,774

shares of the Company's common stock and StockCross was merged with and into MSCO. Upon the closing of this transaction on January 1, 2020, all receivables and payables between the Company and StockCross as well as any loss from the Company's equity method investment in StockCross was eliminated upon consolidation.

Kennedy Cabot Acquisition, LLC

KCA is an affiliate of the Company and is under common ownership with the Company. To gain efficiencies and economies of scale with billing and administrative functions, KCA serves as a paymaster for the Company for payroll and related functions, the entirety of which KCA passes through to the subsidiaries of the Company proportionally. In addition, KCA has purchased the naming rights of the Company for the Company to use.

KCA sponsors a 401(k)-profit sharing plan which covers substantially all of the Company's employees. In January 2020, MSCO sold approximately \$288,000 worth of a private equity security to KCA at cost.

Park Wilshire Companies, Inc.

PWC brokers the insurance policies for related parties. Revenue for PWC from related parties was \$73,000 and \$69,000 for the years ended December 31, 2020 and 2019.

Gloria E. Gebbia and John J. Gebbia

The Company has entered into various debt agreements with Gloria E. Gebbia, the Company's principal stockholder. See "Note 12 – Notes Payable - Related Party" for additional detail.

In addition, the Company's obligations under its agreement with East West Bank are guaranteed pursuant to a guarantee agreement by and among, John J. Gebbia, individually and as a co-trustee of the John and Gloria Living Trust, U/D/T December 8, 1994 (the "Trust"), and Gloria E. Gebbia, individually and as a co-trustee of the Trust. See "Note 11 – Long-Term Debt" for additional detail.

Gloria E. Gebbia has extended loans to certain Company employees for the purchase of the Company's shares. These transactions have not materially impacted the Company's financial statements.

Gebbia Sullivan County Land Trust

The Company operates on a month-to-month lease agreement for its branch office in Omaha, Nebraska with the Gebbia Sullivan County Land Trust, the trustee of which is a relative of the Gebbia Family. For both years ended December 31, 2020 and 2019, rent expense was \$60,000 for this branch office.

22. Subsequent Events

The Company has evaluated events that have occurred subsequent to December 31, 2020 and through March 10, 2021, the date of the filing of this report.

Pursuant to a stock purchase agreement dated as of January 31, 2021, the Company acquired an interest of 5% of OpenHand Holdings, Inc. ("OpenHand") common stock for consideration of a total of \$2,231,000 consisting of \$850,000 in cash and 329,654 restricted shares of the Company's common stock valued at \$1,381,000 or \$4.19 per share. The value of the restricted stock was determined using the thirty (30) day trading average. The Company agreed to register the shares issued to OpenHand by filing a selling shareholder registration statement.

OpenHand is a subscription-based brokerage platform that will provide zero-commission trading for equity and option transactions and credit its members daily with rebates of revenues generated by the clients, less operational expenses. The Company will be the exclusive broker-dealer for all OpenHand account services and will benefit from their cloud-based technology which uses Amazon Web Services. Through this strategic, operational, regulatory, and technological partnership, OpenHand and the Company's clients will benefit from numerous financial and operational efficiencies.

The Company also received an option to purchase an additional 7.5% of OpenHand for approximately \$4.5 million, based upon a \$60 million valuation of OpenHand.

Other than the event described above, there have been no material subsequent events that occurred during such period that would require disclosure in this report or would be required to be recognized in the consolidated financial statements as of December 31, 2020.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Executive Vice President/Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act. Based on that evaluation, our management, including the Executive Vice President/Chief Financial Officer, concluded that our disclosure controls and procedures are effective to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and to ensure that information required to be disclosed is accumulated and communicated to our management, including our Executive Vice President/Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based on its evaluation, our management, including our Executive Vice President/Chief Financial Officer, concluded that as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) was identified during the year ended December 31, 2020, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as that term is defined in Exchange Act Rule 13a-15(f)). Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our Company have been detected. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management does not expect that the Company's disclosure controls and procedures or its internal control over financial reporting will prevent or detect all errors and all fraud.

To evaluate the effectiveness of our internal control over financial reporting, we use the 2013 framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "2013 COSO Framework"). Using the 2013 COSO Framework, our management, including our Executive Vice President/Chief Financial Officer, evaluated our internal control over financial reporting and concluded that our internal controls over financial reporting were effective as of December 31, 2020 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Identification of Directors

The names of our Directors and their ages, positions, and biographies are set forth below.

Gloria E. Gebbia

Age 78

Gloria E. Gebbia is the managing manager of KCA. Ms. Gebbia was an owner and a director of StockCross. Additionally, Ms. Gebbia also serves as the President of Associates for Breast and Prostate Cancer Research, a non-profit organization that raises funds for the John Wayne Cancer Institute, which, under Ms. Gebbia's leadership, has raised over \$16 million for breast and prostate cancer research.

John J. Gebbia

Age 82

From February 2017 to May 2020, John J. Gebbia served as a Special Advisor to the Board of Directors. John J. Gebbia commenced his employment in the brokerage industry in 1959. In 1962, Mr. Gebbia became Executive Vice President of Walston & Company. After becoming CEO of Jesup & Lamont, an institutional brokerage firm, Mr. Gebbia purchased the company in 1983. Thereafter, Mr. Gebbia owned and/or controlled various brokerage firms including Kennedy Cabot & Co., which was sold in 1997 to Toronto Dominion Bank for \$160,000,000.

Charles A. Zabatta

Age 78

Charles A. Zabatta served as a consultant to StockCross from 2011 until 2016, acting as its head of Corporate Development. Mr. Zabatta has and continues to have a distinguished and successful career, predominately in the financial services industry, including holding various positions with the New York Stock Exchange, Paine Webber, Securities Settlement Corp., Josephthal Lyon & Ross, Kennedy Cabot & Co. and TD Waterhouse. Mr. Zabatta's creative business skills have been instrumental in several acquisitions of small to midsize companies in various industries. Mr. Zabatta currently advises on capital raising, general business structure and management. Previously, Mr. Zabatta has served as a member of the board of Knight Capital and Kennedy Cabot & Co. Currently, Mr. Zabatta serves on the board of Paraco Gas Corporation, a large privately held independent energy company in the Northeast. Mr. Zabatta holds a B.A. in Industrial Psychology from Iona College.

Francis V. Cuttita

Age 52

Francis V. Cuttita is a Senior Partner of Cuttita, LLP, a New York based law firm. Mr. Cuttita has over 24 years of practicing law in the areas of real estate and business transactions, media, sports and entertainment. Mr. Cuttita's list of clients include Fortune 100 corporations, CEOs, hedge fund managers, legendary professional athletes, entertainment icons and Grammy award winning musicians. Mr. Cuttita also serves as an advisor to several national financial, insurance and sports businesses and is an active supporter and member of various nonprofit organizations. Mr. Cuttita graduated from Swarthmore College and received his law degree from Fordham University School of Law.

Andrew H. Reich

Age 65

Andrew H. Reich has served as Executive Vice President, Chief Financial Officer and Assistant Secretary of the Company and Chief Executive Officer of MSCO since December 16, 2016. Prior thereto, Andrew H. Reich served in a variety of executive positions with StockCross from 2002 until his resignation effective as of December 16, 2016, he served as the Chairman of StockCross. Additionally, Mr. Reich is the owner of Aarianna Realty Inc., a real estate company and has previously served as the CFO of Gebbia Holding Co., a holding company for Gloria E. Gebbia's family through 2014. Mr. Reich has more than 20 years of experience in the financial industry, including more than 14 years as senior management of StockCross. Mr. Reich holds a M.B.A. from The University of Southern California and a B.B.A. from the Bernard Baruch College.

Jerry M. Schneider, CPA
Age 76

Jerry M. Schneider is a certified public accountant and has over 40 years of relevant accounting experience. Mr. Schneider is licensed to practice public accounting in New York and Florida and is a member of the American Institute of Certified Public Accountants, the New York State Society of Certified Public Accountants and the Florida Institute of Certified Public Accountants. Mr. Schneider was the Managing Partner of Schneider & Associates LLP, a CPA firm with approximately 20 professional staff and was the driving force in that firm's growth and development until it merged with Marks Paneth LLP in 2008. From January 2011 to December 31, 2017, Mr. Schneider was a Partner Emeritus and Senior Consultant at Marks Paneth LLP. Mr. Schneider is also a member of the Board of Directors of Prometheum, Inc., a development stage blockchain based digital security platform. In 2018, Mr. Schneider was appointed to the Board of Directors and the Audit Committee of Fiduciary Trust International South (a subsidiary of Fiduciary Trust International, which is owned by Franklin Templeton). In December 2019, Mr. Schneider was elected to be the chairman of the Audit Committee and was appointed to the Board of Directors of the Trust Committee of Fiduciary Trust International South. Mr. Schneider's practice was concentrated in the areas of business planning, high net worth individuals, manufacturing, retailing, securities broker-dealers, the hospitality industry, private educational institutions and estate planning.

Identification of Executive Officers

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|-----------------|------------|--|
| Andrew H. Reich | 65 | Executive Vice President, Chief Operating Officer, Chief Financial Officer and Secretary |

Andrew H. Reich has served as Executive Vice President, Chief Financial Officer and Assistant Secretary of the Company and Chief Executive Officer of MSCO since December 16, 2016. Prior thereto, Andrew H. Reich served in a variety of executive positions with StockCross from 2002 until his resignation effective as of December 16, 2016, he served as the Chairman of StockCross. Additionally, Mr. Reich is the owner of Aarianna Realty Inc., a real estate company and has previously served as the CFO of Gebbia Holding Co., a holding company for Gloria E. Gebbia's family through 2014. Mr. Reich has more than 20 years of experience in the financial industry, including more than 14 years as senior management of StockCross. Mr. Reich holds a M.B.A. from The University of Southern California and a B.B.A. from the Bernard Baruch College.

Corporate Governance

Board Meetings

The Board of Directors held nine (9) regular meetings and eight (8) special meetings during 2020. Each incumbent director attended at least 75% of his or her Board of Directors meetings and all of his or her committee meetings.

Controlled Company

We are a "Controlled Company" as defined in Rule 5615(c)(1) of the Nasdaq Stock Market because Gloria E. Gebbia and her family members hold more than 50% of our voting power for the election of directors. As a Controlled Company we are not required to have a majority of our Board of Directors comprised of independent directors, a compensation committee comprised solely of independent directors or a nominating committee comprised solely of independent directors.

Audit Committee of the Board of Directors

The Audit Committee of our Board of Directors currently consists of Mr. Schneider, Chairman, Mr. Zabatta and Mr. Cuttita. The Board of Directors has determined that Mr. Schneider, Mr. Zabatta and Mr. Cuttita is each an "independent director" within the meaning of Rule 5605 (a)(2) of the Nasdaq Stock Market and within the meaning of the applicable rules and regulations of the SEC.

The Audit Committee held five (5) meetings during 2020.

The Board of Directors has determined that Mr. Schneider qualifies as an “audit committee financial expert” under the applicable rules of the SEC.

The Audit Committee was established to (i) assist the Board of Directors in its oversight responsibilities regarding the integrity of our financial statements, our compliance with legal and regulatory requirements and our auditor’s qualifications and independence, (ii) prepare the report of the Audit Committee contained herein, (iii) retain, consider the continued retention and termination of our independent auditors, (iv) approve audit and non-audit services performed by our independent auditors and (v) perform any other functions from time to time delegated by the Board of Directors. The Board of Directors has adopted a written charter for the Audit Committee, which is available on our website at www.siebert.com/company/investor-relations/shareholder-information.

Compensation Committee of the Board of Directors

The Compensation Committee of our Board of Directors currently consists of Mr. Zabatta and Mr. Cuttita. The Compensation Committee reviews and determines all forms of compensation provided to our executive officers and directors. The Compensation Committee will administer a stock option and other employee benefit plans if and when adopted. The Compensation Committee does not function pursuant to a formal written charter and as a Controlled Company we are not required to comply with the Nasdaq Stock Market’s independence requirements. The Compensation Committee held no meetings during 2020.

The Compensation Committee will evaluate the performance of our executive officers in terms of our operating results and financial performance and will determine their compensation in connection therewith.

In accordance with general practice in the securities industry, our executive compensation includes base salaries, an annual discretionary cash bonus, and stock options and other equity incentives that are intended to align the financial interests of our executives with the returns to our shareholders. There were no material increases in compensation to our sole executive officer in 2020.

As part of its oversight of the Company’s executive compensation, the Compensation Committee will consider the impact of the Company’s executive compensation, and the incentives created by the compensation awards that it administers, on the Company’s risk profile. In addition, the Compensation Committee will review the Company’s compensation policies and procedures, including the incentives that they create and factors that may reduce the likelihood of excessive risk taking, to determine whether they present a significant risk to the Company.

Nominating Committee of the Board of Directors

The Nominating Committee of the Board of Directors currently consists of Mr. Zabatta and Mr. Cuttita. The Nominating Committee does not function pursuant to a formal written charter and as a Controlled Company we are not required to comply with the Nasdaq Stock Market’s independence requirements. The Nominating Committee did not meet in 2020.

The purpose of the Nominating Committee is to identify individuals qualified to become members of our Board of Directors and to recommend to the Board of Directors or the shareholders that such individuals be selected for directorship. In identifying and evaluating nominees for director, the Nominating Committee considers each candidate’s experience, integrity, background and skills as well as other qualities that the candidate may possess and factors that the candidate may be able to bring to the Board of Directors. We do not have a formal policy with regard to the consideration of diversity in identifying director nominees. However, the Board of Directors believes that it is essential that its members represent diverse viewpoints, with a broad array of experiences, professions, skills, geographic representation and backgrounds that, when considered as a group, provide a sufficient mix of perspectives to allow the Board of Directors to best fulfill its responsibilities to the long-term interests of our shareholders.

The Nominating Committee will consider shareholder nominees for election to our Board of Directors. In evaluating such nominees, the Nominating Committee will use the same selection criteria the Nominating Committee uses to evaluate other potential nominees.

Indemnification of Officers and Directors

We indemnify our executive officers and directors to the extent permitted by applicable law against liabilities incurred as a result of their service to us and against liabilities incurred as a result of their service as directors of other

corporations when serving at our request. We have a director's and officer's liability insurance policy, underwritten by the American International Group, Inc., in the annual aggregate amount of \$5 million. As to reimbursements by the insurer of our indemnification expenses, the policy has a \$250,000 deductible; there is no deductible for covered liabilities of individual directors and officers.

Annual Shareholders Meeting Attendance Policy

It is the policy of our Board of Directors that all our directors are strongly encouraged to attend each annual shareholder meeting. All of our directors attended the 2020 annual meeting of shareholders.

Code of Ethics

We have adopted a Code of Ethics for Senior Financial Officers applicable to our Chief Executive Officer, Chief Financial Officer, Treasurer, Controller, Principal Accounting Officer, and any of our other employees performing similar functions. A copy of the Code of Ethics for Senior Financial Officers is available on our website at www.siebert.com/company/investor-relations/shareholder-information.

Board Leadership Structure and Board of Directors

Our Board of Directors does not have a chairman nor a lead independent director. The Company believes this structure allows all of the directors to participate in the full range of the Board of Director's responsibilities with respect to its oversight of the Company's management. The Board of Directors has determined that this leadership structure is appropriate given the size of the Company, the number of directors overseeing the Company and the Board of Directors' oversight responsibilities.

The Board of Directors intends to hold at least four regular meetings each year to consider and address matters involving the Company. The Board of Directors also may hold special meetings to address matters arising between regular meetings. These meetings may take place in person or by telephone. The independent directors also regularly meet in executive sessions outside the presence of management. The Board of Directors has access to legal counsel for consultation concerning any issues that may occur during or between regularly scheduled Board meetings. As discussed above, the Board has established an Audit Committee, a Compensation Committee and a Nominating Committee to assist the Board in performing its oversight responsibilities.

Board of Directors' Role in Risk Oversight

Consistent with its responsibility for oversight of the Company, the Board of Directors, among other things, oversees risk management of the Company's business affairs directly and through the committee structure that it has established. The principal risks associated with the Company are risks related to securities market volatility and the securities industry, lower price levels in the securities markets, intense competition in the brokerage industry, extensive government regulation, net capital requirements, customers' failure to pay, an increase in volume on our systems or other events which could cause them to malfunction, reliance on information processing and communications systems, continuing changes in technology, dependence on the ability to attract and retain key personnel, the ability of our principal shareholder to control many key decisions and there may be a limited public market for our Common Stock.

The Board of Directors' role in the Company's risk oversight process includes regular reports from senior management on areas of material risk to the Company, including operational, financial, legal, regulatory, strategic and reputational risks. The full Board of Directors (or the appropriate committee) receives these reports from management to identify and discuss such risks.

The Board of Directors periodically reviews with management its strategies, techniques, policies and procedures designed to manage these risks. Under the overall supervision of the Board of Directors, management has implemented a variety of processes, procedures and controls to address these risks.

The Board of Directors requires management to report to the full Board of Directors on a variety of matters at regular meetings of the Board of Directors and on an as-needed basis, including the performance and operations of the Company and other matters relating to risk management. The Audit Committee also receives reports from the Company's independent registered public accounting firm on internal control and financial reporting matters. These reviews are conducted in conjunction with the Board of Directors' risk oversight function and enable the Board of Directors to review and assess any material risks facing the Company.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who beneficially own more than 10% of our Common Stock to file initial reports of ownership and reports of changes in ownership with the SEC. These executive officers, directors and shareholders are required by the SEC to furnish us with copies of all forms they file pursuant to Section 16(a).

Based upon a review of Section 16(a) forms furnished to the Company, the Company believes that all applicable Section 16(a) filing requirements were met during the year ended December 31, 2020.

Advisors to the Company

Senior Advisors

John M. Gebbia and Richard Gebbia, sons of Gloria E. Gebbia, are registered Co-CEO's of MSCO and serve as Registered Principals and associated persons of MSCO. Before the close of the acquisition of StockCross, they were also serving as executive officers and directors of StockCross. Both Richard Gebbia and John M. Gebbia have extensive experience in the securities industry and will be working with MSCO and senior management of the Company to identify cost saving opportunities and improvements of the Company's business.

John M. Gebbia has been in the brokerage industry in various capacities since 1990. Mr. Gebbia was the President and CEO of Kennedy Cabot & Co., from 1992 to 1997 when it was acquired by Toronto Dominion Bank. Thereafter he was active with various Gebbia family businesses. From 2007 to 2020, Mr. Gebbia has been associated with StockCross, most recently as a Director and its Executive Vice President. Mr. Gebbia is the CEO of SNXT.

Richard S. Gebbia has been in the brokerage industry since 1993. Since 2002, Mr. Gebbia has been associated with StockCross in various capacities. Mr. Gebbia was the CEO and a Director of StockCross.

David J. Gebbia has been in the brokerage industry since 1993. Mr. Gebbia is currently the President of the Company's insurance subsidiary, PWC.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table presents the annual compensation paid to or earned by our current Executive Vice President, Chief Operating Officer and Chief Financial Officer (the "Named Executive Officer") during the years ended December 31, 2020 and 2019.

| Name and Principal Position | Year | Salary | Bonus | Stock Awards | Option Awards | Non-Equity | Non-Qualified | Other Compensation | Totals |
|-----------------------------|------|-----------|----------|--------------|---------------|-----------------------------|-------------------|--------------------|-----------|
| | | | | | | Incentive Plan Compensation | Deferred Earnings | | |
| Andrew H. Reich* | 2020 | \$188,000 | \$17,000 | — | — | — | — | — | \$205,000 |
| | 2019 | \$200,000 | \$30,000 | — | — | — | — | — | \$230,000 |

* Represents the dollar amount recognized for financial statement reporting in accordance with ASC 718. Mr. Reich was named to the positions of Executive Vice President, Chief Operating Officer and Chief Financial Officer effective December 16, 2016.

Outstanding Equity Awards as of December 31, 2020

As of December 31, 2020, the Company had no outstanding equity awards.

Termination of Employment and Change-in-Control Arrangements

Employment Agreements

We are not a party to an employment agreement with any Named Executive Officer. All of our Named Executive Officers are employees at will.

Option Agreements

As of December 31, 2020, we had no option agreements with our Named Executive Officers.

Compensation of Directors

The following table discloses the cash, equity awards, and other compensation earned, paid, or awarded, as the case may be, to each of the Company's directors during the year ended December 31, 2020.

| <u>Name</u> | <u>Fees Earned or Paid in Cash</u> | <u>Stock Awards</u> | <u>Option Awards</u> | <u>Non-Equity Incentive Plan Compensation</u> | <u>Nonqualified Deferred Compensation Earnings</u> | <u>All Other Compensation</u> | <u>Total</u> |
|------------------------------|------------------------------------|---------------------|----------------------|---|--|-------------------------------|--------------|
| Gloria E. Gebbia | — | — | — | — | — | — | — |
| John J. Gebbia | — | — | — | — | — | — | — |
| Andrew H. Reich | — | — | — | — | — | — | — |
| Francis V. Cuttita | \$110,000 | — | — | — | — | — | \$110,000 |
| Charles Zabatta | \$110,000 | — | — | — | — | — | \$110,000 |
| Jerry M. Schneider | \$110,000 | — | — | — | — | — | \$110,000 |

Audit Committee Report to Shareholders

The Audit Committee has reviewed and discussed with management the audited financial statements for the fiscal year ended December 31, 2020. The Audit Committee has also discussed with our independent registered public accounting firm the matters required to be discussed by Auditing Standards No. 16, adopted by the PCAOB (United States) regarding, "Communications with Audit Committees," including our critical accounting policies and our interests, if any, in "off-balance sheet" entities. Additionally, the Audit Committee has received the written disclosures and representations from the independent registered public accounting firm required by applicable requirements of the PCAOB (United States) regarding "Communication with Audit Committees Concerning Independence."

Based on the review and discussions referred to within this report, the Audit Committee recommended to the Board of Directors that the audited financial statements for the fiscal year ended December 31, 2020 be included in Siebert Financial Corp.'s Annual Report on Form 10-K for filing with the SEC.

Audit Committee,
Jerry M. Schneider, CPA, Chairman
Charles Zabatta
Francis V. Cuttita

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table lists share ownership of our Common Stock as of March 1, 2021. The information includes beneficial ownership by each of our directors and the Named Executive Officers, all directors and executive officers as a group and beneficial owners known by our management to hold at least 5% of our Common Stock. Except as indicated in footnotes to this table, we believe that the shareholders named in this table have sole voting and investment power with respect to all shares of Common Stock shown to be beneficially owned by them based on information provided to us by these shareholders. Percentage of ownership is based on 31,283,364 shares of Common Stock outstanding as of March 1, 2021.

| Name and Address of Beneficial Owner ⁽¹⁾ | Shares of Common Stock | Percent of Class |
|--|------------------------|------------------|
| Named Executive Officers and Directors | | |
| Gloria E. Gebbia / John J. Gebbia ⁽²⁾ | 18,087,218 | 58% |
| Andrew H. Reich | 622,034 | 2% |
| Francis V. Cuttita | 156,000 | * |
| Charles Zabatta | 354,257 | 1% |
| Jerry M. Schneider | 3,000 | * |
| Directors and named executive officers as a group (5 persons)..... | 19,222,509 | 61% |
| Other 5% Shareholders | | |
| Kennedy Cabot Acquisition, LLC | 3,177,283 | 10% |
| 24005 Ventura Blvd Suite 200 Calabasas, CA 91302 | | |
| Richard S. Gebbia. | 2,981,081 | 10% |
| 9464 Wilshire Blvd. Beverly Hills, CA 90212 | | |
| John M. Gebbia. | 1,862,681 | 6% |
| 9464 Wilshire Blvd. Beverly Hills, CA 90212 | | |
| Andrew McDonald | 1,734,812 | 6% |
| 9464 Wilshire Blvd. Beverly Hills, CA 90212 | | |

* Less than 1% of outstanding shares

1) Unless otherwise indicated, the business address of each individual is c/o Siebert Financial Corp., 120 Wall Street, New York, NY 10005.

2) Includes 9,949,736 shares of our Common Stock owned by Gloria E. Gebbia and 3,177,283 shares owned by KCA. Amount also includes 2,981,081 shares owned by Richard S. Gebbia, 1,862,681 shares owned by John M. Gebbia, as well as 116,437 shares owned by a family trust and certain other members of Gloria E. Gebbia's family.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Review and Approval of Related Party Transactions

As set forth in our Amended and Restated Audit Committee Charter, the Audit Committee is responsible for reviewing and approving all related party transactions.

Our Code of Ethics for Senior Financial Officers, applicable to our Chief Executive Officer, Chief Financial Officer, Controller, Treasurer, Principal Accounting Officer and other employees performing similar functions, provides that our Senior Financial Officers should endeavor to avoid any actual or potential conflict of interest between their personal and professional relationships and requires them to promptly report and disclose all material facts relating to any such relationships or financial interests which give rise, directly or indirectly, to an actual or potential conflict of interest to the Audit Committee. The Code of Ethics also provides that no Senior Financial Officer should knowingly become involved in any actual or potential conflict of interest without the relationship or financial interest having been approved by the Audit Committee. Our Code of Ethics does not specify the standards that the Audit Committee would apply to a request for a waiver of this policy.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Baker Tilly Virchow Krause, LLP (“Baker Tilly”) currently serves as our independent registered public accounting firm.

Audit and Tax Fees

Our Audit Committee has determined that the services described below that were rendered by Baker Tilly are compatible with the maintenance of Baker Tilly’s independence from our management.

Audit Fees

The aggregate fees billed by Baker Tilly for professional services rendered for the 2020 and 2019 audit of our annual financial statements and reviews of our quarterly financial statements were \$345,000 and \$290,000, respectively. The 2019 amount consists of the combined total of \$133,000 and \$157,000 for Baker Tilly’s audit fees related to Siebert and Buchbinder Tunick & Company LLP’s audit fees related to StockCross, respectively.

All Other Fees

Baker Tilly rendered no other services for the Company for the years ended December 31, 2020 and 2019.

Pre-Approval Policy

The Audit Committee pre-approves all audit and non-audit services provided by our independent auditors prior to the engagement of the independent auditors with respect to such services. With respect to audit services and permissible non-audit services not previously approved, the Audit Committee has authorized the Chairman of the Audit Committee to approve such audit services and permissible non-audit services, provided the Chairman informs the Audit Committee of such approval at the next regularly scheduled meeting. All “Audit Fees” and “All Other Fees” set forth above were pre-approved by the Audit Committee in accordance with its pre-approval policy.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The exhibits required by Item 601 of Regulation S-K filed as part of, or incorporated by reference in, this Annual Report are listed in the accompanying Exhibit Index.

(a) The following documents are filed as part of this report:

1. Financial Statements

The consolidated Financial statements for the years ended December 31, 2020 and December 31, 2019 commence on page 38 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

None.

3. Exhibits

The exhibits listed in the following Index to Exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K.

EXHIBIT INDEX

| Exhibit No. | Description Of Document |
|----------------|---|
| 2.1 | Plan and Agreement of Merger between J. Michaels, Inc. and Muriel Siebert Capital Markets Group, Inc., dated as of April 24, 1996 (“Merger Agreement”) (incorporated by reference to Siebert Financial Corp.’s Annual Report on Form 10-K for the fiscal year ended December 31, 1996) |
| 2.2 | Amendment No. 1 to Merger Agreement, dated as of June 28, 1996 (incorporated by reference to Siebert Financial Corp.’s Annual Report on Form 10-K for the fiscal year ended December 31, 1996) |
| 2.3 | Amendment No. 2 to Merger Agreement, dated as of September 30, 1996 (incorporated by reference to Siebert Financial Corp.’s Annual Report on Form 10-K for the fiscal year ended December 31, 1996) |
| 2.4 | Amendment No. 3 to Merger Agreement, dated as of November 7, 1996 (incorporated by reference to Siebert Financial Corp.’s Annual Report on Form 10-K for the fiscal year ended December 31, 1996) |
| 3.1 | Certificate of Incorporation of Siebert Financial Corp., formerly known as J. Michaels, Inc. originally filed on April 9, 1934, as amended and restated to date (incorporated by reference to Siebert Financial Corp.’s Annual Report on Form 10-K for the fiscal year ended December 31, 1997) |
| 3.1 (a) | Certificate of Amendment to Certificate of Incorporation of Siebert Financial Corp., as amended and restated, filed February 2, 2020. (incorporated by reference to Siebert Financial Corp.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019) |
| 3.2 | By-laws of Siebert Financial Corp. (incorporated by reference to Siebert Financial Corp.’s Registration Statement on Form S-1 (File No. 333-49843) filed with the SEC on April 10, 1998) |
| 10.1 | Acquisition Agreement, dated September 1, 2016, by and among, Siebert Financial Corp., the Majority Shareholder and KCA (incorporated by reference to Siebert Financial Corp.’s Current Report on Form 8-K filed with the SEC on September 2, 2016) |
| 10.2 | Assignment dated December 16, 2016 by and between the Majority Shareholder and Siebert Financial Corp. |
| 10.3 | Consent and Waiver dated as of December 16, 2016 by and among Siebert Cisneros Shank Financial, LLC, Siebert Cisneros Shank & Co. L.L.C. and Siebert Financial Corp. |
| 10.6 | Siebert Financial Corp. 2007 Long-Term Incentive Plan (incorporated by reference to Siebert Financial Corp.’s Registration Statement on Form S-8 (File No. 333-144680) filed with the SEC on July 18, 2007)** |
| 10.7 | Fully Disclosed Clearing Agreement, by and between NFS LLC and Muriel Siebert & Co., Inc. dated May 5, 2010. (incorporated by reference to Siebert Financial Corp.’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 16, 2010)* |
| 10.8 | Asset Purchase Agreement, dated as of June 26, 2017 by and among StockCross Financial Services, Inc., Muriel Siebert & Co., Inc. and Siebert Financial Corp. (incorporated by reference to Siebert Financial Corp.’s Current Report on Form 8-K filed with the SEC on June 28, 2017) |

| Exhibit No. | Description Of Document |
|----------------|---|
| 10.9 | StockCross Share Repurchase Agreement dated as of January 18, 2019 by and among tZERO Group, Inc., a Delaware corporation, StockCross Financial Services, Inc., a Massachusetts corporation and Muriel Siebert & Co., Inc., a Delaware Corporation (incorporated by reference to Siebert Financial Corp.'s Current Report on Form 8-K filed with the SEC on January 25, 2019) |
| 10.10 | Equity Interests Purchase Agreement, dated as of September 27, 2019, by and among Siebert Financial Corp., Weeden Investors L.P. and Weeden Securities Corporation. (incorporated by reference to Seibert Financial Corp.'s Current Report on Form 8-K filed with the SEC on October 3, 2019) |
| 10.11 | Promissory Note, dated as of December 2, 2019, made by Siebert Financial Corp. in favor of Gloria E. Gebbia. (incorporated by reference to Seibert Financial Corp.'s Current Report on Form 8-K filed with the SEC on December 4, 2019) |
| 10.12 | Agreement and Plan of Merger, dated as of December 31, 2019 by and among Siebert Financial Corp., Muriel Siebert & Co., Inc., StockCross Financial Services, Inc. ("StockCross") and each of the shareholders of StockCross. (incorporated by reference to Seibert Financial Corp.'s Current Report on Form 8-K filed with the SEC on January 7, 2020) |
| 10.13 | Loan and Security Agreement, dated as of July 22, 2020, by and between East West Bank and Siebert Financial Corp. (incorporated by reference to Seibert Financial Corp.'s Current Report on Form 8-K filed with the SEC on July 28, 2020) |
| 10.14 | Form of Term Loan Note (incorporated by reference to Seibert Financial Corp.'s Current Report on Form 8-K filed with the SEC on July 28, 2020) |
| 21.1 | Subsidiaries of the registrant*** |
| 31.1 | Certification of Andrew H. Reich pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*** |
| 32.1 | Certification of Andrew H. Reich of Periodic Financial Report under Section 906 of the Sarbanes-Oxley Act of 2002*** |
| 101. | INS XBRL Instance Document |
| 101. | SCH XBRL Taxonomy Extension Schema |
| 101. | CAL XBRL Taxonomy Extension Calculation Linkbase 101.DEF XBRL Taxonomy Extension Definition Linkbase |
| 101. | LAB XBRL Taxonomy Extension Label Linkbase |
| 101. | PRE XBRL Taxonomy Extension Presentation Linkbase |

* Portions of the indicated document have been afforded confidential treatment and have been filed separately with the SEC pursuant to Rule 24b-2 of the General Rules and Regulations promulgated under the Securities Exchange Act of 1934, as amended.

** Management contract or compensatory plan or arrangement.

*** Filed herewith

ITEM 16. FORM 10-K SUMMARY

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SIEBERT FINANCIAL CORP.

By: /s/ Andrew H. Reich

Andrew H. Reich

Executive Vice President, Chief Operating Officer,
Chief Financial Officer, Secretary and Director
(Principal executive, financial and accounting officer)

Date: March 10, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Name</u> | <u>Title</u> | <u>Date</u> |
|---|---|----------------|
| <u>/s/ Andrew H. Reich</u> Andrew H. Reich | Executive Vice President, Chief Operating Officer and Chief Financial Officer, Secretary and Director (Principal executive, financial and accounting officer) | March 10, 2021 |
| <u>/s/ Gloria E. Gebbia</u> Gloria E. Gebbia | Director | March 10, 2021 |
| <u>/s/ John J. Gebbia</u> John J. Gebbia | Director | March 10, 2021 |
| <u>/s/ Charles Zabatta</u> Charles Zabatta | Director | March 10, 2021 |
| <u>/s/ Francis V. Cuttita</u> Francis V. Cuttita | Director | March 10, 2021 |
| <u>/s/ Jerry M. Schneider</u> Jerry M. Schneider | Director | March 10, 2021 |

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