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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

SEC FILE NUMBER
8- 16566



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FACING PAGE

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

REPORT FOR THE PERIOD BEGINNING 01/01/12 AND ENDING 12/31/12  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: A.R. Schmeidler & Co., Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

500 Fifth Avenue

(No. and Street)

New York

New York

10110

(City)

(State)

(Zip Code)

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

Mr. Peter G. Kandel, Jr.

(212) 687-9800

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Crowe Horwath LLP

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

488 Madison Avenue, 3rd Floor New York New York 10022

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

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

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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OATH OR AFFIRMATION

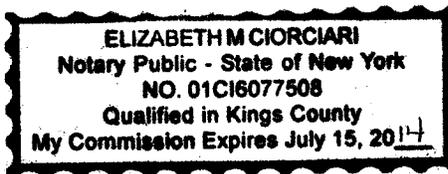
I, Peter G. Kandel, Jr., swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of A.R. Schmeidler & Co., Inc., as of December 31, 2012, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

STATE OF NEW YORK  
COUNTY OF NEW YORK

Peter G. Kandel, Jr.  
Signature

CFO and FinOp  
Title

Elizabeth M Ciorciari 02/27/13  
Notary Public



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

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

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



A.R. Schmeidler & Co., Inc.  
(a wholly-owned subsidiary of Hudson Valley Bank)  
**SEC**  
**Mail Processing Section** SEC I.D. No. 8-16566

MAR 01 2013

**Washington DC**  
**401**

STATEMENTS OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 2012 AND 2011  
AND  
INDEPENDENT AUDITOR'S REPORT

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This report is filed pursuant to  
Rule 17a-5(e)(3) under the Securities Exchange  
Act of 1934, as a Public Document

A.R. SCHMEIDLER & CO., INC.  
(A wholly owned-subsiidiary of Hudson Valley Bank)  
New York, New York

FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholder of  
A.R. Schmeidler & Co., Inc.  
New York, New York

### **Report on the Financial Statement**

We have audited the accompanying statements of financial condition of A.R. Schmeidler & Co., Inc. as of December 31, 2012 and 2011, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements are in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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(Continued)

**Opinion**

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of A.R. Schmeidler & Co., Inc. as of December 31, 2012 and 2011, in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

New York, New York  
February 27, 2013

A.R. SCHMEIDLER & CO., INC.  
(A wholly-owned subsidiary of Hudson Valley Bank)  
**STATEMENTS OF FINANCIAL CONDITION**  
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash	\$ 16,083,214	\$ 14,314,013
Receivable from brokers	154,542	315,386
Deposit with clearing brokers	100,000	100,000
Advisory fees receivable	151,910	144,727
Securities owned at fair value	594,748	397,673
Property and equipment, at cost, net of accumulated depreciation \$731,862 and \$665,813	95,735	152,843
Leasehold improvements, at cost, net of accumulated amortization \$757,827 and \$624,035	580,091	713,883
Goodwill	22,473,262	22,473,262
Other intangibles	902,500	1,092,500
Other assets	<u>655,364</u>	<u>495,352</u>
 Total assets	 <u>\$ 41,791,366</u>	 <u>\$ 40,199,639</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 2,237,586	\$ 1,854,037
Deferred taxes payable (net of deferred tax assets)	<u>3,025,808</u>	<u>2,431,494</u>
Total liabilities	5,263,394	4,285,531
Stockholder's equity		
Common stock, \$0.01 par value – authorized 100,000 shares; issued and outstanding, 20,000 shares	200	200
Additional paid-in-capital	25,602,101	25,602,101
Retained earnings	<u>10,925,671</u>	<u>10,311,807</u>
Total stockholder's equity	<u>36,527,972</u>	<u>35,914,108</u>
 Total liabilities and stockholder's equity	 <u>\$ 41,791,366</u>	 <u>\$ 40,199,639</u>

See notes to accompanying financial statements.

A.R. SCHMEIDLER & CO., INC.  
(A wholly-owned subsidiary of Hudson Valley Bank)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE 1 – ORGANIZATION**

A. R. Schmeidler & Co., Inc. (the “Company”) was incorporated in New York State in 1971 and is a broker-dealer registered with the U.S. Securities and Exchange Commission.

On October 1, 2004, the stock of the Company was acquired by Hudson Valley Bank (the “Parent”) for an initial cost of \$7,321,340. The purchase price in excess of fair value of tangible net assets acquired was allocated to goodwill and other intangibles. In accordance with the terms of the purchase agreement, the Parent made additional performance-based payments over the five years subsequent to the acquisition. These additional payments were accounted for as additional purchase price, which increased the recorded goodwill (see Note 5).

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies followed by the Company in the preparation of its financial statements:

Use of Estimates: The preparation of the statement of financial condition in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of certain assets and liabilities and disclosure of contingent liabilities at the date of the statement of financial condition. Actual results could differ from those estimates. The accrual for loss contingencies is particularly subject to change in the near term.

Securities Transactions: The Company records all of its transactions on an accrual basis for reporting purposes; security purchases and sales are reported as of the trade date.

Security Valuation: Marketable securities primarily consist of investments in mutual funds and are valued at fair value based upon the quoted market price for each security.

Goodwill and Other Intangible Assets: Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Goodwill is the only intangible asset with an indefinite life on the statement of financial condition.

Income Taxes: The Company is included in the consolidated federal return of its Parent. For financial reporting purposes, the Company settles its federal income tax accounts in accordance with an informal tax sharing agreement with the Parent. The Company files separate New York State and City tax returns.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to difference between the financial statement carrying amount of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than no” test, no tax benefit is recorded.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Legal fees associated with loss contingencies are included in loss contingency accruals.

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(Continued)

A.R. SCHMEIDLER & CO., INC.  
(A wholly-owned subsidiary of Hudson Valley Bank)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant, unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following is a description of the Company's valuation methodologies used to measure and disclose the fair values of its financial assets and liabilities on a recurring or nonrecurring basis:

Securities Owned at Fair Value

Securities owned consist of investments in mutual funds and the fair values are determined by quoted market prices on national exchanges (Level 1).

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements At December 31, Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2012</u>			
Assets:			
Securities owned – Mutual funds	\$ 594,748	\$ -	\$ -
<u>2011</u>			
Assets:			
Securities owned – Mutual funds	\$ 397,673	\$ -	\$ -

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(Continued)

A.R. SCHMEIDLER & CO., INC.  
(A wholly-owned subsidiary of Hudson Valley Bank)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

**NOTE 4 – FIXED ASSETS**

The major classes of fixed assets are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation &amp; Amortization</u>	<u>Net of Accumulated Depreciation &amp; Amortization</u>
<u>2012</u>			
Leasehold improvements	\$ 1,337,918	\$ 757,827	\$ 580,091
Furniture and equipment	610,002	514,267	95,735
Computer software	<u>217,595</u>	<u>217,595</u>	<u>-</u>
Total fixed assets	<u>\$ 2,165,515</u>	<u>\$ 1,489,689</u>	<u>\$ 675,826</u>
<u>2011</u>			
Leasehold improvements	\$ 1,337,918	\$ 624,035	\$ 713,883
Furniture and equipment	601,061	448,218	152,843
Computer software	<u>217,595</u>	<u>217,595</u>	<u>-</u>
Total fixed assets	<u>\$ 2,156,574</u>	<u>\$ 1,289,848</u>	<u>\$ 866,726</u>

**NOTE 5 – GOODWILL AND OTHER INTANGIBLES**

In connection with the acquisition of the Company by its Parent in 2004, the Company recorded goodwill, which increased as the result of additional performance based payments over the five-year period subsequent to the acquisition. The Company also recorded customer relationship and non-compete agreement intangible assets, which have amortization periods of 13 and 7 years, respectively.

The change in goodwill during the year is as follows:

	<u>2012</u>	<u>2011</u>
Beginning of the year	\$ 22,473,262	\$ 22,473,262
Performance-based payment	<u>-</u>	<u>-</u>
End of year	<u>\$ 22,473,262</u>	<u>\$ 22,473,262</u>

(Continued)

A.R. SCHMEIDLER & CO., INC.  
(A wholly-owned subsidiary of Hudson Valley Bank)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

**NOTE 5 – GOODWILL AND OTHER INTANGIBLES (Continued)**

The components of intangible assets are as follows as of December 31:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
<u>2012</u>			
Customer list	\$ 2,470,000	\$ 1,567,500	\$ 902,500
Non-compete agreement	<u>516,000</u>	<u>516,000</u>	<u>-</u>
	<u>\$ 2,986,000</u>	<u>\$ 2,083,500</u>	<u>\$ 902,500</u>
<u>2011</u>			
Customer list	\$ 2,470,000	\$ 1,377,500	\$ 1,092,500
Non-compete agreement	<u>516,000</u>	<u>516,000</u>	<u>-</u>
	<u>\$ 2,986,000</u>	<u>\$ 1,893,500</u>	<u>\$ 1,092,500</u>

**NOTE 6 – INCOME TAXES**

Year-end deferred tax assets and liabilities are due to the following:

	<u>2012</u>	<u>2011</u>
Deferred tax assets	\$ 932,746	\$ 770,872
Deferred tax liabilities	<u>(3,958,554)</u>	<u>(3,202,366)</u>
Net deferred tax asset (liability)	<u>\$ (3,025,808)</u>	<u>\$ (2,431,494)</u>

Deferred tax assets and liabilities relate primarily to tax-deductible goodwill, the amortization of identified intangibles and lease payments.

No amounts were accrued for interest or penalties at December 31, 2012 or 2011.

The Company is subject to U.S. federal income tax as well as income tax of the state and city of New York. The Company is no longer subject to examination by taxing authorities for years before 2009.

(Continued)

A.R. SCHMEIDLER & CO., INC.  
(A wholly-owned subsidiary of Hudson Valley Bank)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE 7 – COMMITMENTS AND CONTINGENCIES**

Lease Commitments

The Company leases its main office under an operating lease.

Future minimum rental commitments on a cash basis are payable for the years ended December 31, as follows:

2013	\$ 647,983
2014	664,120
2015	680,663
2016	697,624
2017	296,075
Thereafter	-

The minimum lease payments are subject to escalation payments. The tenant's minimum lease payments may be increased for the tenant's proportional share of tax increases against the land or building. The Company has a security deposit in the amount of \$125,000 for its leased office space.

Loss Contingencies

The Securities and Exchange Commission (SEC) and the Department of Labor (DOL) are conducting ongoing investigations related to its compliance and certain regulatory provisions of the Investment Advisers Act of 1940. The investigation resulted from a routine examination of the Company's brokerage practices and policies and disclosure about such practices. The Company is in discussions with the staff of the SEC and DOL to settle this matter and has made accruals for such resolution as of December 31, 2012. The Company expensed \$1,125,000 and \$1,197,000 in 2012 and 2011, respectively in relation to this matter. As of year end, the Company has accrued \$1.6 million of legal and other expenses related to this matter. Based on ongoing discussions with the SEC and the DOL, the Company believes it has substantially accrued for any penalties and related costs anticipated in the final resolution of this matter although, until final agreement is reached, the exact result cannot be determined.

**NOTE 8 – CUSTOMER MANAGEMENT**

The Company does not retain customer's cash and securities. All customer transactions are cleared through another broker-dealer on a fully disclosed basis. However, if customers' checks or securities are received, the Company's personnel immediately deliver these checks and securities to the clearing broker. In the normal course of business, and under standard contract terms included in the correspondent agreement with the clearing broker-dealer, the Company has agreed to indemnify the clearing broker-dealer from damages or losses resulting from customer transactions. Based on historical experience, the Company believes that it is unlikely it will have to make payments under this indemnity. Accordingly, the Company has not recorded any liability in the financial statements for this indemnity.

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(Continued)

A.R. SCHMEIDLER & CO., INC.  
(A wholly-owned subsidiary of Hudson Valley Bank)  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011

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**NOTE 9 – CONCENTRATIONS OF CREDIT RISK**

The Company is engaged in various investment securities transactions with counterparties which are primarily broker-dealers and banks. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

As of December 31, 2012 and 2011, the Company had concentrations of credit risk with depository institutions in the form of bank accounts and clearing deposits. Amounts due from depository institutions at year end were as follows:

	<u>2012</u>	<u>2011</u>
Due From Depository Institutions:		
Hudson Valley Bank (Parent)	\$ 9,350,000	\$ 9,600,000
JP Morgan Chase Bank, N.A.	6,732,964	4,713,763
Pershing LLC	100,000	100,000

**NOTE 10 – RELATED PARTY TRANSACTIONS**

As of December 31, 2012 and 2011, the Company had outstanding payables for referral fees of \$79,279 and \$64,631, overhead payable of \$22,000 and \$27,000, and taxes payable of \$42,920 and nil to the Parent.

**NOTE 11 – NET CAPITAL REQUIREMENT**

Pursuant to Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain minimum "net capital" amount, as defined under such rule.

As of December 31, 2012 and 2011, the Company's net capital was computed to be \$2,732,276 and \$1,733,338, exceeding its minimum requirements of \$149,172 and \$123,603 by \$2,583,104 and \$1,609,735. The ratio of aggregate indebtedness to the net capital was .82 to 1 and 1.15 to 1 at December 31, 2012 and 2011.

The Company is exempt from the provisions of Securities Exchange Act Rule 15c3-3 relating to the maintenance of customer reserve accounts and possession or control of customer securities pursuant to paragraph (k)(2)(i), since the Company does not hold funds or securities of customers.