

SIEBERT FINANCIAL CORP
Form 10-Q
May 15, 2018

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period
ended **March 31, 2018**

OR

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 **11-1796714**
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

120 Wall Street, New York, NY 10005
(Address of Principal Executive Offices) (Zip Code)

(212) 644-2400
(Registrant's Telephone Number, Including Area Code)

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(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller Reporting Company

Emerging growth company

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 Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date: As of May 14, 2018, there were 27,157,188 shares of Common Stock, par value \$.01 per share outstanding.

Unless expressly indicated or the context requires otherwise, the terms SFC,” “Company,” “we,” “us,” and “our” in this document refer to Siebert Financial Corp., a New York corporation, and, where appropriate, its wholly owned subsidiaries, the term “MSCO” shall refer to Muriel Siebert & Co., Inc., a Delaware corporation a registered broker-dealer, and the term “NXT” shall refer to Siebert AdvisorNXT, Inc., a New York corporation registered with the Securities and Exchange Commission as a Registered Investment Advisor (“RIA”) and Park Wilshire Companies Inc. (“PWC”) a Texas corporation registered and licensed insurance agency. MSCO, NXT and PWC are wholly-owned subsidiaries of the Company.

Special Note Regarding Forward-Looking Statements

Certain statements contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” below and elsewhere in this report, as well as oral statements that may be made by us or by our officers, directors or employees acting on our behalf, that are not statements of historical or current fact constitute “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve risks and uncertainties and known and unknown factors that could cause our actual results to be materially different from our historical results or from any future results expressed or implied by such forward looking statements, including, without limitation: changes in general economic and market conditions; changes and prospects for changes in interest rates; fluctuations in volume and prices of securities; changes in demand for brokerage services; competition within and without the brokerage business, including the offer of broader services; competition from electronic discount brokerage firms offering greater discounts on commissions than we offer; the prevalence of a flat fee environment; our customer’s methods of placing trades; computer and telephone system failures; our level of spending on advertising and promotion; trading errors and the possibility of losses from customer non-payment of amounts due; other increases in expenses and changes in net capital or other regulatory requirements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date when such statements were made or to reflect the occurrence of unanticipated events. An investment in us involves various risks, including those mentioned above and those which are detailed from time to time in our Securities and Exchange Commission filings.

Part I - FINANCIAL INFORMATION**Item 1. Financial Statements.****Siebert Financial Corp. & Subsidiaries****Condensed Consolidated Statements of Financial Condition**

	March 31, 2018 (unaudited)	December 31, 2017 (audited)
ASSETS		
Cash and cash equivalents	\$5,384,000	\$ 3,765,000
Receivable from brokers	2,542,000	1,396,000
Furniture, equipment and leasehold improvements, net	369,000	347,000
Prepaid expenses and other assets	383,000	234,000
Receivable from related party	—	283,000
Securities owned, at fair value	346,000	—
	\$9,024,000	\$ 6,025,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	\$1,124,000	\$ 561,000
Income tax payable	538,000	125,000
Due to related party	111,000	127,000
Payable to clearing broker	346,000	—
	2,119,000	813,000
Commitments and Contingencies		
Stockholders' equity:		
Common stock, \$.01 par value; 49,000,000 shares authorized, 27,157,188 shares issued and outstanding as of March 31, 2018 and outstanding as of December 31, 2017	271,000	271,000
Additional paid-in capital	7,641,000	7,641,000
(Accumulated deficit)	(1,007,000)	(2,700,000)

6,905,000 5,212,000

\$9,024,000 \$ 6,025,000

See notes to condensed consolidated financial statements.

Siebert Financial Corp. & Subsidiaries
Condensed Consolidated Statements of Income
(unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Revenue:		
Principal transactions	\$2,941,000	\$109,000
Commissions and fees	2,674,000	1,183,000
Margin interest, marketing and distribution fees	2,535,000	1,080,000
Advisory fees	16,000	5,000
Interest and dividends	11,000	2,000
Total revenue	8,177,000	2,379,000
Expenses:		
Employee compensation and benefits	3,662,000	1,039,000
Clearing fees, including floor brokerage	902,000	263,000
Professional fees	608,000	425,000
Occupancy	242,000	142,000
Communications	95,000	80,000
Advertising and promotion	13,000	20,000
Other general and administrative	549,000	349,000
Total expenses	6,071,000	2,318,000
Income before provision for income taxes	2,106,000	61,000
Provision for income taxes	413,000	3,000
Net Income	\$1,693,000	\$58,000
Net income per share of common stock		
Basic and diluted	\$.06	\$.00
Weighted average shares outstanding		
Basic and diluted	27,157,188	22,085,126

See notes to condensed consolidated financial statements.

Siebert Financial Corp. & Subsidiaries
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash Flows From Operating Activities:		
Net income	\$1,693,000	\$58,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	24,000	46,000
Changes in:		
Securities owned, at fair value	(346,000)	92,000
Receivable from clearing and other brokers	(1,146,000)	(127,000)
Payable to clearing broker	346,000	—
Prepaid expenses and other assets	(149,000)	(61,000)
Taxes payable	413,000	—
Due to related party	(16,000)	—
Receivable from related party	283,000	—
Accounts payable and accrued liabilities	563,000	(476,000)
Net cash provided by (used in) operating activities	1,665,000	(468,000)
Cash Flows From Investing Activities:		
Purchase of furniture, equipment and leasehold improvements	(46,000)	(215,000)
Net cash used in investing activities	(46,000)	(215,000)
Net increase/(decrease) in cash and cash equivalents	1,619,000	(683,000)
Cash and cash equivalents - beginning of period	3,765,000	2,730,000
Cash and cash equivalents - end of period	\$5,384,000	\$2,047,000
Supplemental Schedule Of Non-Cash Financing Activities:		
Payment by parent of expenses	\$—	\$803,000

See notes to condensed consolidated financial statements.

Siebert Financial Corp. & Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2018
(Unaudited)

1. Business and Basis of Presentation:

Siebert Financial Corp. (“SFC”), a New York corporation, incorporated in 1934, is a holding company that conducts its retail discount brokerage business through its wholly-owned subsidiary, Muriel Siebert & Co., Inc., (“MSCO”) a Delaware corporation and a registered broker-dealer, and its investment advisory business through its wholly-owned subsidiary Siebert AdvisorNXT, Inc. (“NXT”) a New York corporation which is registered with the Securities and Exchange Commission as a Registered Investment Advisor (“RIA”) and its insurance business through its wholly-owned subsidiary, Park Wilshire Companies Inc., (“PWC”) a Texas corporation as a licensed insurance agency. For purposes of this Quarterly Report on Form 10-Q, the terms “Siebert,” “Company,” “we,” “us” and “our” refer to Siebert Financial Corp., MSCO, NXT and PWC collectively, unless the context otherwise requires.

Our principal offices are located at 120 Wall Street, New York, New York 10005, and our phone number is (212) 644-2400. Our Internet address is www.siebertnet.com. Our SEC filings are available through our website at www.siebertnet.com, where you are able to obtain copies of the Company’s public filings free of charge. Our common stock, par value \$.01 per share (the “Common Stock”) trades on the NASDAQ Capital Market under the symbol “SIEB.”

The condensed consolidated interim financial statements presented herein are unaudited and include all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations of the interim periods pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America (“U.S.”) have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The balance sheet at December 31, 2017 has been derived from the audited consolidated statement of financial condition at that date, but does not include all information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. Due to the nature of our business, the results of operations for the three months ended March 31, 2018 are not necessarily indicative of operating results for the full year.

As further disclosed in our Form 10K for the year ended December 31, 2017, the Company acquired certain retail broker-dealer assets of StockCross Financial Services, Inc. (“StockCross”), an affiliate of the Company. The impact of this acquisition has resulted in a significant improvement in operations for the quarter ended March 31, 2018 as compared to the quarter ended March 31, 2017.

As further disclosed on our Form 10K for the year ended December 31, 2017, on March 1, 2018, SFC acquired all of the issued and outstanding shares of Park Wilshire Companies, Inc. from certain affiliates of SFC for \$111,000. Beginning on March 1, 2018, Park Wilshire is a wholly owned subsidiary of the Company. The board's Audit Committee reviewed the transaction and determined that the Company's purchase of Park Wilshire was not material and that obtaining valuations under the circumstances where the purchase price equaled the net book value in Park Wilshire did not necessitate a valuation, as same was not material.

2. Per Share Data:

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average of outstanding common shares during the period. 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 had net income of \$1,693,000 for the three months ended March 31, 2018 and had a net income of \$58,000 for the three months ended March 31, 2017.

3. Net Capital:

MSCO is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. Siebert has elected to use the alternative method, permitted by the Rule, which requires that MSCO maintain minimum net capital, as defined, equal to the greater of \$250,000 or two percent of aggregate debit balances arising from customer transactions, as defined. The Net Capital Rule of the New Stock Exchange also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debits. As of March 31, 2018, Siebert had net capital of approximately \$6,100,000 as compared with net capital requirements of \$250,000. Siebert claims exemption from the reserve requirement under section 15c3-3(k)(2)(ii).

4. Revenue Recognition:

On January 1, 2018, we adopted ASC Topic 606 by applying the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period.

The adoption of ASC Topic 606 did not have an impact on the recognition of our primary sources of revenue, Principal transactions, Commissions and fees and Margin interest, marketing and distribution fees. Timing of recognition of substantially all of our remaining revenue was also not impacted, and we therefore did not record any cumulative effect adjustment to opening equity.

Disaggregation of Revenue

Our revenue consists of:

Revenue Stream	Income Statement Classification	Three months Ended March 31,	
		2018	2017
		Total Revenue	
		(in thousands)	
Revenue from Principal transactions:			
Principal transactions	Principal transactions	\$ 572	\$ 109
Principal transactions attributed to assets acquired from StockCross	Principal transactions	2,369	—
Total revenue from Principal transactions		\$ 2,941	\$ 109

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Revenue from Commissions and fees:			
Commissions and fees	Commissions and fees	\$ 1,955	\$ 1,183
Commissions and fees attributed to assets acquired from StockCross	Commissions and fees	719	—
Total revenue from Commissions and fees		\$ 2,674	\$ 1,183
Revenue from Margin interest, marketing and distribution fees:			
Margin interest, marketing and distribution fees	Margin interest, marketing and distribution fees	\$ 2,328	\$ 1,080
Margin interest, marketing and distribution fees attributed to assets acquired from StockCross	Margin interest, marketing and distribution fees	207	—
Total revenue from Margin interest, marketing and distribution fees	Margin interest, marketing and distribution fees	\$ 2,535	\$ 1,080
Total revenue from contracts with customers			
Other revenue:			
Advisory fees	Advisory fees	\$ 16	\$ 5
Interest and dividends	Interest and dividends	11	2
Total revenues	Total revenues	\$ 8,177	\$ 2,379

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Principal transactions are also recorded on a trade-date basis and principally represent riskless principal transactions in which the Company, after receiving an order, buys or sells securities as principal and at the same time sells or buys the securities with a markup or markdown to complete the order.

Commission and fees, margin interest, marketing and distribution fees and related clearing expenses are recorded on a trade-date basis. Fees, consisting principally of revenue participation with the Company's clearing brokers in distribution fees, and interest are recorded as earned.

Advisory fees are earned typically on a quarterly basis in accordance with the terms of the client agreements.

Interest is recorded on the accrual basis. Dividends are recorded as of the ex-dividend date.

5. Fair Value Measurements:

FASB ASC 820 defines fair value, established a framework for measuring fair value, and established 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 FASB 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 identical assets or liabilities 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 wide variety of factors, including, for example, 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. Accordingly, 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 follows:

U.S. Government Securities. U.S. government securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, U.S. government securities are generally categorized in level 1 of the fair value hierarchy.

Municipal Securities. The fair value of municipal securities are determined using recently executed transactions, market price quotations (when observable), bond spreads 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. Municipal Securities are generally categorized in level 2 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 reference a comparable issuer are 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.

Exchange-Traded Equity Securities. Exchange-traded equity securities are generally 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; otherwise, they are in level 2 or level 3 of the fair value hierarchy.

Certificate of Deposit. Certificates of deposit included in investments are valued at cost, which approximates fair value. These are included within segregated investments in level 2 of the fair value hierarchy.

Unit Investment Trusts. Units of unit investment trusts are carried at redemption value, which represents fair value. Units of unit investment trusts are classified as level 1 within the fair value hierarchy.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2018:

	Level 1	Level 2	Level 3	Total
Assets				
Securities owned				