

SIEBERT FINANCIAL CORP
Form 10-Q
May 16, 2011

**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, 2011

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

(State or Other Jurisdiction of Incorporation or Organization)

11-1796714

(I.R.S. Employer Identification No.)

885 Third Avenue, New York, NY 10022

(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, or a smaller reporting company. See the definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer Smaller Reporting Company

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: May 13, 2011, there were 22,118,435 shares of Common Stock, par value \$.01 per share outstanding.

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Unless the context otherwise requires, the Company shall mean Siebert Financial Corp. and its wholly owned subsidiaries and Siebert shall mean Muriel Siebert & Co., Inc., a wholly owned subsidiary of the Company.

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; fluctuations in volume and prices of securities; demand for brokerage and investment banking services; competition within and without the discount brokerage business, including the offer of broader services; competition from electronic discount brokerage firms offering lower rates on commissions than we do; the prevalence of a flat fee environment; decline in participation in equity or municipal finance underwritings; limited trading opportunities; the method of placing trades by our customers; computer and telephone system failures; our level of spending on advertising and promotions; 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
Consolidated Statements of Financial Condition

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	\$ 23,052,000	\$ 22,646,000
Cash equivalents restricted	1,532,000	1,532,000
Receivable from brokers	1,836,000	1,563,000
Securities owned, at fair value	1,131,000	1,116,000
Furniture, equipment and leasehold improvements, net	1,120,000	1,246,000
Investment in and advances to affiliates	8,206,000	9,816,000
Income tax refund receivable	437,000	795,000
Prepaid expenses and other assets	955,000	741,000
Intangibles, net	645,000	648,000
	\$ 38,914,000	\$ 40,103,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	4,297,000	3,477,000
Contingencies		
Stockholders equity:		
Common stock, \$.01 par value; 49,000,000 shares authorized, 23,211,846 shares issued, and 22,118,751 and 22,122,678 shares outstanding at March 31, 2011 and December 31, 2010, respectively	232,000	232,000
Additional paid-in capital	19,486,000	19,484,000
Retained earnings	19,605,000	21,609,000
Less: 1,093,095 and 1,089,168 shares of treasury stock, at cost at March 31, 2011 and December 31, 2010, respectively	(4,706,000)	(4,699,000)
	34,617,000	36,626,000
	\$ 38,914,000	\$ 40,103,000

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2011	2010
Revenues:		
Commissions and fees	\$ 3,945,000	\$ 3,708,000
Investment banking	1,172,000	347,000
Trading profits	377,000	234,000
Interest and dividends	9,000	24,000
	5,503,000	4,313,000
Expenses:		
Employee compensation and benefits	2,462,000	2,456,000
Clearing fees, including floor brokerage	924,000	1,252,000
Professional fees	1,413,000	2,130,000
Advertising and promotion	100,000	143,000
Communications	557,000	649,000
Occupancy	271,000	311,000
Other general and administrative	685,000	684,000
	6,412,000	7,625,000
(Loss) income from equity investees	(1,084,000)	1,323,000
Loss before income taxes	(1,993,000)	(1,989,000)
Income tax expense (benefit)	11,000	(795,000)
Net loss	\$ (2,004,000)	\$ (1,194,000)
Net loss per share of common stock - Basic and Diluted	\$ (.09)	\$ (.05)
Weighted average shares outstanding - Basic and Diluted	22,121,188	22,188,174

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (2,004,000)	\$ (1,194,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	132,000	126,000
Loss (income) from equity investees	1,084,000	(1,323,000)
Distribution from equity investees	479,000	948,000
Deferred taxes		45,000
Stock based compensation	2,000	2,000
Changes in:		
Securities owned, at fair value	(15,000)	(2,000)
Receivable from brokers	(273,000)	816,000
Income tax refund receivable	358,000	(850,000)
Prepaid expenses and other assets	(214,000)	(55,000)
Accounts payable and accrued liabilities	820,000	938,000
Net cash provided by (used in) operating activities	369,000	(549,000)
Cash flows from investing activities:		
Purchase of furniture, equipment and leasehold improvements	(3,000)	(63,000)
Collection (payment) of advances made to equity investees	47,000	(27,000)
Net cash provided by (used in) investing activities	44,000	(90,000)
Cash flows from financing activities:		
Purchase of treasury shares	(7,000)	(14,000)
Net cash used in financing activities	(7,000)	(14,000)
Net increase (decrease) in cash and cash equivalents	406,000	(653,000)
Cash and cash equivalents - beginning of period	22,646,000	24,184,000
Cash and cash equivalents - end of period	\$ 23,052,000	\$ 23,531,000
Supplemental cash flow disclosures:		
Cash paid for:		
Income taxes	\$ 11,000	\$ 7,000
	See notes to condensed consolidated financial statements	

Siebert Financial Corp. & Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2011 and 2010
(Unaudited)

1. Organization and Basis of Presentation:

The consolidated financial statements include the accounts of Siebert Financial Corp. (the Company) and its wholly owned subsidiaries Muriel Siebert & Co., Inc. (Siebert) and Siebert Women's Financial Network, Inc. (WFN). All material intercompany balances and transactions have been eliminated. Investment in two entities in which the Company has ownership interests of 49% and 33.33%, respectively, are accounted for by the equity method.

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, 2010 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Because of the nature of the Company's business, the results of operations for the three months ended March 31, 2011 are not necessarily indicative of operating results for the full year.

2. Securities:

Securities owned are carried at fair value with realized and unrealized gains and losses reflected in trading profits. Siebert clears all its security transactions through unaffiliated clearing firms on a fully disclosed basis. Accordingly, Siebert does not hold funds or securities for, or owe funds or securities to, its customers. Those functions are performed by the clearing firms.

3. Fair Value of Financial Instruments:

Authoritative accounting guidance defines fair value, establishes a framework for measuring fair value and establishes a fair value hierarchy. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. Fair value measurements are not adjusted for transaction costs. The fair value hierarchy prioritizes inputs to valuation techniques used to measure fair value into three levels:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices that are observable, either directly or indirectly, and reasonably available.

Level 3 Unobservable inputs which reflect the assumptions that management develops based on available information about the assumptions market participants would use in valuing the asset or liability.

The classification of financial instruments valued at fair value at March 31, 2011 is as follows:

Financial Instruments	Level 1	Level 2	Total
Cash equivalents	\$ 21,266,000		\$ 21,266,000
Securities	264,000	\$ 867,000	1,131,000
	\$ 21,530,000	\$ 867,000	\$ 22,397,000

Securities include common stock of \$264,000 at March 31, 2011, valued on the last business day of the period at the last available reported sales price on the primary securities exchange (Level 1) and municipal bonds of \$867,000 at March 31, 2011, valued based on prices obtained from pricing sources, which derive values from observable inputs (Level 2).

4. Per Share Data:

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average 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 incurred a net loss for the three months ended March 31, 2011 and 2010. Accordingly, basic and diluted net loss per common share are the same for each period as the effect of stock options is anti-dilutive. Shares of underlying stock options not included in the diluted computation amounted to 1,228,200 in 2011 and 1,704,700 in 2010.

5. Net Capital:

Siebert 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 Siebert maintain minimum net capital, as defined, equal to the greater of \$250,000 or two percent of aggregate debit balances arising from customer transactions, pursuant to the Rule. As of March 31, 2011, Siebert had net capital of approximately \$19,724,000 as compared with net capital requirements of \$250,000.

6. Revenue:

Commissions and fees earned on customer trades together with related clearing expenses are recorded on a trade-date basis.

Trading profits are also recorded on a trade-date basis.

Investment banking revenue includes gains and fees, net of syndicate expenses, arising from underwriting syndicates in which the Company participates. Investment banking management fees are recorded on the offering date, sales concessions on the settlement date and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

Interest is recorded on an accrual basis and dividends are recorded on the ex-dividend date.

7. Capital Transactions:

On January 22, 2008, the Board of Directors of the Company authorized a buy back of up to 300,000 shares of common stock. Shares will be purchased from time to time, at management's discretion, in the open market and in private transactions. The Company purchased 3,927 shares at an average price of \$1.89 in the first quarter of 2011.

8. Investment in and advances to affiliates:

Siebert, Brandford, Shank & Co., L.L.C. (SBS)

Siebert holds a 49% ownership interest in SBS which is engaged in municipal bond underwritings. Income or loss from SBS is considered to be integral to Siebert's operations and material to the results of operations.

Summarized financial data of SBS is set forth below.

	March 31,	March 31,
	2011	2010
Total assets, including secured demand note of \$1,200,000 in each period due from Siebert	\$ 34,767,000	
Total liabilities, including subordinated liabilities of \$1,200,000 in each period due to Siebert	18,705,000	
Total members' capital	16,063,000	
Regulatory minimum net capital requirement	250,000	
Total revenues	3,945,000	\$ 13,166,000
Net (loss) income	(2,170,000)	2,684,000

Siebert charged SBS \$19,000 for the three months ended March 31, 2011 and 2010, respectively, for general and administrative services, which Siebert believes approximates the cost of furnishing such services.

Siebert's share of net (loss) income for the three months ended March 31, 2011 and 2010 amounted to \$(1.1) million and \$1.3 million, respectively.

Siebert received distributions from SBS of \$479,000 during the three months ended March 31, 2011, and Siebert's share of undistributed earnings from SBS amounted to \$7,479,000 at March 31, 2011. Such amounts may not be immediately available for distribution to Siebert for various reasons including the amount of SBS's available cash, the provisions of the agreement between Siebert and the principals and SBS's continued compliance with its regulatory net capital requirements.

SBS Financial Products Company, LLC (SBSFPC)

The Company has a 33.33% ownership interest in, and the two individual principals of SBS have an aggregate 66.66% ownership interest in, SBSFPC which engages in derivatives transactions related to the municipal underwriting business. Income/(loss) from SBSFPC is considered to be integral to the Company's operations and material to the results of operations.

Summarized financial data of SBSFPC is set forth below.

	March 31, 2011	March 31, 2010
Total assets	\$ 162,333,000	
Total liabilities	161,483,000	
Total members' capital	850,000	
Total revenues	(12,000)*	\$ 77,000
Net (loss) income	(63,000)	25,000

*Attributable to unrealized loss on derivative contracts.

The Company's share of net (loss) income for the three months ended March 31, 2011 and 2010 amounted to \$(21,000) and \$8,000, respectively.

At March 31, 2011, SBSFPC had an accumulated loss of \$350,000 of which the Company's share was \$117,000.

9. Contingent Liabilities:

Retail customer transactions are cleared through clearing brokers on a fully disclosed basis. If customers do not fulfill their contractual obligations, the clearing broker may charge Siebert for any loss incurred in connection with the purchase or sale of securities at prevailing market prices to satisfy the customer obligations. Siebert regularly monitors the activity in its customer accounts for compliance with its margin requirements. Siebert is exposed to the risk of loss on unsettled customer transactions if customers are unable to fulfill their contractual obligations. There were no material losses for unsettled customer transactions for the three months ended March 31, 2011 and 2010.

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