

SIEBERT FINANCIAL CORP
Form 10-Q
May 17, 2010

**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, 2010**

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.)

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 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 definitions 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: As of May 6, 2010, there were 22,181,725 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 document, 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, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents	\$ 23,531,000	\$ 24,184,000
Cash equivalents restricted	1,532,000	1,532,000
Receivable from clearing broker	1,138,000	1,954,000
Securities owned, at fair value	1,609,000	1,607,000
Furniture, equipment and leasehold improvements, net	1,432,000	1,569,000
Investment in and advances to affiliates	9,442,000	9,040,000
Income tax refund receivable	1,924,000	1,074,000
Prepaid expenses and other assets	1,105,000	1,050,000
Intangibles, net	750,000	750,000
Deferred taxes	1,278,000	1,323,000
	43,741,000	44,083,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	5,559,000	4,695,000
	5,559,000	4,695,000
Contingencies		
Stockholders equity:		
Common stock, \$.01 par value; 49,000,000 shares authorized, 23,211,846 shares issued and 22,179,255 shares outstanding at March 31, 2010 and 23,211,846 shares issued and 22,185,325 shares outstanding at December 31, 2009	232,000	232,000
Additional paid-in capital	19,476,000	19,474,000
Retained earnings	23,055,000	24,249,000
Less: 1,032,591 and 1,026,521 shares of treasury stock, at cost at March 31, 2010 and December 31, 2009, respectively	(4,581,000)	(4,567,000)
	38,182,000	39,388,000
	43,741,000	\$ 44,083,000

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Revenues:		
Commissions and fees	\$ 3,708,000	\$ 4,566,000
Investment banking	347,000	1,877,000
Trading profits	234,000	531,000
Interest and dividends	24,000	26,000
	4,313,000	7,000,000
Expenses:		
Employee compensation and benefits	2,456,000	3,033,000
Clearing fees, including floor brokerage	1,252,000	1,474,000
Professional fees	2,130,000	1,949,000
Advertising and promotion	143,000	278,000
Communications	649,000	638,000
Occupancy	311,000	323,000
Other general and administrative	684,000	681,000
	7,625,000	8,376,000
Income from equity investees	1,323,000	844,000
Loss before income taxes	(1,989,000)	(532,000)
Benefit for income taxes	(795,000)	(200,000)
Net loss	\$ (1,194,000)	\$ (332,000)
Net loss per share of common stock - Basic and Diluted	\$ (.05)	\$ (.01)
Weighted average shares outstanding - Basic and Diluted	22,188,174	22,199,450

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (1,194,000)	\$ (332,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	126,000	126,000
Income from equity investees	(1,323,000)	(844,000)
Distribution from equity investees	948,000	19,000
Deferred taxes	45,000	(39,000)
Employee stock based compensation	2,000	9,000
Securities owned, at fair value	(2,000)	(191,000)
Securities sold short, at fair value		509,000
Changes in:		
Receivable from clearing broker	816,000	(1,219,000)
Income tax refund receivable	(850,000)	(173,000)
Prepaid expenses and other assets	(55,000)	(54,000)
Accounts payable and accrued liabilities	938,000	(1,152,000)
Net cash used in operating activities	(549,000)	(3,341,000)
Cash flows from investing activities:		
Purchase of furniture, equipment and leasehold improvements	(63,000)	(82,000)
(Payment) collection of advances made to equity investees	(27,000)	56,000
Net cash used in investing activities	(90,000)	(26,000)
Cash flows from financing activities:		
Purchase of treasury shares	(14,000)	(7,000)
Net cash used in financing activities	(14,000)	(7,000)
Net decrease in cash and cash equivalents	(653,000)	(3,374,000)
Cash and cash equivalents - beginning of period	24,184,000	29,617,000
Cash and cash equivalents - end of period	23,531,000	\$ 26,243,000
Supplemental cash flow disclosures:		
Cash paid for:		
Income taxes	\$ 7,000	\$ 11,000
	See notes to condensed consolidated financial statements	

Siebert Financial Corp. & Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2010 and 2009
(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 statements are unaudited; however, in the opinion of management, all adjustments considered necessary to reflect fairly the Company's financial position and results of operations, consisting of normal recurring adjustments, have been included.

The accompanying consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, the statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Because of the nature of the Company's business, the results of any interim period are not necessarily indicative of results for a full year.

2. Securities transactions:

Securities owned are carried at fair value. Interest is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Siebert clears all its security transactions through two 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.

Authoritative accounting guidance defines fair value, establishes a framework for measuring fair value and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. 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. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1 valued based on quoted prices at the measurement date for identical assets or liabilities trading in active markets.

Level 2 quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability.

Level 3 valuations derived from valuation techniques in which one or more significant inputs is not readily observable.

As of March 31, 2010, the classification of securities owned is as follows:

Securities owned	Level 1	Level 2	Total
Municipal bonds		\$ 1,391,000	\$ 1,391,000
Common stock	\$ 218,000		\$ 218,000
	\$ 218,000	\$ 1,391,000	\$ 1,609,000

Common stock is valued on the last business day of the period at the last available reported sales price on the primary securities exchange.

Municipal bonds are valued based on prices obtained from pricing sources, which derive values from observable inputs.

3. Loss Per Share:

Basic and dilutive net loss per share are calculated by dividing net loss by the weighted average outstanding shares during the period. For the three months ended March 31, 2010 and 2009, 1,704,000 and 1,767,200 common shares, respectively, issuable upon the exercise of options were not included in the computation of diluted loss per share as the effect would have been anti-dilutive.

4. Net Capital:

Siebert is subject to the Securities and Exchange Commission's Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. Siebert has elected to use the alternative standard, 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, 2010, Siebert had net capital of approximately \$19,766,000 as compared with net capital requirements of \$250,000.

5. 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 6,070 shares at an average price of \$2.34 in the first quarter of 2010.

6. Siebert, Brandford, Shank & Co., LLC:

Summarized financial data of Siebert, Brandford, Shank & Co., LLC, (SBS) for the three months ended March 31, is set forth below. Siebert holds a 49% ownership interest in SBS which is engaged in municipal bond underwritings. Income from SBS is considered to be integral to Siebert's operations and material to the results of operations.

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	2010	2009
Total assets, including secured demand note of \$1,200,000 in each period due from Siebert	\$ 40,378,000	
Total liabilities, including subordinated liabilities of \$1,200,000 in each period due to Siebert	21,966,000	
Total members' capital	18,412,000	
Regulatory minimum net capital requirement	676,000	300,000
Total revenues	13,166,000	9,060,000
Net income	2,684,000	1,860,000

Siebert charged SBS \$19,000 for the three months ended March 31, 2010 and 2009, respectively, for general and administrative services, which Siebert believes approximates the cost of furnishing such services.

Siebert's share of net income for the three months ended March 31, 2010 and 2009 amounted to \$1.3 million and \$912,000, respectively.

Siebert's share of undistributed earnings from SBS amounted to \$8,630,000 at March 31, 2010. Such amount 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.

7. SBS Financial Products Company, LLC:

The Company has a 33.33% ownership interest in, and the two individual principals of SBS have an aggregate 66.66% ownership interest in, SBS Financial Products Company, LLC ("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.

The Company's share of net income (loss) for the three months ended March 31, 2010 and 2009 amounted to \$8,000 and (\$68,000), respectively.

At March 31, 2010, SBSFPC had an accumulated loss of \$185,000 of which the Company's share was \$62,000.

Summarized financial data of SBSFPC for the three months ended March 31, is set forth below.

	2010	2009
Total assets	134,173,000	
Total liabilities	133,158,000	
Total members' capital	1,015,000	
Total revenues	77,000	(154,000)*
Net income (loss)	25,000	(203,000)

*Attributable to unrealized loss on derivative contracts.

8. 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, 2010 and 2009.

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 involved amounts which would not have a significant effect on the financial position or results of operations of the Company.

9. Subsequent Events:

As part of the negotiations with its primary clearing firm for a three year Fully Disclosed Clearing Agreement which was entered into on May 5, 2010 and subject to approval by FINRA, the Company resolved at \$3 million the amount due to the Company from the clearing firm on past transactions cleared for the Company. This amount will be recorded as commission and fee income in the second quarter of 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2009, and our unaudited Consolidated Financial Statements and the Notes thereto contained elsewhere in this Quarterly Report.

Business Environment

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