

SIEBERT FINANCIAL CORP
Form 10-Q
May 15, 2009

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2009**

Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from _____ to _____

Commission file number **0-5703**

Siebert Financial Corp.

(Exact Name of Issuer as Specified in its Charter)

New York

11-1796714

(State or Other Jurisdiction of Incorporation)

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

885 Third Avenue, New York, NY 10022

(Address of Principal Executive Offices)

(212) 644-2400

(Issuer's Telephone Number, Including Area Code)

(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 registrant was required to submit and post such files.)

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Yes No

Indicate by check mark whether the registrant is a large accelerated, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer 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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 4, 2009, there were 22,198,430 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 the 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, 2009 (unaudited)	December 31, 2008
ASSETS		
Cash and cash equivalents	\$ 26,243,000	\$ 29,617,000
Cash equivalents restricted	1,300,000	1,300,000
Receivable from clearing broker	2,901,000	1,682,000
Securities owned, at fair value	949,000	758,000
Furniture, equipment and leasehold improvements, net	1,457,000	1,481,000
Investment in and advances to affiliates	7,249,000	6,480,000
Income tax refund receivable	1,485,000	1,312,000
Prepaid expenses and other assets	1,080,000	1,026,000
Intangibles, net	755,000	775,000
Deferred taxes	1,187,000	1,148,000
	\$ 44,606,000	\$ 45,579,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Securities sold short, at fair value	\$ 509,000	
Accounts payable and accrued liabilities	3,843,000	4,995,000
	4,352,000	4,995,000
Contingencies		
Stockholders equity:		
Common stock, \$.01 par value; 49,000,000 shares authorized, 23,211,846 shares issued and 22,197,733 and 22,202,115 shares outstanding at March 31, 2009 and December 31, 2008, respectively	232,000	232,000
Additional paid-in capital	19,463,000	19,454,000
Retained earnings	25,100,000	25,432,000
Less: 1,014,113 and 1,009,731 shares of treasury stock, at cost at March 31, 2009 and December 31, 2008, respectively	(4,541,000)	(4,534,000)
	40,254,000	40,584,000
	\$ 44,606,000	\$ 45,579,000

See notes to consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2009	2008
Revenues:		
Commissions and fees	\$ 4,566,000	\$ 6,201,000
Investment banking	1,877,000	1,257,000
Trading profits	531,000	39,000
Interest and dividends	26,000	400,000
	7,000,000	7,897,000
Expenses:		
Employee compensation and benefits	3,033,000	3,270,000
Clearing fees, including floor brokerage	1,474,000	1,578,000
Professional fees	1,949,000	1,186,000
Advertising and promotion	278,000	303,000
Communications	638,000	644,000
Occupancy	323,000	326,000
Other general and administrative	681,000	715,000
	8,376,000	8,022,000
Income (loss) from equity investees	844,000	(57,000)
Loss before income taxes	(532,000)	(182,000)
Benefit for income taxes	(200,000)	(54,000)
Net loss	\$ (332,000)	\$ (128,000)
Net loss per share of common stock - Basic and Diluted	\$ (.01)	\$ (.01)
Weighted average shares outstanding - Basic	22,199,450	22,212,346
Weighted average shares outstanding - Diluted	22,199,450	22,212,346

See notes to consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (332,000)	\$ (128,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	126,000	113,000
(Income) loss from equity investees	(844,000)	57,000
Distribution from equity investees	19,000	21,000
Deferred taxes	(39,000)	14,000
Employee stock based compensation	9,000	14,000
Securities owned, at fair value	(191,000)	
Securities sold short, at fair value	509,000	
Unrealized loss of securities owned, at market value - other		110,000
Proceeds from sale of securities owned, market value - other		236,000
Changes in:		
Receivable from clearing broker	(1,219,000)	(580,000)
Accrued interest securities owned, at market value Treasury bills		(204,000)
Income tax refund receivable	(173,000)	
Prepaid expenses and other assets	(54,000)	(341,000)
Accounts payable and accrued liabilities	(1,152,000)	(480,000)
Net cash used in operating activities	(3,341,000)	(1,168,000)
Cash flows from investing activities:		
Purchase of securities owned, at market value Treasury bills		(24,798,000)
Purchase of furniture, equipment and leasehold improvements	(82,000)	(196,000)
Collection of advances made to equity investees	56,000	132,000
Net cash used in investing activities	(26,000)	(24,862,000)
Cash flows from financing activities:		
Purchase of treasury shares	(7,000)	
Net cash used in financing activities	(7,000)	
Net decrease in cash and cash equivalents	(3,374,000)	(26,030,000)
Cash and cash equivalents - beginning of period	29,617,000	34,589,000
Cash and cash equivalents - end of period	\$ 26,243,000	\$ 8,559,000
Supplemental cash flow disclosures:		
Cash paid for:		
Income taxes	\$ 11,000	\$ 36,000
See notes to consolidated financial statements.		

Siebert Financial Corp. & Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2009 and 2008
(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, 2008. 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 transactions include trading profits, commission revenues and related clearing expenses are recorded on a trade date basis.

Marketable securities are valued 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, which are highly capitalized.

The Company adopted SFAS No. 157, Fair Value Measurements, effective January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. As defined in SFAS No. 157, 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. In determining fair value, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. 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.

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

As of March 31, 2009, accounts measured at fair value are classified as follows:

Securities owned	Level 1	Level 2	Total
New York State Dormitory Revenue Bonds		\$ 507,000	\$ 507,000
New York City Transitional Revenue bonds		\$ 242,000	\$ 242,000
Common stock	\$ 200,000		\$ 200,000
	\$ 200,000	\$ 749,000	\$ 949,000
Securities sold short			
France Telecom SA Corporate Bonds	\$ 509,000		\$ 509,000
	\$ 509,000		\$ 509,000

Common stocks held long and corporate bonds sold short classified within Level 1 of the fair value hierarchy are valued on the last business day of the period at the last available reported sales price on the primary securities exchange.

Municipal Bonds held long classified within Level 2 of the fair value hierarchy are valued based on prices obtained from pricing sources, which derive values from observable inputs.

3. Loss Per Share:

Basic loss per share is calculated by dividing net loss by the weighted average outstanding 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 recognized a net loss for the three months ended March 31, 2009 and March 31, 2008. Accordingly, basic and diluted common shares are the same as the effect of potentially dilutive securities would be anti-dilutive to loss per share. Potentially dilutive securities consisting of outstanding options not included in the computation of diluted loss per share as the effect would have been anti-dilutive for the three months ended March 31, 2009 and 2008 amounted to 1,767,200 and 1,467,200, respectively.

4. Net Capital:

Siebert is subject to the Securities and Exchange Commission'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, as defined. The Net Capital Rule of the New York Stock Exchange also

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provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than five percent of aggregate debits. As of March 31, 2009, Siebert had net capital of approximately \$23,119,000 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 4,382 shares at an average price of \$1.68 in the first quarter of 2009.

6. Siebert Brandford Shank & Co., LLC:

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

	March 31,	
	2009	2008
Total assets, including secured demand note of \$1,200,000 due from Siebert	\$ 26,244,000	
Total liabilities, including subordinated liabilities of \$1,200,000 due to Siebert	12,377,000	
Total members' capital	13,867,000	
Total revenues	9,060,000	4,601,000
Net income (loss)	1,860,000	(97,000)
Regulatory minimum net capital requirement	300,000	344,000

Siebert charged SBS \$19,000 and \$46,000 for the three months ended March 31, 2009 and 2008, respectively, for general and administrative services, which Siebert believes approximates the cost of furnishing such services.

Siebert's share of net income (loss) for the three months ended March 31, 2009 and 2008 amounted to \$912,000 and \$(47,000), respectively.

Siebert's share of undistributed earnings from SBS amounted to \$6,403,000 at March 31, 2009. 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.

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. (Loss) income 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,	
	2009	2008
Total assets	174,200,000	
Total liabilities	173,226,000	
Total members' capital	975,000	
Total revenues		