

SIEBERT FINANCIAL CORP
Form 10-Q
November 14, 2008

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 **September 30, 2008**

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 Registrant 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 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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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 October 28, 2008, there were 22,206,520 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 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

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and cash equivalents	\$ 31,365,000	\$ 34,589,000
Cash equivalents restricted	1,300,000	1,300,000
Receivable from clearing brokers	1,934,000	1,683,000
Securities owned, at market value	312,000	739,000
Furniture, equipment and leasehold improvements, net	1,469,000	1,037,000
Investments in and advances to equity investees	6,355,000	5,902,000
Prepaid expenses and other assets	1,669,000	936,000
Intangibles, net	795,000	871,000
Deferred taxes	1,040,000	867,000
	\$ 46,239,000	\$ 47,924,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	4,391,000	5,704,000
Commitments and contingencies		
Stockholders equity:		
Common stock, \$.01 par value; 49,000,000 shares authorized, 23,211,846 shares issued and 22,204,234 shares outstanding at September 30, 2008 and 23,211,846 shares issued and 22,212,346 shares outstanding at December 31, 2007	232,000	232,000
Additional paid-in capital	19,445,000	18,832,000
Retained earnings	26,701,000	27,660,000
Less: 1,007,612 shares of treasury stock, at cost at September 30, 2008 and 999,500 shares of treasury stock, at cost December 31, 2007	(4,530,000)	(4,504,000)
	41,848,000	42,220,000
	\$ 46,239,000	\$ 47,924,000

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Commissions and fees	\$ 6,052,000	\$ 6,096,000	\$ 18,085,000	\$ 19,264,000
Investment banking	400,000	713,000	2,844,000	2,665,000
Trading profits	549,000	190,000	801,000	395,000
Interest and dividends	164,000	451,000	707,000	1,337,000
	7,165,000	7,450,000	22,437,000	23,661,000
Expenses:				
Employee compensation and benefits	2,991,000	2,582,000	8,891,000	8,537,000
Clearing fees, including floor brokerage	1,695,000	1,241,000	4,774,000	4,208,000
Professional fees	2,332,000	2,240,000	5,531,000	4,548,000
Advertising and promotion	253,000	120,000	857,000	638,000
Communications	597,000	753,000	1,887,000	1,538,000
Occupancy	338,000	317,000	981,000	959,000
Other general and administrative	673,000	690,000	2,056,000	2,149,000
	8,879,000	7,943,000	24,977,000	22,577,000
Income (loss) from equity investees	108,000	(395,000)	1,687,000	961,000
(Loss) income before income taxes	(1,606,000)	(888,000)	(853,000)	2,045,000
(Benefit) provision for income taxes	(675,000)	(293,000)	(362,000)	939,000
Net (loss) income	\$ (931,000)	\$ (595,000)	\$ (491,000)	\$ 1,106,000
Net (loss) income per share of common stock -				
Basic and Diluted	\$ (.04)	\$ (.03)	\$ (.02)	\$.05
Weighted average shares outstanding -				
Basic	22,205,456	22,206,546	22,209,883	22,205,491
Diluted	22,205,456	22,206,546	22,209,883	22,281,407

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net (loss) income	\$ (491,000)	\$ 1,106,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	342,000	498,000
Income from equity investees	(1,687,000)	(961,000)
Deferred taxes	(173,000)	22,000
Distribution from equity investees	1,078,000	2,419,000
Employee stock based compensation	613,000	70,000
Unrealized loss of securities owned, at market value other	191,000	
Proceeds from sale of securities owned, at market value - other	236,000	
Changes in:		
Receivable from clearing brokers	(251,000)	390,000
Prepaid expenses and other assets	(733,000)	(943,000)
Accounts payable and accrued liabilities	(1,313,000)	280,000
Net cash (used in) provided by operating activities	(2,188,000)	2,881,000
Cash flows from investing activities:		
Purchase of securities owned, at market value		(248,000)
Purchase of furniture, equipment and leasehold improvements	(698,000)	(624,000)
Collection/(payment) of net advances made to equity investees	156,000	(73,000)
Net cash used in investing activities	(542,000)	(945,000)
Cash flows from financing activities:		
Dividend on common stock	(468,000)	(560,000)
Proceeds from exercise of options		11,000
Repurchase of common stock	(26,000)	
Net cash used in financing activities	(494,000)	(549,000)
Net (decrease)/increase in cash and cash equivalents	(3,224,000)	1,387,000
Cash and cash equivalents - beginning of period	34,589,000	32,606,000
Cash and cash equivalents - end of period	\$ 31,365,000	\$ 33,993,000
Supplemental cash flow disclosures:		
Cash paid for:		
Income taxes	\$ 567,000	\$ 2,058,000
See notes to consolidated financial statements.		

Siebert Financial Corp. & Subsidiaries
Notes to Consolidated Financial Statements
Nine Months Ended September 30, 2008 and 2007
(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% are accounted for by the equity method. The statements are unaudited; however, in the opinion of management these financial statements reflect all adjustments consisting of normal recurring accruals considered necessary to reflect fairly for the period ended September 30, 2008 and 2007, the Company's financial position and results of operations.

The accompanying consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles 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, 2007. 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 Owned, at Market Value:

The Company adopted SFAS No. 157, Fair Value Measurements, in the first quarter of 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 will be 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 September 30, 2008:

Securities owned, at market value	Level 1	Level 2	Level 3	Total
NASDAQ common stock	\$312,000	-	-	\$312,000

3. Earnings (loss) per Share:

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average outstanding shares during the period. Diluted earnings (loss) 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 treasury stock method is used to reflect the dilutive effect of outstanding options, which for the nine months ended September 30, 2007 amounted to 75,916 additional shares, added to the basic weighted average outstanding shares of 22,205,491. As the Company recognized a net loss for the three and nine months ended September 30, 2008 and the three months ended September 30, 2007, basic and diluted loss per common share for such periods are the same as the effect of potentially dilutive securities would be anti-dilutive. Potentially dilutive securities consist of outstanding options to acquire 1,162,500 common shares.

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 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 September 30, 2008, Siebert had net capital of approximately \$28,236,000 as compared with net capital requirements of \$250,000.

4. Capital Transaction:

On January 22, 2008, the Board of Directors of the Company authorized a buy back of up to 300,000 shares of common stock. During the nine months ended September 30, 2008, 8,112 shares have been purchased at an average price of \$3.30 per share, including 500 shares from a buy back authorized in 2000.

5. 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 from SBS is considered to be integral to Siebert's operations and material to the results of operations.

	September 30	
	2008	2007
Total assets including secured demand note of \$1,200,000 due from Siebert	\$ 30,766,000	
Total liabilities including subordinated liabilities of \$1,200,000 due to Siebert	19,556,000	
Total members' capital	11,210,000	
Nine months ended:		
Total revenues	22,774,000	17,895,000
Net income	3,470,000	1,977,000
Three months ended:		
Total revenues	7,322,000	3,807,000
Net income (loss)	211,000	(886,000)

Siebert charged SBS \$84,000 and \$180,000 for the nine months ended September 30, 2008 and 2007, respectively, and \$19,000 and \$60,000 for the three months ended September 30, 2008 and 2007, respectively, for general and administrative services which Siebert believes approximates the cost of furnishing such services.

Siebert's share of SBS's undistributed earnings amounted to \$5,101,000 at September 30, 2008. 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 and net capital requirements.

6. 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.

The Company's share of SBSFPC's undistributed earnings amounted to \$416,000 at September 30, 2008.

Summarized financial data of SBSFPC is set forth below. Income from SBSFPC is considered to be integral to the Company's operations and material to the results of operations.

September 30

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	2008	2007
Total assets	\$ 103,237,000	
Total liabilities	100,787,000	