

SIEBERT FINANCIAL CORP
Form 10-Q
May 15, 2014

**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, 2014**

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)

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

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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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 2, 2014, there were 22,085,126 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; changes and prospects for changes in interest rates; 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 greater discounts on commissions than we do; the prevalence of a flat fee environment; decline in participation in corporate 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 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
Consolidated Statements of Financial Condition

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 14,190,000	\$ 15,424,000
Cash equivalents restricted	1,532,000	1,532,000
Receivable from brokers	770,000	1,105,000
Securities owned, at fair value	377,000	406,000
Furniture, equipment and leasehold improvements, net	672,000	712,000
Investment in and advances to affiliates	8,880,000	8,022,000
Prepaid expenses and other assets	755,000	751,000
Intangibles, net	15,000	18,000
	\$ 27,191,000	\$ 27,970,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	\$ 2,054,000	\$ 2,861,000
Contingencies (Note 9)		
Stockholders equity:		
Common stock, \$.01 par value; 49,000,000 shares authorized, 23,211,846 shares issued, and 22,085,126 shares outstanding at March 31, 2014 and December 31, 2013	232,000	232,000
Additional paid-in capital	19,490,000	19,490,000
Retained earnings	10,175,000	10,147,000
Less: 1,126,720 shares of treasury stock, at cost at March 31, 2014 and December 31, 2013	(4,760,000)	(4,760,000)
	25,137,000	25,109,000
	\$ 27,191,000	\$ 27,970,000

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Revenues:		
Commissions and fees	\$ 2,980,000	\$ 2,985,000
Investment banking	435,000	730,000
Trading profits	289,000	535,000
Interest and dividends	14,000	16,000
	3,718,000	4,266,000
Expenses:		
Employee compensation and benefits	1,951,000	2,259,000
Clearing fees, including floor brokerage	522,000	584,000
Professional fees	763,000	844,000
Advertising and promotion	70,000	99,000
Communications	270,000	347,000
Occupancy	243,000	257,000
Other general and administrative	597,000	551,000
	4,416,000	4,941,000
Income (loss) from equity investees	726,000	(694,000)
Net income (loss)	\$ 28,000	\$ (1,369,000)
Net income (loss) per share of common stock -		
Basic and Diluted	.00	\$ (.06)
Weighted average shares outstanding -		
Basic	22,085,126	22,093,322
Diluted	22,087,585	22,093,322

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$ 28,000	\$ (1,369,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	82,000	31,000
(Income) / loss income from equity investees	(726,000)	694,000
Distribution from equity investees		73,000
Changes in:		
Securities owned, at fair value	29,000	(75,000)
Receivable from brokers	335,000	843,000
Prepaid expenses and other assets	(4,000)	(48,000)
Accounts payable and accrued liabilities	(807,000)	(292,000)
Net cash used in operating activities	(1,063,000)	(143,000)
Cash flows from investing activities:		
Purchase of furniture, equipment and leasehold improvements	(39,000)	(40,000)
Advances to equity investees	(132,000)	(69,000)
Net cash used in investing activities	(171,000)	(109,000)
Cash flows from financing activities:		
Purchase of treasury shares		(16,000)
Net cash used in financing activities		(16,000)
Net decrease in cash and cash equivalents	(1,234,000)	(268,000)
Cash and cash equivalents - beginning of period	15,424,000	18,902,000
Cash and cash equivalents - end of period	\$ 14,190,000	\$ 18,634,000
Supplemental cash flow disclosures:		
Cash paid for:		
Income taxes	\$ 11,000	\$ 26,000
See notes to condensed consolidated financial statements		

Siebert Financial Corp. & Subsidiaries
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2014 and 2013
(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 and included in investment in and advances to affiliates in the consolidated statements of financial condition.

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, 2013 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, 2013. Because of the nature of the Company's business, the results of operations for the three months ended March 31, 2014 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 as of March 31, 2014, is as follows:

Financial Instruments	Level 1
Cash equivalents	\$ 14,926,000
Securities	377,000
	\$ 15,303,000

Cash equivalents primarily represent investments in money market funds. Securities consist of common stock valued on the last business day of the period at the last available reported sales price on the primary securities exchange.

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. Basic and diluted net income per common share for the three months ended March 31, 2014 are the same, as the effect of stock options dilution is immaterial. Shares underlying stock options included in the diluted computation amounted to 25,000 (out of 290,000 outstanding stock options) in 2014. Using the treasury stock method resulted in an extra 2,459 weighted average shares for the diluted calculation. In 2013, shares underlying stock options not included in the diluted computation amounted to 400,000.

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, 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, 2014, Siebert had net capital of approximately \$12,506,000 as compared with net capital requirements of \$250,000. Siebert claims exemption from the reserve requirement under section 15c3-3(k)(2)(ii).

6. Revenue:

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

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.

Trading profits 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 satisfy the order.

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

7. Capital Transactions:

On January 23, 2008, the Board of Directors of the Company authorized a buy back of up to 300,000 shares of common stock. Under this program, shares are purchased from time to time, at management's discretion, in the open market and in private transactions. The Company did not purchase any shares in the first quarter of 2014.

There were no stock option transactions during the three months ended March 31, 2014. At March 31, 2014, there were 290,000 outstanding options at a weighted average exercise price of \$3.11, which were fully vested and exercisable. As of March 31, 2014, there were no unrecognized compensation costs.

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, 2014	March 31, 2013
Total assets, including secured demand note of \$1,200,000 due from Siebert	\$ 31,634,000	
Total liabilities, including subordinated liabilities of \$1,200,000 due to Siebert	14,246,000	
Total members' capital	17,388,000	
Regulatory minimum net capital requirement	250,000	
Total revenues	7,735,000	3,995,000
Net Income	1,481,000	(1,229,000)

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Siebert charged SBS \$25,000 during the three months ended March 31, 2014 and 2013, 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, 2014 and net loss in 2013 amounted to \$726,000 and \$602,000, respectively.

Siebert did not receive a distribution from SBS during the three months ended March 31, 2014 and Siebert's share of undistributed earnings from SBS amounted to \$8.1 million at March 31, 2014. 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.

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. As of March 31, 2014, SBSFPC's operations were being phased out.

Summarized financial data of SBSFPC is set forth below.

	March 31, 2014	March 31, 2013
Total assets	\$ 568,000	
Total liabilities		
Total members' capital	568,000	
Total revenues		(222,000)*
Net loss	(1,000)	(275,000)

*Negative balance was attributable to unrealized loss on derivative contracts.

The Company's share of net loss for the three months ended March 31, 2014 and 2013 amounted to \$0 and \$92,000, respectively.

During the quarter ended March 31, 2013, SBSFPC incurred a loss of \$241,000 on the write down in value of the derivative contracts with the City of Detroit to adjust their carrying value to the carrying value of the derivative contracts with the financial institution. In July 2013, as a result of the filing of a bankruptcy petition by the City of Detroit, SBSFPC unwound certain derivative contracts with a financial institution pursuant to the terms of the contracts. The contracts were recorded as liabilities with a carrying value of \$123,063,000. In connection therewith, SBSFPC assigned certain derivative contracts with the City of Detroit to the financial institution, which were recorded as assets with a carrying value of \$123,063,000. No gain or loss was recognized by SBSFPC as a result of the unwinding and assignment of these derivative contracts and SBSFPC has no continuing obligations or rights with respect to the derivative contracts.

At March 31, 2014, SBSFPC had accumulated distributions in excess of cumulative earnings in the amount of \$632,000 of which the Company's share was \$211,000. The Company received no distribution from SBSFPC during the three months ended March 31, 2014.

9. Contingencies and Commitments:

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, 2014 and 2013.

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 material effect on the financial position or results of operations of the Company.

Siebert is party to a Secured Demand Note Collateral Agreement, as amended on July 29, 2013, with SBS which obligates Siebert to lend SBS, on a subordinated basis, up to \$1,200,000. The secured demand note payable held by SBS and a related \$1,200,000 receivable due from SBS is included in investments in and advances to equity investees in the accompanying consolidated statements of financial condition. Amounts that Siebert is obligated to lend under this arrangement are collateralized by cash equivalents of \$1,532,000. Any amounts loaned will bear interest at 4% per annum and are repayable on August 31, 2015.

10. Income taxes:

There is no provision for income taxes on income in the 2014 period as the Company had available net operating loss carry forward (which had been fully reserved) to offset such income. No tax benefit has been recognized for the loss in the 2013 period as the Company has fully offset the related deferred tax asset by a valuation allowance due to cumulative losses incurred by the Company and its subsidiaries during the prior three years.

11. Related parties:

Effective September 16, 2013, on