

SIEBERT FINANCIAL CORP
Form 10-Q
August 15, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 **June 30, 2016**

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)(Zip Code)

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)

(212) 644-2400

(Registrant'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 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 definition 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 August 3, 2016, there were 22,085,126 shares of Common Stock, par value \$.01 per share, outstanding.

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 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
Condensed Consolidated Statements of Financial Condition**

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 7,851,000	\$ 9,420,000
Receivable from brokers	544,000	626,000
Receivable from business sold to former affiliate net of unamortized discount of \$798,000 and \$908,000	1,709,000	2,092,000
Other receivable from former affiliate, including accrued interest of \$210,000 and \$46,000	4,210,000	4,046,000
Securities owned, at fair value	660,000	593,000
Furniture, equipment and leasehold improvements, net	268,000	374,000
Advance to former affiliate	10,000	—
Prepaid expenses and other assets	520,000	634,000
	\$ 15,772,000	\$ 17,785,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued liabilities, including \$171,000 payable to former affiliate on December 31, 2015	\$ 1,318,000	\$ 2,102,000
Commitments and contingencies - Note 11		
Stockholders' equity:		
Common stock, \$.01 par value; 49,000,000 shares authorized, 23,211,846 shares issued, 22,085,126 shares outstanding at June 30, 2016 and December 31, 2015, respectively	232,000	232,000
Additional paid-in capital	19,490,000	19,490,000
(Deficit) Retained earnings	(508,000)	721,000
Less: 1,126,720 shares of treasury stock, at cost	(4,760,000)	(4,760,000)
	14,454,000	15,683,000
	\$ 15,772,000	\$ 17,785,000

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues:				
Commissions and fees	\$2,188,000	\$1,918,000	\$4,266,000	\$4,295,000
Investment banking	11,000	11,000	23,000	19,000
Trading profits	125,000	102,000	390,000	271,000
Interest and dividends	138,000	73,000	281,000	143,000
	2,462,000	2,104,000	4,960,000	4,728,000
Expenses:				
Employee compensation and benefits	1,200,000	1,289,000	2,487,000	2,711,000
Clearing fees, including floor brokerage	236,000	284,000	474,000	685,000
Professional fees	915,000	1,029,000	1,585,000	1,788,000
Advertising and promotion	67,000	57,000	133,000	121,000
Communications	132,000	163,000	262,000	322,000
Occupancy	197,000	203,000	379,000	406,000
Other general and administrative	443,000	473,000	869,000	879,000
	3,190,000	3,498,000	6,189,000	6,912,000
Loss from continuing operations	(728,000)	(1,394,000)	(1,229,000)	(2,184,000)
Discontinued operations:				
Share of income from former affiliate		987,000		243,000
Net loss	\$(728,000)	\$(407,000)	\$(1,229,000)	\$(1,941,000)
Net loss per share of common stock –				
Continuing operations	\$(.03)	\$(.06)	\$(.06)	\$(.10)
Discontinued operations	\$—	\$.04	\$—	\$.01
Basic and diluted	\$(.03)	\$(.02)	\$(.06)	\$(.09)
Weighted average shares outstanding -				
Basic and diluted	22,085,126	22,085,126	22,085,126	22,085,126

See notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(1,229,000)	\$(1,941,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	136,000	141,000
Income from former affiliate		(243,000)
Distribution from former affiliate		86,000
Interest accrued on note receivable from business sold to former affiliate	(274,000)	(114,000)
Changes in:		
Securities owned, at fair value	(67,000)	(10,000)
Advance to former affiliate	(10,000)	
Receivable from brokers	82,000	46,000
Prepaid expenses and other assets	114,000	116,000
Accounts payable and accrued liabilities	(784,000)	(263,000)
Net cash used in operating activities	(2,032,000)	(2,182,000)
Cash flows from investing activities:		
Purchase of furniture, equipment and leasehold improvements	(30,000)	(21,000)
Collection of receivable from former affiliate	493,000	4,000
Net cash provided by (used in) investing activities	463,000	(17,000)
Net decrease in cash and cash equivalents	(1,569,000)	(2,199,000)
Cash and cash equivalents - beginning of period	9,420,000	6,749,000
Cash and cash equivalents - end of period	\$7,851,000	\$4,550,000
Supplemental cash flow disclosures:		
Cash paid for:		
Income taxes	\$10,000	\$16,000

See notes to condensed consolidated financial statements.

Siebert Financial Corp. & Subsidiaries

Notes to Condensed Consolidated Financial Statements Six Months Ended June 30, 2016 and 2015 (Unaudited)

1. Business and Basis of Presentation:

Siebert Financial Corp. (the “Company”) is a holding company that conducts its retail discount brokerage business through its wholly-owned subsidiary, Muriel Siebert & Co., Inc. (“Siebert”), a Delaware corporation. Siebert’s principal activity is providing online and traditional discount brokerage and related services to retail investors. In addition, in 2014 the Company began business as a registered investment advisor through a wholly-owned subsidiary, Siebert Investment Advisors, Inc. (“SIA”).

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Siebert, Women’s Financial Network, Inc. (“WFN”) and SIA. All material intercompany balances and transactions have been eliminated.

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, 2015 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, 2015. Because of the nature of the Company’s business, the results of operations for the six months ended June 30, 2016 are not necessarily indicative of operating results for the full year.

2. Sale of Capital Markets Group Business:

On November 4, 2014, the Company, which held a 49% membership interest in, and the other members of, Siebert Brandford Shank & Co., LLC (“SBS”), contributed their SBS membership interests into a newly formed Delaware limited liability company, Siebert Brandford Shank Financial, LLC (“SBSF”), in exchange for the same percentage interests in SBSF. On the same day, the Company entered into an Asset Purchase Agreement (the “SCM Purchase

Agreement”) with SBS and SBSF, pursuant to which the Company sold substantially all of the assets relating to the Company’s capital markets business to SBSF. Pursuant to the SCM Purchase Agreement, SBSF assumed post-closing liabilities relating to the transferred business.

The SCM Purchase Agreement provides for an aggregate purchase price for the disposition of \$3,000,000, payable by SBSF after closing in annual installments commencing on March 1, 2016 and continuing on each of March 1, 2017, 2018, 2019 and 2020. The transferred business was contributed by SBSF to, and operated by SBS. The amount payable to the Company on each annual payment date will equal 50% of the net income attributable to the transferred business recognized by SBS in accordance with generally accepted accounting principles during the fiscal year ending immediately preceding the applicable payment date; provided that, if net income attributable to the transferred business generated prior to the fifth annual payment date is insufficient to pay the remaining balance of the purchase price in full on the fifth annual payment date, then the unpaid amount of the purchase price will be paid in full on March 1, 2021. The annual installment payable on March 1, 2016 which amounted to \$493,000 and was based on the net income attributable to the capital markets business for the year ended December 31, 2015.

The fair value of the purchase obligation was based on the present value of estimated annual installments to be received during 2016 through 2020 from forecasted net income of the transferred business plus a final settlement in 2021, discounted at 11.5% (representing SBS’s weighted average cost of capital). The discount recorded for the purchase obligation is being amortized as interest income using an effective yield, initially calculated based on the original carrying amount of the obligation and estimated annual installments to be received and will be adjusted in future periods to reflect actual installments received and changes in estimates of future installments. Interest income recognized on the obligation for the three and six month period ended June 30, 2016 amounted to approximately, \$51,000 and \$110,000 respectively based on a yield of approximately 12%.

3. Discontinued Operations:

On November 9, 2015, the Company sold its 49% membership investment in SBSF back to SBSF for \$8,000,000 of which \$4,000,000 was paid in cash and the balance of which was paid in the form of a secured junior subordinated promissory note of \$4,000,000 (the "SBSF Junior Note"). The sale of the investment in SBSF, which was accounted for by the equity method, represents a strategic shift for the Company based on its significance to the Company's financial condition and results of operations and the major effect it will have on the Company's operations and financial results and, accordingly, the Company's share of operating results of the investment are reflected as discontinued operations in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2015. The investment was sold for approximately \$448,000 less than the carrying value of the investment at November 9, 2015, after adjusting the carrying value of the investment for the Company's equity in SBSF's results of operations through such date.

The SBSF Junior Note ranks junior in right of payment to up to \$5.0 million of subordinated indebtedness incurred by SBSF at the time of the repurchase closing (the "SBSF Senior Debt"). The SBSF Junior Note is secured by a pledge by SBSF's post-closing members of a number of the outstanding membership interests of SBSF that at all times will equal no less than 49% of the outstanding SBSF membership interests on a fully diluted basis. The SBSF Junior Note matures on November 9, 2020 and bears interest at a rate per year equal to 8% compounding monthly and payable in full at maturity. Interest accrued on the note for the three and six months ended June 30, 2016 amounted to \$83,000 and \$164,000 respectively. The SBSF Junior Note does not require any principal amortization before maturity; however, SBSF has the option to prepay the interest or principal without penalty. The SBSF Junior Note contains covenants and events of defaults that are substantially equivalent to those applicable to the SBSF Senior Debt, including covenants restricting debt and lien incurrence by SBS and SBSF; provided that the SBSF Junior Note is subject to customary intercreditor arrangements with the holders of the SBSF Senior Debt. Immediately upon the dissolution, liquidation, termination or expiration of SBSF or SBS, or a change of control of SBSF or SBS, or sale of all or substantially all of their consolidated assets, SBSF is obligated to prepay all of the then outstanding balance of the SBSF Junior Note.

4. 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.

5. 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 June 30, 2016, as follows:

Financial Instruments	Level 1
Cash equivalents	\$7,637,000
Securities	660,000
	\$8,297,000

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.

6.

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 and six months ended both June 30, 2016 and June 30, 2015. 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 underlying stock options not included in the diluted computation amounted to 265,000 in 2016 and 2015.

7. Net Capital:

Siebert is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1) (the "Rule"), 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 5% of aggregate debits. As of June 30, 2016, Siebert had net capital of approximately \$3,067,000 as compared with net capital requirements of \$250,000. Siebert claims exemptions from the reserve requirement under section 15c3-3(k)(2)(ii).

8. 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 advisory fees charged clients thru SIA.

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.

9. 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 did not purchase any shares during the three and six months ended June 30, 2016.

There were no stock option transactions during the six months ended June 30, 2016. At June 30, 2016, there were 265,000 outstanding options at a weighted average exercise price of \$3.02, all of which were fully vested and exercisable. As of June 30, 2016, there were no unrecognized compensation costs.

10. Results of former affiliate

Summarized financial data of Siebert Brandford Shank Financial, LLC (“SBSF”) follows:

	June 30, 2015
Six months ended:	
Total revenues	\$ 13,969,000
Net income	495,000
Three months ended:	
Total revenues	9,919,000
Net income	2,014,000

Siebert’s 49% share of SBSF’s consolidated net income for the three and six months ended June 30, 2015, respectively amounted to \$987,000 and \$243,000.

Siebert charged SBS \$6,000 for the three months ended June 30, 2016 and \$25,000 for the three months ended June 30, 2015, and \$23,000 for the six months ended June 30, 2016 and \$50,000 for the six months ended June 30, 2015, respectively, for general and administrative services, which Siebert believes approximates the cost of furnishing such services.

Siebert made advances, net of collections, to SBSF of \$10,000 during the six months ended June 30, 2016 and collections of \$4,000, net of advances to SBSF during the six months ended June 30, 2015. Siebert received a distribution from SBSF of \$86,000 during the six months ended June 30, 2015.

11. 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 six months ended June 30, 2016 and 2015.

In December 2015, a current employee of Siebert commenced an arbitration before FINRA against Siebert, alleging a single cause of action for employment retaliation under the Sarbanes-Oxley Act of 2002. In February 2016, the employee amended his claim to replace the Sarbanes-Oxley claim with a substantially identical claim arising under the Dodd-Frank Act of 2010. In the opinion of management, this matter is without merit, and its ultimate outcome will not have a significant effect on the financial position of the Company.

In May 2016, a current employee of Siebert filed a complaint with the New York State Division of Human Rights. In the opinion of management, this matter is without merit, and its ultimate outcome will not have a significant effect on the financial position of the Company.

12. Income Taxes:

No tax benefit has been recognized for the loss in the three and six month periods ended June 30, 2016 and 2015 as the Company has fully offset the related deferred tax asset for the loss carry forward by a valuation allowance due to cumulative losses incurred by the Company and its subsidiaries during the prior three years.

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, 2015, and the unaudited condensed consolidated financial statements and the notes thereto contained elsewhere in this Quarterly Report.

Business Environment

Our working capital is invested primarily in money market funds, so that liquidity has not been materially affected. The recent financial crisis did have the effect of reducing participation in the securities market by our retail customers, which had an adverse effect on our revenues.

On November 9, 2015, the Company sold its 49% membership investment in SBSF back to SBSF for \$8,000,000 of which \$4,000,000 was paid in cash and the balance of which was paid in the form of a secured junior subordinated promissory note of \$4,000,000 (the "SBSF Junior Note"). The sale of the investment in SBSF, which was accounted for by the equity method, represents a strategic shift for the Company based on its significance to the Company's financial condition and results of operations and the major effect it will have on the Company's operations and financial results and, accordingly, the Company's share of operating results of the investment are reflected as discontinued operations in the accompanying statement of operations. The investment was sold for approximately \$448,000 less than the carrying value of the investment at November 9, 2015, after adjusting the carrying value of the investment for the Company's equity in SBSF's results of operations through such date.

On January 23, 2008, our Board of Directors authorized a buyback of up to 300,000 shares of common stock. Under this program, shares are purchased from time to time, at our discretion, in the open market and in private transactions. The Company did n