

SIEBERT FINANCIAL CORP  
Form 10-Q  
August 15, 2011

---

---

**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, 2011**

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)

(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.

Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

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 August 2, 2011, there were 22,114,139 shares of Common Stock, par value \$.01 per share, outstanding.

## Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

*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

|  | June 30, 2011<br>(Unaudited) | December 31,<br>2010 |
|--|------------------------------|----------------------|
| <b>ASSETS</b>  |                              |                      |
| Cash and cash equivalents  | \$ 22,774,000                | \$ 22,646,000        |
| Cash equivalents restricted  | 1,532,000                    | 1,532,000            |
| Receivable from brokers  | 1,094,000                    | 1,563,000            |
| Securities owned, at fair value  | 1,119,000                    | 1,116,000            |
| Furniture, equipment and leasehold improvements, net   | 998,000                      | 1,246,000            |
| Investment in and advances to affiliates   | 7,252,000                    | 9,816,000            |
| Income tax refund receivable   | 288,000                      | 795,000              |
| Prepaid expenses and other assets  | 686,000                      | 741,000              |
| Intangibles, net   | 643,000                      | 648,000              |
|  | \$ 36,386,000                | \$ 40,103,000        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                              |                      |
| Liabilities:   |                              |                      |
| Accounts payable and accrued liabilities   | 3,563,000                    | 3,477,000            |
| Contingencies  |                              |                      |
| Stockholders equity:   |                              |                      |
| Common stock, \$.01 par value; 49,000,000 shares authorized, 23,211,846 shares issued, and 22,115,523 and 22,122,678 shares outstanding at June 30, 2011 and December 31, 2010, respectively | 232,000                      | 232,000              |
| Additional paid-in capital   | 19,488,000                   | 19,484,000           |
| Retained earnings  | 17,815,000                   | 21,609,000           |
| Less: 1,096,323 and 1,089,168 shares of treasury stock, at cost at June 30, 2011 and December 31, 2010, respectively   | (4,712,000)                  | (4,699,000)          |
|  | 32,823,000                   | 36,626,000           |
|  | \$ 36,386,000                | \$ 40,103,000        |

See notes to condensed consolidated financial statements.

Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

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

|   | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |               |
|---|--------------------------------|--------------|------------------------------|---------------|
|   | 2011                           | 2010         | 2011                         | 2010          |
| <b>Revenues:</b>                              |                                |              |                              |               |
| Commissions and fees                          | \$ 3,539,000                   | \$ 6,624,000 | \$ 7,484,000                 | \$ 10,332,000 |
| Investment banking                            | 406,000                        | 413,000      | 1,578,000                    | 760,000       |
| Trading profits                               | 526,000                        | 323,000      | 903,000                      | 557,000       |
| Interest and dividends                        | 27,000                         | 36,000       | 36,000                       | 60,000        |
|   | 4,498,000                      | 7,396,000    | 10,001,000                   | 11,709,000    |
| <b>Expenses:</b>                              |                                |              |                              |               |
| Employee compensation and benefits            | 2,380,000                      | 2,396,000    | 4,842,000                    | 4,852,000     |
| Clearing fees, including floor brokerage      | 690,000                        | 693,000      | 1,614,000                    | 1,945,000     |
| Professional fees                             | 1,400,000                      | 1,679,000    | 2,813,000                    | 3,809,000     |
| Advertising and promotion                     | 93,000                         | 110,000      | 193,000                      | 253,000       |
| Communications                                | 527,000                        | 620,000      | 1,084,000                    | 1,269,000     |
| Occupancy                                     | 272,000                        | 338,000      | 543,000                      | 649,000       |
| Other general and administrative              | 633,000                        | 716,000      | 1,318,000                    | 1,400,000     |
|   | 5,995,000                      | 6,552,000    | 12,407,000                   | 14,177,000    |
| (Loss) income from equity investees           | (292,000)                      | 501,000      | (1,376,000)                  | 1,824,000     |
| (Loss) income before income taxes             | (1,789,000)                    | 1,345,000    | (3,782,000)                  | (644,000)     |
| Income tax expense (benefit)                  | 1,000                          | 563,000      | 12,000                       | (232,000)     |
| Net (loss) income                             | \$ (1,790,000)                 | \$ 782,000   | \$ (3,794,000)               | \$ (412,000)  |
| Net (loss) income per share of common stock - |                                |              |                              |               |
| Basic and Diluted                             | \$ (.08)                       | \$ .04       | \$ (.17)                     | \$ (.02)      |
| Weighted average shares outstanding -         |                                |              |                              |               |
| Basic   | 22,118,162                     | 22,177,524   | 22,119,667                   | 22,179,801    |
| Diluted                                       | 22,118,162                     | 22,178,328   | 22,119,667                   | 22,179,801    |

See notes to condensed consolidated financial statements.

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

|   | <b>Six Months Ended<br/>June 30,</b> |               |
|---|--------------------------------------|---------------|
|   | <b>2011</b>                          | <b>2010</b>   |
| <b>Cash flows from operating activities:</b>                                    |                                      |               |
| Net loss  | \$ (3,794,000)                       | \$ (412,000)  |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                      |               |
| Depreciation and amortization   | 264,000                              | 258,000       |
| Loss (income) from equity investees   | 1,376,000                            | (1,824,000)   |
| Deferred taxes  |                                      | 87,000        |
| Distribution from equity investees  | 1,185,000                            | 2,513,000     |
| Stock based compensation  | 4,000                                | 5,000         |
| Changes in:   |                                      |               |
| Securities owned, at fair value   | (3,000)                              | 41,000        |
| Receivable from brokers   | 469,000                              | 790,000       |
| Prepaid expenses and other assets   | 55,000                               | 231,000       |
| Income tax refund receivable  | 507,000                              | (327,000)     |
| Accounts payable and accrued liabilities  | 86,000                               | 1,718,000     |
| Net cash provided by operating activities                                       | 149,000                              | 3,080,000     |
| <b>Cash flows from investing activities:</b>                                    |                                      |               |
| Purchase of furniture, equipment and leasehold improvements                     | (11,000)                             | (108,000)     |
| Collection (payment) of advances made to equity investees                       | 3,000                                | (6,000)       |
| Net cash used in investing activities   | (8,000)                              | (114,000)     |
| <b>Cash flows from financing activities:</b>                                    |                                      |               |
| Purchase of treasury shares   | (13,000)                             | (21,000)      |
| Net cash used in financing activities   | (13,000)                             | (21,000)      |
| Net increase in cash and cash equivalents                                       | 128,000                              | 2,945,000     |
| Cash and cash equivalents - beginning of period                                 | 22,646,000                           | 24,184,000    |
| Cash and cash equivalents - end of period                                       | \$ 22,774,000                        | \$ 27,129,000 |
| <b>Supplemental cash flow disclosures:</b>                                      |                                      |               |
| Cash (received) paid for:   |                                      |               |
| Income taxes, net   | \$ (138,000)                         | \$ 9,000      |

See notes to condensed consolidated financial statements.

**Siebert Financial Corp. & Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**Six Months Ended June 30, 2011 and 2010**  
**(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 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 the 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, 2010 has been derived from the audited consolidated statements 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 Form 10-K for the year ended December 31, 2010. Because of the nature of the Company's business, the results of operations for the three and six months ended June 30, 2011 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 at June 30, 2011 is as follows:

| Financial Instruments | Level 1       | Level 2    | Total         |
|-----------------------|---------------|------------|---------------|
| Cash equivalents      | \$ 20,559,000 |            | \$ 20,559,000 |
| Securities            | 258,000       | \$ 861,000 | 1,119,000     |
|                       | \$ 20,817,000 | \$ 861,000 | \$ 21,678,000 |

Securities include common stock of \$258,000, valued on the last business day of the period at the last available reported sales price on the primary securities exchange (Level 1) and municipal bonds of \$861,000, valued based on prices obtained from pricing sources, which derive values from observable inputs (Level 2).

#### 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. The Company incurred a net loss for the three months ended June 30, 2011 and six months ended June 30, 2011 and 2010. 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 of underlying stock options not included in the diluted computation amounted to 1,228,200 at June 30, 2011 and 1,689,700 at June 30, 2010.

#### 5. 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, pursuant to the Rule. As of June 30, 2011, Siebert had net capital of approximately \$20,403,000 as compared with net capital requirements of \$250,000.

#### 6. Revenue:

Commissions and fees earned on customer trades together with related clearing expenses are recorded on a trade-date basis.

Trading profits are also recorded on a trade-date basis.

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.

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



**7. 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. During the six months ended June 30, 2011, the Company purchased 7,155 shares at an average price of \$1.85.

**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.

|  | <b>June 30,<br/>2011</b> |
|--|--------------------------|
| Total assets including secured demand note of \$1,200,000 due from Siebert         | \$ 21,332,000            |
| Total liabilities including subordinated liabilities of \$1,200,000 due to Siebert | 7,322,000                |
| Total members' capital   | 14,010,000               |
| Regulatory minimum net capital requirement   | 250,000                  |

|                            | <b>June 30</b> |             |
|----------------------------|----------------|-------------|
|                            | <b>2011</b>    | <b>2010</b> |
| <b>Six months ended:</b>   |                |             |
| Total revenues             | \$ 8,749,000   | 22,371,000  |
| Net (loss) income          | (2,784,000)    | 3,737,000   |
| <b>Three months ended:</b> |                |             |
| Total revenues             | 4,804,000      | 9,205,000   |
| Net (loss) income          | (614,000)      | 1,053,000   |

Siebert charged SBS \$38,000 for each of the six months ended June 30, 2011 and 2010, and \$19,000 for each of the three months ended June 30, 2011 and 2010, for general and administrative services, which Siebert believes approximates the cost of furnishing such services.

Siebert's share of net (loss) income for the three months ended June 30, 2011 and 2010 amounted to \$(301,000) and \$516,000, respectively, and for the six months ended June 30, 2011 and 2010 amounted to \$(1.4) million and \$1.8 million, respectively.

Siebert received distributions from SBS of \$1.2 million during the six months ended June 30, 2011, and Siebert's share of undistributed earnings from SBS amounted to \$6.5 million at June 30, 2011. 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 among Siebert and the principals of SBS and SBS's continued compliance with its regulatory and 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. Income/(loss) 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.

|                        | <b>June 30,</b> |             |
|------------------------|-----------------|-------------|
|                        | <b>2011</b>     | <b>2010</b> |
| Total assets           | \$ 171,733,000  |             |
| Total liabilities      | 170,854,000     |             |
| Total members' capital | 879,000         |             |
| Six months ended:      |                 |             |
| Total revenues         | 62,000          | 74,000      |
| Net (loss)             | (34,000)        | (22,000)    |
| Three months ended:    |                 |             |
| Total revenues         | 74,000          | (3,000)*    |
| Net income             | 29,000          | 4,000       |

\*Attributable to unrealized loss on derivative contracts.

The results of operations for the six months ended June 30, 2010 reflects a reduction of SBSFPC's previously reported net income of \$25,000 for the quarter ended March 31, 2010 to a net loss of \$26,000 resulting from a \$51,000 correction of unrealized gain on derivative contracts.

The Company's share of net income of SBSFPC for the three months ended June 30, 2011 amounted to \$10,000. For the three months ended June 30, 2010, the Company reflected its share of SBSFPC's operations as a net loss of \$(15,700) which includes a loss of \$(17,000) attributable to the correction of SBSFPC's results for the quarter ended March 31, 2010 referred to above. Such correction was not material to the Company's results of operations for the quarter ended June 30, 2010 or March 31, 2010. The Company's share of net (loss) for the six months ended June 30, 2011 and 2010 amounted to \$(11,000) and \$(7,000), respectively.

At June 30, 2011, SBSFPC had an accumulated loss of \$321,000 of which the Company's share was \$107,000.

**9. Income Taxes**

Due to cumulative losses incurred by the Company and its subsidiaries during the current six month period and prior three years, the Company has concluded that it is not more likely than not that it will realize its net deferred tax asset and, accordingly, has recorded a valuation allowance to fully offset its net deferred tax asset at June 30, 2011 (amounting to approximately \$3,567,000), resulting in no tax benefit during the period ended June 30, 2011.

**10. 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 six months ended June 30, 2011 and 2010.

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.

**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, 2010, and the unaudited consolidated financial statements and the notes thereto contained elsewhere in this Quarterly Report.

**Business Environment**

The financial crisis affecting the global economy has created historic volatility in the marketplace. Our working capital is invested primarily in money market funds, so that liquidity has not been materially affected. The crisis did have the effect of reducing participation in the securities market by our retail and institutional

## Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

customers, which had an adverse effect on our 2010 revenues and a lesser effect in 2011. Our affiliate, Siebert, Brandford, Shank & Co., L.L.C. (SBS), had a loss for the current six month period of approximately \$2.8 million as a result of industry volumes dramatically declining in the current period this year as compared to the same period last year due to municipalities struggling with the fiscal crisis, concerns about defaults at the state and local level and the expiration of the Build America Bonds program. This resulted in a loss to the Company of \$1.4 million for the current six month period. Our expenses include the costs of an arbitration proceeding commenced by a former employee following the termination of his employment, which remains unresolved. The Company believes that the action is without merit, but the costs of defense, which are included as professional expenses, have adversely affected the Company's results of operation and may continue to affect the results of operations until the action is completed. Competition in the brokerage industry remains intense.

The following table sets forth certain metrics as of June 30, 2011 and 2010 and for the three and six months ended June 30, 2011 and 2010, respectively, which we use in evaluating our business.

| Retail Customer Activity:            | For the Three Months<br>ended June 30, |          | For the Six Months<br>ended June 30, |          |
|--------------------------------------|--|----------|--------------------------------------|----------|
|                                      | 2011                                   | 2010     | 2011                                 | 2010     |
| Total retail trades:                 | 102,202                                | 112,917  | 216,231                              | 210,873  |
| Average commission per retail trade: | \$ 20.72                               | \$ 21.46 | \$ 21.25                             | \$ 21.45 |

### As of June 30,

| Retail Customer<br>Balances:                           | 2011     | 2010     |
|--|----------|----------|
| Retail customer net worth (in billions):               | \$ 6.8   | \$ 5.8   |
| Retail customer money market fund value (in billions): | \$ 1.0   | \$ 1.0   |
| Retail customer margin debit balances (in millions):   | \$ 232.0 | \$ 176.5 |
| Retail customer accounts with positions:               | 45,994   | 50,331   |

#### Description:

Total retail trades represent retail trades that generate commissions.

Average commission per retail trade represents the average commission generated for all types of retail customer trades.

Retail customer net worth represents the total value of securities and cash in the retail customer accounts before deducting margin debits.

Retail customer money market fund value represents all retail customers accounts invested in money market funds.

Retail customer margin debit balances represent credit extended to our customers to finance their purchases against current positions.

Retail customer accounts with positions represent retail customers with cash and/or securities in their accounts.

## Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

Like other securities firms, we are directly affected by general economic and market conditions including fluctuations in volume and prices of securities, changes and prospects for changes in interest rates and demand for brokerage and investment banking services, all of which can affect our relative profitability. In periods of reduced market activity, profitability is likely to be adversely affected because certain expenses, including salaries and related costs, portions of communications costs and occupancy expenses remain relatively fixed. Earnings, or loss, for any period should not be considered representative of any other period.

### Recent Developments

On January 23, 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 in our discretion, in the open market and in private transactions. During the six months ended June 30, 2011, the Company purchased 7,155 shares at an average price of \$1.85.

### Critical Accounting Policies

We generally follow accounting policies standard in the brokerage industry and believe that our policies appropriately reflect our financial position and results of operations. Our management makes significant estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities included in the financial statements. The estimates relate primarily to revenue and expense items in the normal course of business as to which we receive no confirmations, invoices, or other documentation at the time the books are closed for a period. We use our best judgment, based on our knowledge of these revenue transactions and expenses incurred, to estimate the amounts of such revenue and expense. We are not aware of any material differences between the estimates used in closing our books for the last five years and the actual amounts of revenue and expenses incurred when we subsequently receive the actual confirmations, invoices or other documentation. Estimates are also used in determining the useful lives of intangible assets, and the fair market value of intangible assets and securities. Our management believes that its estimates are reasonable.

### Results of Operations

We had net loss of \$1,790,000 and \$3,794,000 for the three months and six months ended June 30, 2011, respectively.

#### *Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010*

Total revenues for the three months ended June 30, 2011 were \$4.5 million, a decrease of \$2.9 million or 39.2% from the same period in 2010.

Commission and fee income for the three months ended June 30, 2011 was \$3.5 million, a decrease of \$3.1 million or 46.6% from the same period in 2010 primarily due to recording \$3 million as commission and fee income as part of our negotiations with our primary clearing firm for a three year Fully Disclosed Clearing Agreement in the second quarter of 2010 as well as decreases in commissions generated by retail customers due to a decrease in retail trading volumes and average commission per retail trade offset by an increase in margin debits due to higher margin debit balances and an increase in institutional trading.

Investment banking revenues for the three months ended June 30, 2011 were \$406,000, a decrease of \$7,000 or 1.7% from the same period in 2010 due to our participation in fewer new issues in the debt capital markets.

Trading profits were \$526,000 for the three months ended June 30, 2011, an increase of \$203,000 or 62.8% from the same period in 2010 due to an overall increase in trading volume primarily in the debt markets and the addition of debt sales-traders in the first quarter of 2011.

## Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

Interest and dividends for the three months ended June 30, 2011 were \$27,000, a decrease of \$9,000 or 25.0% from the same period in 2010 primarily due to lower cash balances and lower yields.

Total expenses for the three months ended June 30, 2011 were \$6.0 million, a decrease of \$557,000 or 8.5% from the same period in 2010.

Employee compensation and benefit costs for the three months ended June 30, 2011 and 2010 were \$2.4 million. There was a decrease due to a reduction in headcount for registered representatives offset by increases in commissions paid based on production in the capital markets and retail operations as well as an increase in health benefits.

Clearing and floor brokerage costs for the three months ended June 30, 2011 were \$690,000, a decrease of \$3,000 or 0.4% from the same period in 2010 primarily due to the execution of a Fully Disclosed Clearing Agreement with our primary clearing firm in the second quarter of 2010 which reduced our fees for clearing costs and also due to a decrease in volume of trade executions for retail customers and a decrease in execution charges for institutional debt and equity customers.

Professional fees for the three months ended June 30, 2011, were \$1.4 million, a decrease of \$279,000 or 16.6% from the same period in 2010 primarily due to a decrease in legal fees relating to a dispute with a former employee.

Advertising and promotion expenses for the three months ended June 30, 2011 were \$93,000, a decrease of \$17,000 or 15.5% from the same period in 2010 due to a decrease in public relation costs.

Communications expense for the three months ended June 30, 2011 was \$527,000, a decrease of \$93,000 or 15.0% from the same period in 2010 primarily due to a decrease in hosting and communication costs associated with our website.

Occupancy costs for the three months ended June 30, 2011 were \$272,000, a decrease of \$66,000 or 19.5% from the same period in 2010 due to a decrease in rents in our New York office and a Florida branch.

Other general and administrative expenses for the three months ended June 30, 2011 were \$633,000, a decrease of \$83,000 or 11.6% from the same period in 2010 due to a decrease in office expense, training, printing, postage, subscriptions, registration fees and transportation costs.

Loss from Siebert's equity investment in SBS, an entity in which Siebert holds a 49% equity interest, for the three months ended June 30, 2011, was \$301,000, compared to income of \$516,000 from the same period in 2010 due to SBS participating in fewer senior managed or co-managed transactions. Income from our equity investment in SBS Financial Products Company, LLC, an entity in which we hold a 33.33% equity interest ( SBSFPC ), for the three months ended June 30, 2011, was \$10,000 as compared to a loss of \$16,000 for the same period in 2010. This income in 2011 was due to the mark to market gain in positions. Income and loss from equity investees is considered to be integral to our operations and material to the results of operations.

The tax provision for the three months ended June 30, 2011 and 2010 was \$1,000 and \$563,000, respectively. No tax benefit related to the pre-tax loss was recorded for the three months ended June 30, 2011 due to the recording of a full valuation allowance to offset deferred tax assets based on recent losses and the likelihood of realization of such assets. The tax provision for the three months ended June 30, 2010 was due to income before taxes of \$1.3 million.

### ***Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010***

Total revenues for the six months ended June 30, 2011 were \$10.0 million, a decrease of \$1.7 million or 14.6% from the same period in 2010.

## Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

Commission and fee income for the six months ended June 30, 2011 was \$7.5 million, a decrease of \$2.8 million or 27.6% from the same period in 2010 primarily due to recording \$3 million as commission and fee income as part of our negotiations with our primary clearing firm for a three year Fully Disclosed Clearing Agreement in the second quarter of 2010.

Investment banking revenues for the six months ended June 30, 2011 were \$1.6 million, an increase of \$818,000 or 107.6% from the same period in 2010 due to our participation in more new issues in the equity and debt capital markets.

Trading profits were \$903,000 for the six months ended June 30, 2011, an increase of \$346,000 or 62.1% from the same period in 2010 due to an increase in trading volume primarily in the debt markets and the addition of debt sales-traders in the first quarter of 2011.

Interest and dividends for the six months ended June 30, 2011 were \$36,000, a decrease of \$24,000 or 40.0% from the same period in 2010 primarily due to lower cash balances.

Total expenses for the six months ended June 30, 2011 were \$12.4 million, a decrease of \$1.8 million or 12.5% from the same period in 2010.

Employee compensation and benefit costs for the six months ended June 30, 2011 were \$4.8 million, a decrease of \$10,000 from the same period in 2010. This decrease was due to decreases and a reduction in headcount for registered representatives offset by an increase in commissions paid based on production in the capital markets and retail operations as well as an increase in health benefits.

Clearing and floor brokerage costs for the six months ended June 30, 2011 were \$1.6 million, a decrease of \$331,000 or 17.0% from the same period in 2010, primarily due to the execution of a Fully Disclosed Clearing Agreement with our primary clearing firm in the second quarter of 2010 which reduced our fees for clearing costs.

Professional fees for the six months ended June 30, 2011 were \$2.8 million, a decrease of \$996,000 or 26.1% from the same period in 2010 primarily due to a decrease in legal fees relating to a dispute with a former employee and consulting fees relating to the commission recapture business.

Advertising and promotion expenses for the six months ended June 30, 2011 were \$193,000, a decrease of \$60,000 or 23.7% from the same period in 2010 primarily due to decreases in production and airing of television commercials and print advertising, brochures and direct mailings to our retail customer base and public relations costs.

Communications expense for the six months ended June 30, 2011, was \$1.1 million, a decrease of \$185,000 or 14.6% from the same period in 2010 primarily due to a decrease in hosting and communication costs associated with our website.

Occupancy costs for the six months ended June 30, 2011 were \$543,000, a decrease of \$106,000 or 16.3% from the same period in 2010 due to a decrease in rents in the New York office and a Florida branch.

Other general and administrative expenses for the six months ended June 30, 2011 were \$1.3 million, a decrease of \$82,000 or 5.9% from the same period in 2010. This decrease was a result of decreases in office expenses, training, insurance, travel and entertainment, transportation and postage costs offset by increases in printing and computer updates.

Loss from Siebert's equity investment in SBS, an entity in which Siebert holds a 49% equity interest, for the six months ended June 30, 2011, was \$1.4 million, compared to income of \$1.8 million from the same period in 2010 due to SBS participating in fewer senior managed or co-managed transactions. Loss from our equity investment in SBSFPC, an entity in which we hold a 33.33% equity interest, for the six months ended June 30, 2011, was \$11,000 as compared to a loss of

\$7,000 from the same period in 2010. The losses in 2011 and 2010 were due to the mark to market loss in positions. Income and loss from equity investees is considered to be integral to our operations and material to the results of operations.

The tax provision for the six months ended June 30, 2011 was \$12,000 and a tax benefit for the six months ended June 30, 2011 was \$232,000. No tax benefit related to the pre-tax loss was recorded for the six months ended June 30, 2011 due to the recording of a full valuation allowance to offset deferred tax assets based on recent losses and the likelihood of realization of such assets. The tax benefit for the six months ended June 30, 2010 was due to our loss before taxes of \$644,000.

### **Liquidity and Capital Resources**

Our assets are highly liquid, consisting generally of cash in money market funds. Our total assets at June 30, 2011 were \$36.4 million. As of that date, we regarded \$23.9 million, or 66%, of total assets as highly liquid.

Siebert is subject to the net capital requirements of the SEC, the NYSE and other regulatory authorities. At June 30, 2011, Siebert's regulatory net capital was \$20.4 million, \$20.2 million in excess of its minimum capital requirement of \$250,000.

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 six months ended June 30, 2011, 7,155 shares were purchased at an average price of \$1.85 per share.

Siebert has entered into a Secured Demand Note Collateral Agreement with SBS under which Siebert is obligated to lend to SBS up to \$1.2 million on a subordinated basis Collateralized by cash equivalents of approximately \$1.5 million as of June 30, 2011. Amounts pledged by Siebert under the facility are reflected on our balance sheet as cash equivalents restricted. SBS pays Siebert interest on this amount at the rate of 4% per annum. The facility expires on August 31, 2012, at which time SBS is obligated to repay to Siebert any amounts borrowed by SBS thereunder.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Working capital is generally invested temporarily in dollar denominated money market funds and United States Treasury Bills. These investments are not subject to material changes in value due to interest rate movements.

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 customers' 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 and other counter parties are unable to fulfill their contractual obligations. There were no material losses for unsettled customer transactions as of June 30, 2011.

### **Item 4. Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(e) or Rule 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are effective to ensure that the information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is



Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding timely disclosure.

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II - OTHER INFORMATION**Item 1. Legal Proceedings

We are involved in various routine lawsuits of a nature deemed to be customary and incidental to our business. In the opinion of management, the ultimate disposition of such actions will not have a material adverse effect on the Company's financial position or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial position and results of operations. There are no material changes from the risk factors set forth in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On January 23, 2008, our Board of Directors authorized the repurchase of up to 300,000 shares of our common stock. Shares will be purchased from time to time, in our discretion, in the open market and in private transactions. We purchased 3,228 shares at an average price of \$1.81 in the second quarter of 2011.

A summary of our repurchase activity for the three months ended June 30, 2011 is as follows:

## Issuer Purchases of Equity Securities

| <b>Period</b> | <b>Total<br/>Number<br/>Of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid Per<br/>Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans</b> | <b>Maximum<br/>Number of<br/>Shares<br/>That May Yet<br/>Be<br/>Purchased<br/>Under<br/>The Plans</b> |
|---------------|---|---|---|---|
| April 2011    | 83  | \$ 1.97   | 95,595  | 204,405   |
| May 2011      | 233   | \$ 1.95   | 95,828  | 204,172   |
| June 2011     | 2,912   | \$ 1.79   | 98,740  | 201,260   |
| Total         | 3,228   | \$ 1.81   | 98,740  | 201,260   |

All of the purchases were made in open market transactions.

Item 6. Exhibits

- 31.1 Certification of Muriel F. Siebert pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Joseph M. Ramos, Jr. pursuant to Exchange Act Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Muriel F. Siebert of Periodic Financial Report under Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Joseph M. Ramos, Jr. of Periodic Financial Report under Section 906 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: SIEBERT FINANCIAL CORP - Form 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SIEBERT FINANCIAL CORP.

By: /s/ Muriel F. Siebert

Muriel F. Siebert  
Chairwoman and President  
(principal executive officer)

Dated: August 15, 2011

By: /s/ Joseph M. Ramos, Jr.

Joseph M. Ramos, Jr.  
Executive Vice President and Chief Financial Officer  
(principal financial and accounting officer)

Dated: August 15, 2011

18

---