

Edgar Filing: MORGAN GROUP HOLDING CO - Form 10-Q

MORGAN GROUP HOLDING CO

Form 10-Q

May 15, 2003

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended March 31, 2003

or

TRANSITION REPORT PURSUANT TO SECTION 13 OF 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 333-73996

MORGAN GROUP HOLDING CO.

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(Exact name of Registrant as specified in its charter)

Delaware

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(State of  
Incorporation)

13-4196940

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(IRS Employer  
Identification Number)

401 Theodore Fremd Avenue Rye, New York

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(Address of principal executive offices)

10580

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(Zip Code)

(914) 921-1877

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Registrant's telephone number, including area code

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 X

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock, as of the latest practical date.

Class -----	Outstanding at May 1, 2003 -----
Common Stock, \$.01 par value	3,055,345

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements and Supplementary Data.

#### Financial Statements

Balance Sheets as of  
March 31, 2003, December 31, 2002 and March 31, 2002

Statements of Operations for the  
Three Months Ended March 31, 2003 and 2002

Statements of Cash Flows for the Three Months Ended  
March 31, 2003 and 2002

Notes to Financial  
Statements as of March 31, 2003

#### Morgan Group Holding Co. Balance Sheets

(Dollars and shares in thousands, except per share amounts)

	March 31, 2003	December 31, 2002	March 31, 2002
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents .....	\$ 399	\$ 433	\$ 464
	-----	-----	-----
Total current assets .....	399	433	464
Net assets of The Morgan Group, Inc. ....	--	--	2,906
	-----	-----	-----
Total assets .....	\$ 399	\$ 433	\$ 3,370
	=====	=====	=====
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Current liabilities:			
Accrued expenses .....	\$ 3	\$ 2	\$--
	-----	-----	-----
Total current liabilities .....	\$ 2	\$ 2	\$--
<b>SHAREHOLDERS' EQUITY</b>			
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none outstanding .....	--	--	--
Common stock, \$0.01 par value, 10,000,000 shares authorized, 3,055,345 outstanding .....	30	30	30

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Additional paid-in-capital .....	5,612	5,612	5,612
Accumulated deficit .....	(5,246)	(5,211)	(2,272)
	-----	-----	-----
Total shareholders' equity .....	396	431	3,370
	-----	-----	-----
Total liabilities and shareholders' equity .	\$ 399	\$ 433	\$ 3,770
	=====	=====	=====

See notes to financial statements

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Morgan Group Holding Co.  
 Statements of Operations  
 (Dollars and shares in thousands, except per share amounts)

	March 31,	
	2003	2002
	-----	-----
Administrative expenses .....	\$ (36)	\$ (37)
Investment income .....	1	1
	-----	-----
Loss from continuing operations .....	(35)	(36)
	-----	-----
Discontinued operations (Notes 1 and 2):		
Loss from operations before cumulative effect of accounting change of The Morgan Group, Inc. - net of income tax benefit of \$1,125 and minority interests of \$119	--	(259)
Cumulative effect of accounting change at The Morgan Group Inc., net of minority interests of \$722 .....	--	(1,568)
	-----	-----
Net loss .....	\$ (35)	\$ (1,863)
	=====	=====
Basic and diluted loss per share:		
Loss from continuing operations .....	\$ (0.01)	\$ (0.01)
Loss from operations before cumulative effect of accounting change of The Morgan Group, Inc. ....	--	(0.09)
Cumulative effect of accounting change at The Morgan Group, Inc .....	--	(0.51)
	-----	-----
Net loss per common share .....	\$ (0.01)	\$ (0.61)
	=====	=====
Weighted average shares outstanding .....	3,055	3,055

See accompanying notes

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Morgan Group Holding Co.  
 Statements of Cash Flows  
 (Dollars in thousands)

	Three Months Ended	
	March 31,	
	2003	2002
Operating activities:		
Net loss .....	\$ (35)	\$(1,863)
Adjustments to reconcile net loss to net cash used in operating activities:		
Increase in accrued expenses .....	1	--
Non-cash items and changes in operating assets and liabilities relating to the operations of The Morgan Group, Inc. ....	--	1,200
Net cash used in operating activities .....	(34)	(663)
Investing activities:		
Investing activities relating to operations of The Morgan Group, Inc. ....	--	64
Net cash provided by investing activities .....	--	64
Financing activities:		
Financing activities relating to operations of The Morgan Group, Inc. ....	--	563
Net cash provided by financing activities .....	--	563
Net decrease in cash and equivalents .....	(34)	(36)
Cash and cash equivalents at beginning of period .	473	500
Cash and cash equivalents at end of period .....	\$ 399	\$ 464
See accompanying notes		

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Plan of Operation.

Overview

On October 18, 2002, Morgan adopted the liquidation basis of accounting and accordingly, Morgan's assets and liabilities have been adjusted to estimate net realizable value. As the carry value of Morgan's liabilities exceeded the fair value of its assets, the liabilities were reduced to equal the estimated net realizable value of the assets.

The Company currently has no operating businesses and will seek acquisitions as part of its strategic alternatives. Its only costs are the administrative expenses required to make the regulatory filings needed to maintain its public status. These costs are estimated at \$50,000 to \$100,000 per year.

Results of Operations

For the three months ended March 31, 2003, the Company incurred \$36,000 in expenses and \$37,000 was incurred in the three months ended March 31, 2003. For the year ended December 31, 2002, the Company incurred administrative expenses of \$64,000. The Company was formed in November 2001.

Liquidity and Capital Resources

As of March 31, 2003, the Company's only assets consisted of \$399,000 in cash and an unrecognized asset relating to loss carryforward, primarily capital, of about \$4 million.

Item 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures.

As a result of the Bankruptcy, Morgan's corporate, financial and accounting staff has been substantially reduced, thereby likely impairing the ability of Morgan to maintain internal controls and adequate disclosure controls and procedures. On November 12, 2002, Morgan filed a Form 15 with the Securities and Exchange Commission to terminate its registration under Section 12(g) of the Exchange Act. Given the current status of Morgan, neither the chief executive officer nor the chief financial officer of Holding have been able to evaluate the effectiveness of the disclosure controls and procedures of Morgan or the adequacy of Morgan's internal controls.

- (b) Changes in internal controls.

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### Forward Looking Discussion

This report contains a number of forward-looking statements, including statements regarding the prospective adequacy of the Company's liquidity and capital resources in the near term. From time to time, the Company may make other oral or written forward-looking statements regarding its anticipated operating revenues, costs and expenses, earnings and other matters affecting its operations and condition. Such forward-looking statements are subject to a number of material factors, which could cause the statements or projections contained therein, to be materially inaccurate. Such factors include the estimated administrative expenses of the Company on a go forward basis.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

On April 29, 2003, the Company, on behalf of itself and all other persons who purchased or acquired securities of Morgan during the period of November 13, 2001 through August 19, 2002 (the "Class Period"), commenced a class action lawsuit against Anthony T. Castor, III, Morgan's Chief Executive Officer during the Class Period, Gary J. Klusman, Morgan's Chief Financial Officer during the Class Period, Michael Archual, the President of Drive Away, Inc., a subsidiary of Morgan, during the Class Period and Ernst & Young LLP, Morgan's independent auditor during the Class Period, in the United States District Court, Southern District of New York. The lawsuit seeks recovery of monetary damages as a result of Morgan's failure to truthfully disclose the status of its compliance with loan covenants and other provisions contained within a financing agreement between Morgan and GMAC Commercial Credit LLC ("GMAC") (the "Credit Facility") and to properly report receivables due to GMAC pursuant to the Revolving Credit and Security Agreement governing the Credit Facility (the "Credit Agreement"). The lawsuit alleges that as a result of the failure to comply with the loan covenants contained in the Credit Agreement during the relevant period and the subsequent discovery of such violations, Morgan was effectively deprived of credit sources. The lawsuit further alleges that this loss of financing ultimately forced Morgan and its subsidiaries to file for bankruptcy protection, thereby causing damages to the Company and all other investors in Morgan securities during the Class Period. The Company exercised Class A Warrants to purchase 5,000 Class A Shares of Morgan at \$2.25 per share on April 30, 2002.

### Item 6. Exhibits and Reports on Form 8-K

(a) None.

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- (b) Current Report on Form 8-K filed on March 31, 2003 explaining reason for not providing Section 906 Certifications with Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MORGAN GROUP HOLDING CO.

By: /s/ Robert E. Dolan

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ROBERT E. DOLAN  
Chief Financial Officer

