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MORGAN GROUP HOLDING CO
Form 10-Q
August 14, 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 quarterly period ended June 30, 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.

MORGAN GROUP HOLDING CO.
(Exact name of Registrant as specified in its charter)

Delaware 333-73996 13-4196940

(State of jurisdiction of (Commission File Number) (IRS Employer
Incorporation) Identification Number)

401 Theodore Fremd Avenue, Rye, New York 10580

(Address of principal executive offices) (Zip Code)

(914) 921-1877

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 X No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). 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 July 30, 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 June 30, 2003, December 31, 2002 and June 30, 2002

Statements of Operations for the Three Months and Six Months Ended June 30, 2003 and 2002

Statements of Cash Flows for the Six Months Ended June 30, 2003 and 2002

Notes to Financial Statements as of June 30, 2003

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Morgan Group Holding Co.
Balance Sheets

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

June 30,	December 31,	June 30,

2003	2002	2002

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ASSETS			
Current assets:			
Cash and cash equivalents	\$ 400	\$ 433	\$ 439
	-----	-----	-----
Total current assets	400	433	439
Net assets of The Morgan Group, Inc.	--	--	373
	-----	-----	-----
Total assets	\$ 400	\$ 433	\$ 812
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current liabilities:			
Accrued expenses	\$ 3	\$ 2	\$--
	-----	-----	-----
Total current liabilities	\$ 3	\$ 2	\$--
SHAREHOLDERS' EQUITY			
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
Additional paid-in-capital	5,612	5,612	5,612
Accumulated deficit	(5,245)	(5,211)	(4,830)
	-----	-----	-----
Total shareholders' equity	397	431	812
	-----	-----	-----
Total liabilities and shareholders' equity .	\$ 400	\$ 433	\$ 812
	=====	=====	=====

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)

	Three Months Ended		Six Months	
	June 30,		June 30	
	2003	2002	2003	
	-----		-----	
Administrative expenses	\$ --	\$ (18)	\$ (36)	\$
Investment income	1	4	2	
	-----	-----	-----	-----
Loss from continuing operations	1	(14)	(34)	

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Discontinued operations (Notes 1 and 2):				
Gain on sale of stock by The Morgan Group, Inc.	--	162	--	
Loss from operations before cumulative effect of accounting change of The Morgan Group, Inc. - net of income tax benefit of \$1,125 and \$1,125 respectively and minority interests of \$1,476 and \$1,595	--	(2,706)	--	(2)
Cumulative effect of accounting change at The Morgan Group Inc., net of minority interests of \$722	--	--	--	(1)
	-----	-----	-----	-----
Net profit (loss)	\$ 1	\$ (2,558)	\$ (34)	\$ (4)
	=====	=====	=====	=====
Basic and diluted loss per share:				
Loss from continuing operations	\$ 0.00	\$ (0.00)	\$ (0.01)	\$ (0.01)
Gain on sale of stock by The Morgan Group, Inc.	--	0.05	--	--
Loss from operations before cumulative effect of accounting change of The Morgan Group, Inc.	--	(0.89)	--	--
Cumulative effect of accounting change at The Morgan Group, Inc	--	--	--	--
	-----	-----	-----	-----
Net profit (loss) per common share	\$ 0.00	\$ (0.84)	\$ (0.01)	\$ (0.01)
	=====	=====	=====	=====
Weighted average shares outstanding	3,055	3,055	3,055	3,055

See accompanying notes

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

	Six Months Ended	
	June 30,	
	2003	2002
	-----	-----
Operating activities:		
Net loss	\$ (34)	\$ (4,421)
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.	--	2,451
	-----	-----
Net cash used in operating activities	(33)	(1,970)
	-----	-----
Investing activities:		
Investments in The Morgan Group, Inc.	--	(11)
Investing activities relating to operations of The		

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Morgan Group, Inc.	--	50
	-----	-----
Net cash provided by investing activities	--	39
	=====	=====
Financing activities:		
Financing activities relating to operations of The Morgan Group, Inc.	--	1,870
	-----	-----
Net cash provided by financing activities	--	1,870
	-----	-----
Net decrease in cash and equivalents	(33)	(61)
Cash and cash equivalents at beginning of period .	433	500
	-----	-----
Cash and cash equivalents at end of period	\$ 400	\$ 439
	=====	=====

See accompanying notes

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Morgan Group Holding Co.
Notes to Financial Statements

Note 1. Basis of Presentation

Morgan Group Holding Co. ("Holding" or "the Company") was incorporated in November 2001 as a wholly-owned subsidiary of Lynch Interactive Corporation ("Interactive") to serve, among other business purposes, as a holding company for Interactive's controlling interest in The Morgan Group, Inc. ("Morgan"). On December 18, 2001, Interactive's controlling interest in Morgan was transferred to Holding. At the time, Holding owned 68.5% of Morgan's equity interest and 80.8% of Morgan's voting interest. On January 24, 2002, Interactive spun off 2,820,051 shares of our common stock through a pro rata distribution ("Spin-Off") to its stockholders. Interactive retained 235,294 shares of our common stock to be distributed in connection with the potential conversion of a convertible note that had been issued by Interactive. Such note was repurchased by Interactive in 2002 and Interactive retains the shares.

On October 3, 2002, Morgan ceased its operations when its liability insurance expired and it was unable to secure replacement insurance. On October 18, 2002, Morgan and two of its operating subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Indiana, South Bend Division for the purpose of conducting an orderly liquidation of Morgan's assets.

As Morgan has ceased operations and is in the process liquidating itself, in the accompanying financial statements, the assets and liabilities and results of operations of Morgan have been reflected as a discontinued operation. In addition, Holding's management currently believes, it is very unlikely that it will realize any value from its equity ownership in Morgan, and given the fact that Holding has no obligation or intention to fund any of Morgan's liabilities, its investment in Morgan was believed to have no value after the liquidation. As the liquidation of Morgan is under the control of the

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bankruptcy court, the Company believes it has relinquished control of Morgan and accordingly, has ceased consolidating the financial statements of Morgan. As Holding's investment in Morgan was a negative \$2,182,000, at the date of adoption of the plan of liquidation, this resulted in a gain to Holding of that amount.

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 financial statements have been prepared using the historical basis of assets and liabilities and historical results of Interactive's interest in Morgan, which were contributed to the Company on December 18, 2001. However, the historical financial information presented herein reflects periods during which the Company did not operate as an independent public company and accordingly, certain assumptions were made in preparing such financial information. Such information, therefore, may not necessarily reflect the results of operations, financial condition or cash flows of the Company in the future or what they would have been had the Company been an independent public company during the reporting periods.

The financial statements represent combined financial statements through December 18, 2001 and include the accounts of Holding, Morgan and its subsidiaries. Subsequent to December 18, 2001, the financial statements represent the consolidated results of those entities. As noted above as of October 18, 2002, the Company deconsolidated the operations of Morgan. Significant intercompany accounts and transactions have been eliminated in combination/consolidation.

Net loss per common share ("EPS") is computed using the number of common shares issued in connection with the Spin-Off as if such shares had been outstanding for all periods presented.

All highly liquid investments with maturity of three months or less when purchased are considered to be cash equivalents. The carrying value of cash equivalents approximates its fair value based on its nature.

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The accompanying unaudited consolidated financial statements reflect, in the opinion of management, all adjustments (consisting of normal recurring items) necessary for a fair presentation, in all material respects, of the financial position and results of operations for the periods presented. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements include the accounts of the Company and through October, 18, 2002, its majority owned subsidiary, Morgan. Morgan has the following subsidiaries: Morgan Drive Away, Inc., TDI,

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Inc., Interstate Indemnity Company, and Morgan Finance, Inc., all of which are wholly owned. Morgan Drive Away, Inc. has two subsidiaries, Transport Services Unlimited, Inc. and MDA Corp. Significant intercompany accounts and transactions have been eliminated in consolidation. During 2002, Morgan was treated as a discontinued operations and previously issued financial statements have been restated to reflect that presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and Articles 10 and 11 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

Note 2. Net assets of Discontinued Operation

At June 30, 2003 and December 31, 2002, the estimated value of Morgan's assets in liquidation were insufficient to satisfy its estimated obligations. At June 30, 2002, the net asset of Morgan are at their historical value.

Note 3. Issuance of Non-transferable Warrants

On December 12, 2001, Morgan issued non-transferable warrants to purchase shares of common stock to the holders of Class A and Class B common stock. Each warrant entitled the holder to purchase one share of their same class of common stock at an exercise price of \$9.00 per share through the expiration date of December 12, 2006. The Class A warrants provided that the exercise price would be reduced to \$6.00 per share during a Reduction Period of at least 30 days during the five-year exercise period.

On February 19, 2002, Morgan's Board of Directors agreed to set the exercise price reduction period on the Class A warrants to begin on February 26, 2002 and to extend for 63 days, expiring on April 30, 2002 (the "Reduction Period"). Morgan's Board of Directors agreed to reduce the exercise price of the warrants to \$2.25 per share, instead of \$6.00 per share, during the Reduction Period. Morgan's Board of Directors reduced the exercise price to \$2.25 to give warrant holders the opportunity to purchase shares at a price in the range of recent trading prices of the Class A common stock. All other terms regarding the warrants, including the expiration date of the warrants, remain the same. As of the close of the temporary Reduction Period on April 30, 2002, Morgan received \$535,331 with the exercise of 237,925 warrants at \$2.25 each. The Company exercised 5,000 of its warrants for a total of \$11,250. Subsequent to the exercise, the Company owned 64.2% of Morgan's equity interest and 77.6% of Morgan's voting

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ownership. Unexercised warrants remain outstanding and exercisable at \$9.00 each.

As a result of the exercise of the Warrants by Morgan's shareholders, the Company recognized a gain on the sale of stock by a subsidiary of \$162,000 during the three months ended June 30, 2002.

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Note 4. Income Taxes

No income tax benefit has recorded in the accompanying financial statements, as the realization of such losses, for income tax purposes, is dependent upon the generation of future taxable income during the period when such losses would be deductible. Therefore, the recording of the deferred tax asset of \$1.5 million would be inconsistent with applicable accounting rules.

Note 5. Segment Reporting

As the results of operations of the Morgan Group are currently being accounted for as discontinued operation and the Holding currently have limited operations there is no Segment Reporting.

Note 6. Commitments and Contingencies

Holding has not guaranteed any of the obligations of Morgan and it has no further commitment or obligation to fund any creditors.

Note 7. Financial Statements not reviewed by Independent Public Accountants

On May 2, 2003, the client-auditor relationship between Holding and Ernst & Young LLP ceased. As a result, these interim financial statements have not been reviewed by independent public accountants.

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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.

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Results of Operations

For the three months ended June 30, 2003, the Company incurred no expenses compared to \$18,000 was incurred in the three months ended June 30, 2003. For the year ended December 31, 2002, the Company incurred administrative expenses of \$64,000. The Company was formed in November 2001.

For the six months ended June 30, 2003 the Company incurred \$36,000 of expenses as compared to \$55,000 in the six months ended June 30, 2002.

As a result of the exercise of the Warrants by Morgan's shareholders, the Company recognized a gain on the sale of stock by a subsidiary of \$162 during the three months ended June 30, 2002.

Liquidity and Capital Resources

As of June 30, 2003, the Company's only assets consisted of \$400,000 in cash and an unrecognized asset relating to loss carryforward, primarily capital, of about \$4 million.

Item 4. 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 has been able to evaluate the effectiveness of the disclosure controls and procedures of Morgan.

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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

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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.

(b) Current Reports on Form 8-K filed on May 12, 2003, May 16, 2003 and June 4, 2003 reporting the cessation of the client-auditor relationship with Ernst & Young LLP.

Current Report on Form 8-K filed on May 16, 2003, explaining reason for not providing Rule 15d-14 and Section 906 certifications with Quarterly Report on Form 10-Q for the period ending March 31, 2003.

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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

ROBERT E. DOLAN
Chief Financial Officer

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