

Owens Realty Mortgage, Inc.
Form 10-Q
November 09, 2015

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 September 30, 2015

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 000-54957

OWENS REALTY MORTGAGE, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction
of Incorporation or Organization)

46-0778087
(I.R.S. Employer Identification No.)

2221 Olympic Boulevard
Walnut Creek, California
(Address of Principal Executive Offices)

94595
(Zip Code)

(925) 935-3840
Registrant's Telephone Number, Including Area Code

NOT APPLICABLE

(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

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(§232.405 of this chapter) during the preceding 12 months (or 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
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 6, 2015
Common Stock, \$.01 par value	10,326,205 shares

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

OWENS REALTY MORTGAGE, INC.
Consolidated Balance Sheets
(UNAUDITED)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 6,707,686	\$ 1,413,545
Restricted cash	7,495,337	6,248,746
Loans, net of allowance for loan losses of \$3,341,714 in 2015 and \$2,869,355 in 2014	73,492,372	65,164,156
Interest and other receivables	1,688,948	1,482,380
Other assets, net of accumulated depreciation and amortization of \$259,597 in 2015 and \$1,065,172 in 2014	681,715	1,138,123
Deferred financing costs, net of accumulated amortization of \$676,047 in 2015 and \$253,675 in 2014	936,948	1,317,585
Investment in limited liability company	2,188,064	2,142,581
Real estate held for sale	104,681,106	59,494,339
Real estate held for investment, net of accumulated depreciation of \$2,591,431 in 2015 and \$6,075,287 in 2014	53,905,407	103,522,466
Total assets	\$ 251,777,583	\$ 241,923,921
LIABILITIES AND EQUITY		
LIABILITIES:		
Dividends payable	\$ 835,533	\$ 1,292,160
Due to Manager	234,588	283,644
Accounts payable and accrued liabilities	4,654,230	2,219,674
Deferred gains on sales of real estate	209,662	362,283
Lines of credit payable	8,954,000	11,450,000
Notes and loans payable on real estate	41,197,782	37,569,549
Total liabilities	56,085,795	53,177,310
Commitments and Contingencies (Note 13)		
EQUITY:		
Stockholders' equity:		
Preferred stock, \$.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2015 and December 31, 2014	—	—
Common stock, \$.01 par value per share, 50,000,000 shares authorized, 11,198,119 shares issued, 10,407,738 and 10,768,001 shares outstanding at September 30, 2015 and December 31, 2014	111,981	111,981
Additional paid-in capital	182,437,522	182,437,522
Treasury stock, at cost – 790,381 and 430,118 shares at September 30, 2015 and December 31, 2014	(10,602,004)	(5,349,156)
Retained earnings	19,143,709	7,371,511
Total stockholders' equity	191,091,208	184,571,858
Non-controlling interests	4,600,580	4,174,753
Total equity	195,691,788	188,746,611
Total liabilities and equity	\$ 251,777,583	\$ 241,923,921

The accompanying notes are an integral part of these consolidated financial statements.

OWENS REALTY MORTGAGE, INC.
Consolidated Statements of Income
(UNAUDITED)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues:				
Interest income on loans	\$ 1,372,739	\$ 1,399,122	\$ 6,697,476	\$ 3,564,842
Rental and other income from real estate properties	2,996,873	3,262,549	9,983,138	8,936,923
Income from investment in limited liability company	44,605	43,686	130,483	126,357
Other income	—	—	—	19
Total revenues	4,414,217	4,705,357	16,811,097	12,628,141
Expenses:				
Management fees to Manager	513,292	435,652	1,410,293	1,275,901
Servicing fees to Manager	46,663	39,605	128,208	115,991
General and administrative expense	292,531	285,669	951,579	1,090,876
Rental and other expenses on real estate properties	2,070,680	2,060,670	6,420,490	5,952,479
Depreciation and amortization	526,178	549,189	1,712,136	1,642,922
Interest expense	354,163	338,225	1,413,109	718,707
Bad debt expense	150,402	660	150,537	1,296
Provision for loan losses	44,316	117,680	472,359	141,032
Impairment losses on real estate properties	—	123,500	1,256,434	179,040
Total expenses	3,998,225	3,950,850	13,915,145	11,118,244
Operating income	415,992	754,507	2,895,952	1,509,897
Gain on sales of real estate, net	—	113,113	15,031,299	2,740,105
Gain on foreclosure of loan	—	—	—	257,020
Net income	415,992	867,620	17,927,251	4,507,022
Less: Net income attributable to non-controlling interests	(31,671)	(83,797)	(2,630,434)	(151,752)
Net income attributable to common stockholders	\$ 384,321	\$ 783,823	\$ 15,296,817	\$ 4,355,270
Per common share data:				
Basic and diluted earnings per common share	\$ 0.04	\$ 0.07	\$ 1.43	\$ 0.40
Basic and diluted weighted average number of common shares outstanding	10,538,735	10,768,001	10,690,736	10,768,495
Dividends declared per share of common stock	\$ 0.08	\$ 0.05	\$ 0.33	\$ 0.15

The accompanying notes are an integral part of these consolidated financial statements.

OWENS REALTY MORTGAGE, INC.
Consolidated Statements of Stockholders' Equity
Nine Months Ended September 30, 2015 and 2014
(UNAUDITED)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Total Stockholders' Equity	Non- controlling Interests
	Shares	Amount		Shares	Amount			
Balances, December 31, 2013	11,198,119	\$ 111,981	\$ 182,437,522	(403,910)	\$ (5,023,668)	\$ 2,348,575	\$ 179,874,410	\$ 6,351
Net income	—	—	—	—	—	4,355,270	4,355,270	151
Dividends declared	—	—	—	—	—	(1,614,533)	(1,614,533)	—
Purchase of treasury stock	—	—	—	(26,208)	(325,488)	—	(325,488)	—
Contribution from non-controlling interest	—	—	—	—	—	—	—	112
Distributions to non-controlling interests	—	—	—	—	—	—	—	(6)
Balances, September 30, 2014	11,198,119	\$ 111,981	\$ 182,437,522	(430,118)	\$ (5,349,156)	\$ 5,089,312	\$ 182,289,659	\$ 6,610
Balances, December 31, 2014	11,198,119	\$ 111,981	\$ 182,437,522	(430,118)	(5,349,156)	\$ 7,371,511	\$ 184,571,858	\$ 4,174
Net income	—	—	—	—	—	15,296,817	15,296,817	2,630
Dividends declared	—	—	—	—	—	(3,524,619)	(3,524,619)	—
Purchase of treasury stock	—	—	—	(360,263)	(5,252,848)	—	(5,252,848)	—
Contribution from non-controlling interest	—	—	—	—	—	—	—	279
Distributions to non-controlling interests	—	—	—	—	—	—	—	(2,483)
Balances, September 30,	11,198,119	\$ 111,981	\$ 182,437,522	(790,381)	\$ (10,602,004)	\$ 19,143,709	\$ 191,091,208	\$ 4,600

2015

The accompanying notes are an integral part of these consolidated financial statements.

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OWENS REALTY MORTGAGE, INC.
Consolidated Statements of Cash Flows
(UNAUDITED)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 17,927,251	\$ 4,507,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of real estate and other assets, net	(15,031,299)	(2,740,105)
Gain on foreclosure of loan	—	(257,020)
Income from investment in limited liability company	(130,483)	(126,357)
Provision for loan losses	472,359	141,032
Impairment losses on real estate properties	1,256,434	179,040
Depreciation and amortization of real estate and related assets	1,712,136	1,642,922
Amortization of deferred financing costs to interest expense	266,862	78,261
Accretion of discount on loan to interest income	(536,816)	(85,403)
Changes in operating assets and liabilities:		
Interest and other receivables	(206,568)	(561,304)
Other assets	(46,149)	(74,934)
Accounts payable and accrued liabilities	91,447	(198,465)
Due to Manager	(49,056)	(98,161)
Net cash provided by operating activities	5,726,118	2,406,528
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal collected on loans	31,698,649	20,857,860
Investments in loans	(39,962,408)	(27,168,876)
Investment in real estate properties	(15,475,195)	(18,024,721)
Net proceeds from disposition of real estate properties and other assets	34,865,173	174,890
Purchases of furniture, fixtures and equipment	(48,402)	(7,212)
Transfer to restricted cash, net	(1,246,591)	(1,485,050)
Distribution received from investment in limited liability company	85,000	84,000
Net cash provided by (used in) investing activities	9,916,226	(25,569,109)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances on notes payable	23,538,846	372,472
Repayments on notes payable	(19,910,613)	(330,905)
Advances on lines of credit	30,161,000	41,144,507
Repayments on lines of credit	(32,657,000)	(20,291,807)
Payment of deferred financing costs	(41,735)	(354,549)
Distributions to non-controlling interests	(2,483,791)	(6,108)
Contributions from non-controlling interest	279,184	112,533
Purchase of treasury stock	(5,252,848)	(325,488)
Dividends paid	(3,981,246)	(1,256,133)
Net cash (used in) provided by financing activities	(10,348,203)	19,064,522

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Net increase (decrease) in cash and cash equivalents	5,294,141	(4,098,059)
Cash and cash equivalents at beginning of period	1,413,545	8,158,734
Cash and cash equivalents at end of period	\$ 6,707,686	\$ 4,060,675
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest (excluding amounts capitalized)	\$ 1,207,669	\$ 705,238
Cash paid during the period for interest that was capitalized	187,784	—

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Supplemental Disclosures of Non-Cash Activity		
Increase in real estate from loan foreclosures	\$	—\$ 3,241,220
Decrease in loans, net of allowance for loan losses, from loan foreclosures		— (2,959,500)
Decrease in interest and other receivables from loan foreclosures		— (281,720)
Transfers from real estate held for investment to real estate held for sale	64,627,930	11,651,439
Transfers from real estate held for sale to real estate held for investment	1,953,677	1,958,400
Capital expenditures financed through accounts payable	(2,343,109)	(838,419)
Deferred financing costs paid from construction loan		— 620,391
Amortization of deferred financing costs capitalized to construction project	(155,510)	(69,116)

The accompanying notes are an integral part of these consolidated financial statements.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – ORGANIZATION

Owens Realty Mortgage, Inc. (the “Company”) was incorporated on August 9, 2012, under the laws of the State of Maryland. The Company is authorized to issue 50,000,000 shares of its \$0.01 par value common stock. In addition, the Company is authorized to issue 5,000,000 shares of preferred stock at \$0.01 par value per share. The Company was created to effect the merger (the “Merger”) of Owens Mortgage Investment Fund, a California Limited Partnership (“OMIF”) with and into the Company as described in the Registration Statement on Form S-4, as amended, of the Company, declared effective on February 12, 2013 (File No. 333-184392). The Merger was part of a plan to reorganize the business operations of OMIF so that it could elect to qualify as a real estate investment trust for Federal income tax purposes. The Merger was approved by OMIF limited partners on April 16, 2013 and was completed on May 20, 2013.

The Company has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with the Company’s taxable year ended December 31, 2012. As a REIT, the Company is permitted to deduct distributions made to its stockholders, allowing its operating income represented by such distributions to avoid taxation at the entity level and to be taxed generally only at the stockholder level. The Company intends to distribute substantially all of its operating income. As a REIT, however, the Company is subject to separate, corporate-level tax, including potential 100% penalty taxes under various circumstances, as well as certain state and local taxes. In addition, the Company’s taxable REIT subsidiaries are subject to full corporate income tax. Furthermore, the Company’s ability to continue to qualify as a REIT will depend upon its continuing satisfaction of various requirements, such as those related to the diversity of its stock ownership, the nature of its assets, the sources of its income and the distributions to its stockholders, including a requirement that the Company distribute to its stockholders at least 90% of its REIT taxable income on an annual basis (determined without regard to the dividends paid deduction and by excluding net capital gain).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the opinion of the management of the Company, the accompanying unaudited financial statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the financial information included therein. Certain information and footnote disclosures presented in the annual consolidated financial statements are not included in these interim financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Form 10-K of ORM for the year ended December 31, 2014 filed with the Securities and Exchange Commission (“SEC”). The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the operating results to be expected for the full year ending December 31, 2015. The Company evaluates subsequent events up to the date it files its Form 10-Q with the SEC.

Basis of Presentation

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned taxable REIT subsidiary (TRS) and its majority- and wholly-owned limited liability companies (see notes 5 and 6). The Company is in the business of providing mortgage lending services and manages its business as one operating segment. Due to

foreclosure activity, the Company also owns and manages real estate assets.

Certain reclassifications, not affecting previously reported net income or total stockholders' equity, have been made to the previously issued consolidated financial statements to conform to the current period presentation.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates are inherently imprecise and actual results could differ significantly from such estimates.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

Recently Issued Accounting Standards

In April 2015, the FASB issued Accounting Standards Update 2015-03, “Interest - Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs,” or ASU 2015-03. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this ASU by the Company will change the presentation of debt issuance costs of its notes and loans payable, which will be reported as a direct offset to the applicable debt on the balance sheet. Pursuant to Accounting Standards Update 2015-15 that was issued by the FASB in August 2015, this treatment will not be required for the Company’s line of credit arrangements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” or ASU 2014-09. ASU 2014-09 broadly amends the accounting guidance for revenue recognition. ASU 2014-09 is effective for the first interim or annual period beginning after December 15, 2016 (deferred by one year to December 15, 2017 with ASU 2015-14 issued in August 2015) , and is to be applied prospectively. Early adoption is not permitted. The Company is currently evaluating the impact that ASU 2014-09 will have on its financial statements.

In April 2014, the FASB issued Accounting Standards Update 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”. ASU 2014-08 updated guidance that changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. As a result of this new guidance, future dispositions of real estate owned assets may no longer meet the criteria to be considered as discontinued operations. The guidance was effective as of the first quarter of 2015 and did not have a material effect on the Company’s consolidated financial statements.

Significant Accounting Policies

The significant accounting policies used in the preparation of these interim consolidated financial statements are disclosed in the Company’s consolidated financial statements for the year ended December 31, 2014 included in its 2014 annual report on Form 10-K. There have been no significant changes to those significant accounting policies.

OWENS REALTY MORTGAGE, INC.

Notes to Consolidated Financial Statements (Unaudited)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following tables show the changes in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2015 and 2014 and the allocation of the allowance for loan losses and loans as of September 30, 2015 and December 31, 2014 by portfolio segment and by impairment methodology:

2015	Commercial	Residential	Land	Total
Allowance for loan losses:				
Three Months Ended September 30, 2015				
Beginning balance	\$ 940,215	\$ 2,074,617	\$ 282,566	\$ 3,297,398
Charge-offs				