

HMG COURTLAND PROPERTIES INC  
Form 10-Q  
May 12, 2014

**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 March 31, 2014

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 1-7865

HMG/COURTLAND PROPERTIES, INC.

(Exact name of small business issuer as specified in its charter)

Delaware

59-1914299

Edgar Filing: HMG COURTLAND PROPERTIES INC - Form 10-Q

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1870 S. Bayshore Drive, Coconut Grove, Florida 33133  
(Address of principal executive offices (Zip Code)

305-854-6803  
(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 issuer (1) has filed all reports required to be filed by Sections 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(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 exchange Act).  
Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 1,048,926 Common shares were outstanding as of May 12, 2014.

**HMG/COURTLAND PROPERTIES, INC.****Index**

	<b>PAGE NUMBER</b>
PART I. Financial Information	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2014 (Unaudited) and December 31, 2013</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013 (Unaudited)</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013 (Unaudited)</u>	3
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	4
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risks</u>	11
<u>Item 4. Controls and Procedures</u>	11
PART II. Other Information	
<u>Item 1. Legal Proceedings</u>	11
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	11
<u>Item 3. Defaults Upon Senior Securities</u>	11
<u>Item 4. Mine Safety Disclosures</u>	11
<u>Item 5. Other Information</u>	11
<u>Item 6. Exhibits</u>	11
<u>Signatures</u>	12

**Cautionary Statement.** This Form 10-Q contains certain statements relating to future results of the Company that are considered “forward-looking statements” within the meaning of the Private Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to, changes in political and economic conditions; interest rate fluctuation; competitive pricing pressures within the Company’s market; equity and fixed income market fluctuation; technological change; changes in law; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations as well as other risks and uncertainties detailed elsewhere in this Form 10-Q or from time-to-time in the filings of the Company with the Securities and Exchange Commission. Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.



**HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2014 (UNAUDITED)	December 31, 2013
<b>ASSETS</b>		
Investment properties, net of accumulated depreciation:		
Office building and other commercial property	\$ 805,866	\$ 809,905
Total investment properties, net	805,866	809,905
Cash and cash equivalents	13,756,426	17,655,568
Investments in marketable securities	8,427,797	4,722,597
Other investments	3,858,376	3,304,336
Investment in affiliate	2,454,702	2,445,891
Loans, notes and other receivables	1,376,312	1,408,150
Other assets	20,437	32,773
<b>TOTAL ASSETS</b>	<b>\$ 30,699,916</b>	<b>\$ 30,379,220</b>
<b>LIABILITIES</b>		
Margin payable	\$ 2,783,754	\$—
Note payable to affiliate	2,502,891	2,502,891
Accounts payable, accrued expenses and other liabilities	162,733	202,552
Due to Adviser	1,410,049	2,095,701
Income tax payable	—	1,592,716
Deferred income taxes	248,000	217,000
<b>TOTAL LIABILITIES</b>	<b>7,107,427</b>	<b>6,610,860</b>
<b>STOCKHOLDERS' EQUITY</b>		
Excess common stock, \$1 par value; 100,000 shares authorized: no shares issued	—	—
Common stock, \$1 par value; 1,200,000 shares authorized and 1,048,926 issued and outstanding as of March 31, 2014 and December 31, 2013.	1,048,926	1,048,926
Additional paid-in capital	24,230,844	24,230,844
Undistributed gains from sales of properties, net of losses	53,754,659	53,754,659
Undistributed losses from operations	(55,727,432 )	(55,547,873 )
Total stockholders' equity	23,306,997	23,486,556
Non controlling interest	285,492	281,804
<b>TOTAL EQUITY</b>	<b>23,592,489</b>	<b>23,768,360</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 30,699,916</b>	<b>\$ 30,379,220</b>

*See notes to the condensed consolidated financial statements*

**HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

	For the three months ended March 31,	
	2014	2013
<b>REVENUES</b>		
Real estate rentals and related revenue	\$16,689	\$16,200
<b>EXPENSES</b>		
Operating expenses:		
Rental and other properties	16,641	16,405
Adviser's base fee	165,000	255,000
General and administrative	57,308	96,683
Professional fees and expenses	81,517	68,807
Directors' fees and expenses	22,500	22,500
Depreciation and amortization	4,039	4,039
Interest expense	23,456	22,572
Total expenses	370,461	486,006
Loss before other income and income taxes	(353,772 )	(469,806 )
Net realized and unrealized gains from investments in marketable securities	126,636	102,643
Net income from other investments	12,267	89,618
Interest, dividend and other income	69,998	41,826
Total other income	208,901	234,087
Loss before income taxes	(144,871 )	(235,719 )
Provision for income taxes	31,000	—
Loss from continuing operations	(175,871 )	(235,719 )
Income from discontinued operations	—	17,305,749
Net (loss) income	(175,871 )	17,070,030
Noncontrolling interests in continuing operations	(3,688 )	(12,339 )
Noncontrolling interests in discontinued operations	—	(60,279 )
Net income attributable to noncontrolling interest	(3,688 )	(72,618 )
Net (loss) income attributable to the Company	\$(179,559 )	\$16,997,412
Amounts attributable to the Company		
Continuing operations	(179,559 )	(248,058 )
Discontinued operations	—	17,245,470
Net (loss) income attributable to the Company	\$(179,559 )	\$16,997,412
Weighted average common shares outstanding-basic & diluted	1,048,926	993,943
Net income (loss) per common:		
Continuing operations basic and diluted	\$(0.17 )	\$(0.25 )
Discontinued operations-basic and diluted	\$—	\$17.35

Edgar Filing: HMG COURTLAND PROPERTIES INC - Form 10-Q

Basic and diluted net (loss) income per share	\$ (0.17	) \$ 17.10
Other comprehensive income:		
Unrealized gain on interest rate swap agreement	\$ —	\$ 982,500
Total other comprehensive income	—	982,500
Comprehensive (loss) income	\$ (179,559	) \$ 17,979,912

*See notes to the condensed consolidated financial statements*

2



**HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	For the three months ended March 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income attributable to the Company	\$(179,559 )	\$16,997,412
Adjustments to reconcile net (loss) income attributable to the Company to net cash used in operating activities:		
Depreciation and amortization	4,039	4,039
Non-employee stock compensation expense	—	186
Net income from other investments, excluding impairment losses	(12,267 )	(89,618 )
Gain from the sale of discontinued operations	—	(17,245,470)
Net gain from investments in marketable securities	(126,636 )	(102,643 )
Net income attributable to non controlling interest	3,688	12,339
Deferred income tax expense	31,000	—
Changes in assets and liabilities:		
Other assets and other receivables	44,174	(63,737 )
Accounts payable, accrued expenses and other liabilities	(2,318,189 )	36,603
Total adjustments	(2,374,191 )	(17,448,301)
Net cash used in operating activities	(2,553,750 )	(450,889 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of discontinued operations	—	22,620,426
Distributions from other investments	107,537	217,351
Contributions to other investments	(658,119 )	(23,250 )
Net proceeds from sales and redemptions of securities	251,642	193,271
Purchase of marketable securities	(3,830,206 )	(451,506 )
Net cash (used in) provided by investing activities	(4,129,146 )	22,556,292
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Margin payable	2,783,754	—
Stock options exercised	—	24,000
Net cash provided by financing activities	2,783,754	24,000
Net (decrease) increase in cash and cash equivalents	(3,899,142 )	22,129,403
Cash and cash equivalents at beginning of the period	17,655,568	1,510,773
Cash and cash equivalents at end of the period	\$13,756,426	\$23,640,176
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$23,000	\$23,000
Cash paid during the period for income taxes	\$1,593,000	\$—

Non-cash Investing Activities:

Note receivable received for sales of discontinued operations	\$—	\$1,000,000
---	-----	-------------

*See notes to the condensed consolidated financial statements*

3

**HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements prepared in accordance with instructions for Form 10-Q, include all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the results for the periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the Company's Annual Report for the year ended December 31, 2013. The balance sheet as of December 31, 2013 was derived from audited consolidated financial statements as of that date. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the full year.

The condensed consolidated financial statements include the accounts of HMG/Courtland Properties, Inc. (the "Company") and entities in which the Company owns a majority voting interest or controlling financial interest. All material transactions and balances with consolidated and unconsolidated entities have been eliminated in consolidation or as required under the equity method.

**2. RECENT ACCOUNTING PRONOUNCEMENTS**

Refer to the consolidated financial statements and footnotes thereto included in the HMG/Courtland Properties, Inc. Annual Report on Form 10-K for the year ended December 31, 2013 for recent accounting pronouncements. The Company does not believe that any recently issued, but not yet effective accounting standards, if currently adopted, will have a material effect on the Company's consolidated financial position, results of operations and cash flows.

**3. INVESTMENTS IN MARKETABLE SECURITIES**

Investments in marketable securities consist primarily of large capital corporate equity and debt securities in varying industries or issued by government agencies with readily determinable fair values. These securities are stated at market value, as determined by the most recent traded price of each security at the balance sheet date. Consistent with the Company's overall current investment objectives and activities its entire marketable securities portfolio is classified

as trading.

In March 2014, the Company purchased approximately \$3.5 million of marketable securities consisting of approximately 50 common stock positions in large capital real estate investment trusts (REITS). No one stock position of this purchase exceeds \$400,000 in value as of March 31, 2014.

Net realized and unrealized gain (loss) from investments in marketable securities for the three months ended March 31, 2014 and 2013 is summarized below:

Description	Three Months Ended	
	March 31,	
	2014	2013
Net realized gain (loss) from sales of securities	\$11,000	(\$3,000 )
Unrealized net gain in trading securities	116,000	106,000
Total net gain from investments in marketable securities	\$127,000	\$ 103,000

For the three months ended March 31, 2014, net realized gain from sales of marketable securities of approximately \$11,000 consisted of approximately \$34,000 of gross gains net of \$23,000 of gross losses. For the three months ended March 31, 2013, net realized loss from sales of marketable securities of approximately \$3,000 consisted of approximately \$23,000 of gross losses net of \$20,000 of gross gains.

Investment gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's net earnings. However, the amount of investment gains or losses on marketable securities for any given period has no predictive value and variations in amount from period to period have no practical analytical value.

#### 4. OTHER INVESTMENTS

As of March 31, 2014, the Company's portfolio of other investments had an aggregate carrying value of approximately \$3.9 million and we have committed to fund approximately \$1.3 million as required by agreements with the investees. The carrying value of these investments is equal to contributions less distributions and loss valuation adjustments, if any.

During the three months ended March 31, 2014, we made contributions to other investments of approximately \$658,000 primarily in two new investments of \$300,000 each. One is a real estate partnership owning residential rental property in Austin, Texas. The other is a private placement by J.P. Morgan to fund a new Bermuda based reinsurance Company. The Company also committed \$500,000 to a Delaware partnership sponsored by the Blackstone Group that will participate in the secondary market for private equity fund interests.

Net income from other investments for the three months ended March 31, 2014 and 2013, is summarized below:

	2014	2013
Partnership owning diversified businesses	\$3,000	\$26,000
Partnership owning real estate & related	—	33,000
Income from investment in affiliate -T.G.I.F. Texas, Inc.	9,000	31,000
Total net income from other investments	\$12,000	\$90,000

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 31, 2014 and December 31, 2013, aggregated by investment category and the length of time that investments have been in a continuous loss position:

Investment Description	As of March 31, 2014					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Partnerships owning investments in technology related industries	\$—	\$—	\$358,000	\$(64,000)	\$358,000	\$(64,000)
Partnerships owning real estate and related investments	—	—	204,000	(14,000)	204,000	(14,000)
Other investments	231,000	(19,000)	—	—	231,000	(19,000)
Total	\$231,000	\$(19,000)	\$562,000	\$(78,000)	\$793,000	\$(97,000)

Edgar Filing: HMG COURTLAND PROPERTIES INC - Form 10-Q

Investment Description	As of December 31, 2013				
	Less than 12 Months	Greater than 12 Months	Total	Unrealized	Unrealized
	Fair Value	Fair Value	Fair Value	Loss	Loss
Partnerships owning investments in technology related industries	\$—	\$346,000	\$346,000	(\$76,000)	(\$76,000)
Partnerships owning real estate and related investments	—	246,000	246,000	(11,000)	(11,000)
Total	\$—	\$592,000	\$592,000	(\$87,000)	(\$87,000)

5

When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company's intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment's amortized cost basis.

In accordance with ASC Topic 320-10-65, Recognition and Presentation of Other-Than-Temporary Impairments there were no OTTI impairment valuation adjustments for the three months ended March 31, 2014 and 2013.

## **5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

In accordance with ASC Topic 820, the Company measures cash and equivalents, marketable debt and equity securities at fair value on a recurring basis. Other investments are measured at fair value on a nonrecurring basis.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the three months ended March 31, 2014 and for the year ended December 31, 2013, using quoted prices in active markets for identical assets (Level 1) and significant other observable inputs (Level 2). For the periods presented, there were no major assets measured at fair value on a recurring basis which uses significant unobservable inputs (Level 3):

Assets and liabilities measured at fair value on a recurring basis are summarized below:

<u>Description</u>	Fair value measurement at reporting date using			
	Total March 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
U.S. Treasury bills	\$9,000,000	\$ 9,000,000	\$ —	—
Money market mutual funds	4,330,000	4,330,000	—	—
Time deposits	55,000	—	55,000	—
Marketable securities:				
Corporate debt securities	1,204,000		1,204,000	—
Marketable equity securities	7,224,000	7,224,000		—
Total assets	\$21,813,000	\$ 20,554,000	\$ 1,259,000	\$ —

<u>Description</u>	Fair value measurement at reporting date using			
	Total December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Time deposits	\$55,000	—	\$ 55,000	—

Edgar Filing: HMG COURTLAND PROPERTIES INC - Form 10-Q

Money market mutual funds	1,257,000	\$ 1,257,000	—	—
U.S. T-bills	15,305,000	\$ 15,305,000		
Marketable securities:				
Corporate debt securities	1,065,000	—	1,065,000	—
Marketable equity securities	3,658,000	3,658,000	—	—
Total assets	\$21,340,000	\$ 20,220,000	\$ 1,120,000	\$ —

6



Assets measured at fair value on a nonrecurring basis are summarized below:

<u>Description</u>	Fair value measurement at reporting date using				Total gains (losses) for three months ended 3/31/2014
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3) (b)	
Assets:					
<u>Other investments by investment focus:</u>					
Technology & Communication	\$473,000	\$ —	\$ 473,000	\$ —	\$ —
Diversified businesses	1,093,000	—	1,093,000	—	—
Real estate and related	1,667,000	—	720,000	947,000	—
Other	625,000	—	—	625,000	—
	\$3,858,000	\$ —	\$ 2,286,000	\$ 1,572,000	\$ —

<u>Description</u>	Fair value measurement at reporting date using				Total losses for year ended 12/31/2013
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3) (b)	
Assets:					
<u>Other investments by investment focus:</u>					
Technology & Communication	\$472,000	\$ —	\$ 472,000	\$ —	\$ 50,000
Diversified businesses	1,098,000	—	1,098,000	—	—
Real estate and related	1,409,000	—	462,000	947,000	—
Other	325,000	—	—	325,000	—
	\$3,304,000	\$ —	\$ 2,032,000	\$ 1,272,000	\$ 50,000

Other investments measured at fair value on a non-recurring basis include investments in certain entities that calculate net asset value per share (or its equivalent such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed, "NAV"). This class primarily consists of private equity funds that have varying investment focus. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held it is estimated that the underlying assets of the fund would be liquidated over 5 to 10 years. As of March 31, 2014, it is probable that all of the investments in this (a) class will be sold at an amount different from the NAV of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this class have been estimated using recent observable information such as audited financial statements and/or statements of partners' capital obtained directly from investees on a quarterly or other regular basis. During the three months ended March 31, 2014, the Company received distributions of approximately \$107,000 from this type of investment primarily from investments in diversified businesses and real estate. During the three months ended March 31, 2014, the Company made contributions totaling \$358,000 in this type of investment. As of March 31, 2014, the amount of the Company's unfunded commitments related to the aforementioned investments is approximately \$1.3 million.

Other investments above which are measured on a nonrecurring basis using Level 3 unobservable inputs consist of investments primarily in commercial real estate in Florida through private partnerships and two investments in the stock of private banks in Florida and Texas. The Company does not know when it will have the ability to redeem the investments and has categorized them as a Level 3 fair value measurement. The Level 3 real estate and related investments of approximately \$947,000 include one investment in a commercial building located near the Company's offices purchased in 2005 with a carrying value as of March 31, 2014 of \$724,000. These investments are measured using primarily inputs provided by the managing member of the partnerships with whom the

(b) Company has done similar transactions in the past and is well known to management. The fair values of these real estate investments have been estimated using the net asset value of the Company's ownership interest in partners' capital. The Level 3 other investments include private bank stocks totaling \$300,000, as previously reported. Also included in this category is an investment made in March 2014 of \$300,000 in a private placement by J.P. Morgan to fund a new Bermuda based reinsurance company. The fair values of these investments have been estimated using the cost method less distributions received and other than temporary impairments. These investments are valued using inputs provided by the management of the investee.

7

The only activity in investments classified within level 3 of the fair value hierarchy for the three months ended March 31, 2014 is the aforementioned \$300,000 investment in the reinsurance company.

## **6. INCOME TAXES**

The Company (excluding CII) qualifies as a real estate investment trust and distributes its taxable ordinary income to stockholders in conformity with requirements of the Internal Revenue Code and is not required to report deferred items due to its ability to distribute all taxable income. In addition, net operating losses can be carried forward to reduce future taxable income but cannot be carried back. Distributed capital gains on sales of real estate as they relate to REIT activities are not subject to taxes; however, undistributed capital gains may be subject to corporate tax.

As of March 31, 2014 the Company (excluding CII) had no net operating loss carryover, and it has estimated a tax loss of approximately \$265,000 for the three months ended March 31, 2014.

The Company's 95%-owned subsidiary, CII, files a separate income tax return and its operations are not included in the REIT's income tax return.

As of March 31, 2014, CII has an estimated net operating loss carryover of approximately \$292,000. CII has no current provision or benefit for state and federal income taxes for the three months ended March 31, 2014

The Company accounts for income taxes in accordance with ASC Topic 740, "Accounting for Income Taxes". ASC Topic 740 requires a Company to use the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred taxes only pertain to CII. As a result, primarily of timing differences associated with the carrying value of other investments and the future benefit of a net operating loss, the Company has recorded a net deferred tax liability as of March 31, 2014 and December 31, 2013 of \$248,000 and \$217,000, respectively. This increase of \$31,000 is a deferred tax expense and was primarily the result of a net increase in investments with book basis in excess of tax of \$134,000.

The provision for income taxes in the consolidated statements of comprehensive income consists of the following:

Quarter ended March 31,	2014	2013
Current:		
Federal	\$—	\$676,000
State	—	163,000
	—	839,000
Deferred:		
Federal	\$28,000	\$472,000
State	3,000	53,000
	31,000	525,000
Total	\$31,000	\$1,364,000

We adopted the provisions of ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes" on January 1, 2007. This topic clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC Topic 740, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Topic 740-10 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our consolidated financial statements. Our evaluation was performed for the tax years ended since December 31, 2010 which are the tax years which remain subject to examination by major tax jurisdictions as of March 31, 2014.

We may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. In the event we have received an assessment for interest and/or penalties, it has been classified in the consolidated financial statements as selling, general and administrative expense.

**8. DISCONTINUED OPERATIONS AND REAL ESTATE INTERESTS HELD FOR SALE**

As previously reported, on February 25, 2013, the Company completed the sale of its interests in Grove Isle Associates LLLP, Grove Isle Yacht Club Associates, Grove Isle Investments Inc. and CII Yacht Club, Inc., which represent interests in the Grove Isle hotel, club, tennis courts and marina (collectively, the “Grove Isle Property”) to Grove Isle Yacht & Tennis, LLC, a Florida limited liability company and an unrelated entity (“the Purchaser”), pursuant to a purchase agreement entered into on the same day (the “Agreement”). The purchase price was \$24.4 million, consisting of \$23.4 million in cash and a \$1 million promissory note due from the Purchaser. Approximately \$2.7 million of the proceeds were used to pay off the existing mortgage on the Grove Isle Property. The Company realized a gain on the sale of these interests (including transactions in June 2013 described below) of approximately \$19 million (or \$19 per share) net of incentive fee due to the Adviser of approximately \$2.1 million and before provision for corporate income taxes estimated at \$2.5 million (consisting of approximately \$1.6 million in current income tax expense and \$915,000 in deferred income tax expense).

In June 2013 the Company received an additional \$327,000 in proceeds for unpaid rent due by the Grove Isle tenant prior to the sale. Also in June 2013 the Purchaser exercised its option to purchase our 50% interest in the spa for \$100,000.

As previously reported, on March 29, 2013, pursuant to a Membership Interests Purchase Agreement (the “Agreement”) entered into in December 2012, HMG/Courtland Properties, Inc. and its 95% owned subsidiary, Courtland Investments, Inc. (the “Company”), completed the sale of the Company’s 50% membership interests in Bayshore Landing LLC, Bayshore Rawbar LLC and Bayshore Restaurant LLC, (collectively the “Monty’s property) to the other 50% owner, The Christoph Family Trusts, which are unrelated entities. The purchase price for the membership interests of \$3 million was paid in cash. The Company realized a gain on the sale of these interests (as adjusted) of approximately \$28,000 (or \$.03 per share).

We have classified the results of operations for the real estate interests discussed above into discontinued operations in the accompanying condensed consolidated financial statements of comprehensive income.

	2013
<u>Revenues:</u>	
Rental and related revenue	\$ 171,000
Food and beverage sales	1,950,000
Marina revenue	382,000
Total revenue	2,503,000
<u>Expenses:</u>	
Rental operating expenses	97,000
Food and beverage expenses	1,430,000
Marina expenses	178,000
Profession expenses	53,000
Interest expense	190,000
Depreciation, amortization and other expenses	199,000
Income attributable to noncontrolling Bayshore interest sold in 2013	212,000
Total expenses	2,359,000
Gain on sale of real estate interests	18,526,000

Edgar Filing: HMG COURTLAND PROPERTIES INC - Form 10-Q

Provision for income taxes on gain on sale of real estate interests	(1,364,000 )
Income from discontinued operations	\$17,306,000

The major classes of assets and liabilities associated with the real estate interest held for sale as of March 31, 2013 were as follows:

	March 31, 2013
Grove Isle Spa remaining interest	\$ 100,000
Assets associated with real estate interest held for sale	\$ 100,000

9

## **8. SUBSEQUENT EVENTS**

In April 2014, we purchased \$3.5 million of preferred equity large capital REITS, consisting of approximately 20 preferred stock positions with no one position exceeding \$400,000 in value.

The margin payable accrues interest at 4% per annum and does not have a maturity date. The entire margin payable balance was repaid subsequent to March 31, 2014.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **RESULTS OF OPERATIONS**

The Company reported a net loss of approximately \$180,000 (or \$.17 per basic and diluted share) for the three months ended March 31, 2014. For the three months ended March 31, 2013 the Company reported net income of approximately \$16,997,000 (or \$17.51 per basic share and \$16.73 per diluted share).

### **REVENUES**

Rentals and related revenues for the three months ended March 31, 2014 and 2013 consists of rent from the Advisor to CII for its corporate office.

#### **Net realized and unrealized gain from investments in marketable securities:**

Net realized and unrealized gain from investments in marketable securities for the three months ended March 31, 2014 and 2013 was approximately \$127,000 and \$103,000, respectively. For further details refer to Note 4 to Condensed Consolidated Financial Statements (unaudited).

#### **Net income from other investments:**

Net income from other investments for the three months ended March 31, 2014 and 2013 was approximately \$12,000 and \$90,000, respectively. For further details refer to Note 5 to Condensed Consolidated Financial Statements (unaudited).

## **EXPENSES**

Adviser's base fee for the three months ended March 31, 2014 as compared with the same period in 2013 decreased by \$90,000 (or 35%). As previously reported, on September 19, 2013, the shareholders approved the renewal and amendment of the Advisory Agreement between the Company and the Adviser for a term commencing January 1, 2014 and expiring December 31, 2014. The sole amendment to the Advisory Agreement was the change in the remuneration of the Adviser to decrease the Adviser's current regular monthly compensation from \$85,000 to \$55,000, or \$1,020,000 to \$660,000 annually.

General and administrative expenses for the three months ended March 31, 2014 as compared with the same period in 2013 decreased by approximately \$39,000 (or 41%) primarily due to the reduction in costs as a result of dissolution of Courtland Houston, Inc. on December 31, 2013.

Professional fees and expenses for the three months ended March 31, 2014 as compared with the same period in 2013 increased by approximately \$13,000 (or 18%) primarily due to increased accounting and tax preparation fees.

## **EFFECT OF INFLATION:**

Inflation affects the costs of holding the Company's investments. Increased inflation would decrease the purchasing power of our mainly liquid investments.

## **LIQUIDITY, CAPITAL EXPENDITURE REQUIREMENTS AND CAPITAL RESOURCES**

The Company's material commitments primarily consist of a note payable to the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF") of approximately \$2.5 million due on demand and contributions committed to other investments of approximately \$1.3 million due upon demand. The funds necessary to meet these obligations are expected from the proceeds from the sales of investments, distributions from investments and available cash.



## **MATERIAL COMPONENTS OF CASH FLOWS**

For the three months ended March 31, 2014, net cash used in operating activities was approximately \$2.6 million. This primarily consisted of federal and state tax payments of approximately \$1.6 million and \$686,000 in payments to the Adviser for 2013 incentive fees.

For the three months ended March 31, 2014, net cash used in investing activities was approximately \$4.1 million and consisted primarily of \$3.8 million purchase of marketable securities and \$658,000 of contributions to other investments.

For the three months ended March 31, 2014, net cash provided by financing activities was \$2.8 million, consisting of proceeds from broker margin borrowings.

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

Not applicable

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

#### **(a) Evaluation of Disclosure Controls and Procedures.**

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q have concluded that, based on such evaluation, our disclosure controls and procedures were effective and designed to ensure that material information relating to us and our consolidated subsidiaries, which we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, was made known to them by others within those entities and reported within the time periods specified in the SEC's rules and forms.

#### **(b) Changes in Internal Control Over Financial Reporting.**

There were no changes in the Company's internal controls over financial reporting identified in connection with the evaluation of such internal control over financial reporting that occurred during our last fiscal quarter which have materially affected, or reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Grove Isle Associates, LLLP was a co-defendant in two lawsuits in the circuit court in Miami Dade County Florida. These cases arose from claims by a condominium association and resident seeking a declaratory judgment regarding certain provisions of the declaration of condominium relating to the Grove Isle Club and the developer. The claim by the association had been dismissed as to all counts related to the Company; however the association filed an appeal. In March 2014, the appellate court ruled on the appeal reversing the lower court's dismissal. Pursuant to an agreement dated February 25, 2013 in which the company sold its interests in Grove Isle Associates, LLLP the company will continue to defend the lawsuit and will indemnify the purchaser for any related judgment. The ultimate outcome of this litigation cannot presently be determined. However, in management's opinion the likelihood of a material adverse outcome is remote. Accordingly, adjustments, if any that might result from the resolution of this matter have not been reflected in the consolidated financial statements.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds:** None

**Item 3. Defaults Upon Senior Securities:** None.

**Item 4. Mine Safety Disclosures:** Not applicable.

**Item 5. Other Information:** None

**Item 6. Exhibits:**

(a) Certifications pursuant to 18 USC Section 1350-Sarbanes-Oxley Act of 2002. Filed herewith.

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.

HMG/COURTLAND PROPERTIES, INC.

/s/ Maurice Wiener

Dated: May 12, 2014 Maurice Wiener  
CEO and President

/s/ Carlos Camarotti

Dated: May 12, 2014 Carlos Camarotti  
Vice President- Finance and Controller  
Principal Accounting Officer