

HMG COURTLAND PROPERTIES INC
Form 10-Q
May 15, 2012

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, 2012

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

-

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

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. 1,010,426 Common shares were outstanding as of May 15, 2012.

HMG/COURTLAND PROPERTIES, INC.

Index

PAGE
NUMBER

PART I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of March 31, 2012 (Unaudited) and December 31, 2011 1

Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2012 and 2011 (Unaudited) 2

Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and 2011 (Unaudited) 3

Notes to Condensed Consolidated Financial Statements (Unaudited) 4

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 11

Item 3. Quantitative and Qualitative Disclosures About Market Risks 14

Item 4. Controls and Procedures 14

PART II. Other Information

Item 1. Legal Proceedings 14

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 14

Item 3. Defaults Upon Senior Securities 14

Item 4. Mine Safety Disclosures 14

Item 5. Other Information 14

Item 6. Exhibits 14

Signatures 15

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, 2012 (UNAUDITED) | December 31, 2011 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Investment properties, net of accumulated depreciation: | | |
| Commercial properties | \$ 6,979,897 | \$ 7,057,005 |
| Hotel, club and spa facility | 3,394,318 | 3,447,870 |
| Marina properties | 1,893,482 | 1,893,452 |
| Land held for development | 27,689 | 27,689 |
| Total investment properties, net | 12,295,386 | 12,426,016 |
| Cash and cash equivalents | 2,920,962 | 2,366,363 |
| Investments in marketable securities | 1,910,947 | 2,019,476 |
| Other investments | 3,675,345 | 3,745,327 |
| Investment in affiliate | 2,704,070 | 2,686,887 |
| Loans, notes and other receivables | 674,169 | 683,998 |
| Notes and advances due from related parties | 700,772 | 696,909 |
| Deferred taxes | 636,000 | 632,000 |
| Goodwill | 5,628,627 | 5,628,627 |
| Other assets | 559,262 | 710,227 |
| TOTAL ASSETS | \$ 31,705,540 | \$ 31,595,830 |
| LIABILITIES | | |
| Mortgages and notes payable | \$ 14,417,903 | \$ 14,531,833 |
| Accounts payable, accrued expenses and other liabilities | 774,860 | 740,618 |
| Interest rate swap contract payable | 1,837,000 | 1,975,000 |
| TOTAL LIABILITIES | 17,029,763 | 17,247,451 |
| STOCKHOLDERS' EQUITY | | |
| Excess common stock, \$1 par value; 100,000 shares authorized: no shares issued | — | — |
| Common stock, \$1 par value; 1,200,000 shares authorized and 1,023,955 issued | 1,023,955 | 1,023,955 |
| Additional paid-in capital | 24,370,584 | 24,366,099 |
| Less: Treasury stock at cost (13,529 shares as of March 31, 2012 and December 31, 2011) | (60,388) | (60,388) |
| Undistributed gains from sales of properties, net of losses | 41,572,120 | 41,572,120 |
| Undistributed losses from operations | (54,315,307) | (54,383,928) |
| Accumulated other comprehensive loss | (918,500) | (987,500) |
| Total stockholders' equity | 11,672,464 | 11,530,358 |
| Non controlling interest | 3,003,313 | 2,818,021 |
| TOTAL EQUITY | 14,675,777 | 14,348,379 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 31,705,540 | \$ 31,595,830 |

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, | |
|--|--|--------------|
| | 2012 | 2011 |
| REVENUES | | |
| Real estate rentals and related revenue | \$475,188 | \$463,352 |
| Food & beverage sales | 1,745,992 | 1,688,016 |
| Marina revenues | 412,371 | 412,899 |
| Spa revenues | 121,023 | 112,119 |
| Total revenues | 2,754,574 | 2,676,386 |
| EXPENSES | | |
| Operating expenses: | | |
| Rental and other properties | 115,219 | 182,003 |
| Food and beverage cost of sales | 519,454 | 473,688 |
| Food and beverage labor and related costs | 366,054 | 345,502 |
| Food and beverage other operating costs | 521,178 | 537,860 |
| Marina expenses | 213,288 | 218,781 |
| Spa expenses | 124,530 | 102,820 |
| Depreciation and amortization | 223,491 | 381,294 |
| Adviser's base fee | 255,000 | 255,000 |
| General and administrative | 90,779 | 94,043 |
| Professional fees and expenses | 45,672 | 87,126 |
| Directors' fees and expenses | 24,750 | 24,000 |
| Total operating expenses | 2,499,415 | 2,702,117 |
| Interest expense | 220,501 | 252,189 |
| Total expenses | 2,719,916 | 2,954,306 |
| Income (loss) before other income (loss) and income taxes | 34,658 | (277,920) |
| Net realized and unrealized gains from investments in marketable securities | 92,142 | 62,478 |
| Net income from other investments | 47,548 | 9,334 |
| Realized loss on interest rate swap agreement | — | (198,400) |
| Other than temporary impairment losses from other investments | (27,666) | — |
| Interest, dividend and other income | 34,227 | 95,887 |
| Total other income (loss) | 146,251 | (30,701) |
| Income (loss) before income taxes | 180,909 | (308,621) |
| (Benefit from) provision for income taxes | (4,000) | 9,000 |
| Net income (loss) | 184,909 | (317,621) |
| Less: Net (income) loss attributable to noncontrolling interest in consolidated entities | (116,288) | 111,009 |
| Net income (loss) attributable to the Company | \$68,621 | \$(206,612) |

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

| | | |
|--|-----------|-------------|
| Other comprehensive income: | | |
| Unrealized gain on interest rate swap agreement | \$69,000 | \$130,500 |
| Total other comprehensive income | 69,000 | 130,500 |
| Comprehensive income (loss) | \$137,621 | \$(76,112) |
| Net income (loss) Per Common Share: | | |
| Basic and diluted | \$0.07 | \$(0.20) |
| Weighted average common shares outstanding-Basic and diluted | 1,010,426 | 1,010,426 |

See notes to the condensed consolidated financial statements

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

| | For the three months ended March 31, | |
|--|--|--------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) attributable to the Company | \$68,621 | \$(206,612) |
| Adjustments to reconcile net income (loss) attributable to the Company to net cash provided by operating activities: | | |
| Depreciation and amortization | 223,491 | 381,294 |
| Non-employee stock compensation expense | 4,485 | — |
| Net income from other investments, excluding impairment losses | (28,529) | (9,334) |
| Other than temporary impairment losses from other investments | 27,666 | |
| Net gain from investments in marketable securities | (92,142) | (62,478) |
| Realized loss on interest rate swap agreement | — | 198,400 |
| Net income (loss) attributable to non controlling interest | 116,288 | (111,009) |
| Deferred income tax (benefit) expense | (4,000) | 9,000 |
| Changes in assets and liabilities: | | |
| Other assets and other receivables | 146,589 | 89,850 |
| Accounts payable, accrued expenses and other liabilities | 34,245 | 20,315 |
| Total adjustments | 428,093 | 516,038 |
| Net cash provided by operating activities | 496,714 | 309,426 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases and improvements of properties | (82,518) | (100,134) |
| Distributions from other investments | 107,058 | 29,798 |
| Contributions to other investments | (73,190) | (55,125) |
| Net proceeds from sales and redemptions of securities | 446,698 | 590,147 |
| Purchase of marketable securities | (226,233) | (164,860) |
| Net cash provided by investing activities | 171,815 | 299,826 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of mortgages and notes payables | (113,930) | (1,841,418) |
| Partial settlement of interest rate swap contract | — | (198,400) |
| Withdrawals from restricted cash | — | 2,379,947 |
| Distributions to minority partners | — | (51,181) |
| Net cash (used in) provided by financing activities | (113,930) | 288,948 |
| Net increase in cash and cash equivalents | 554,599 | 898,200 |
| Cash and cash equivalents at beginning of the period | 2,366,363 | 3,618,200 |
| Cash and cash equivalents at end of the period | \$2,920,962 | \$4,516,400 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | \$221,000 | \$252,000 |
| Cash paid during the period for income taxes | \$— | \$— |

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, 2011. The balance sheet as of December 31, 2011 was derived from audited consolidated financial statements as of that date. The results of operations for the three months ended March 31, 2012 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

In September 2011, the FASB issued ASU 2011-08, Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company has adopted this pronouncement and it did not have a material impact on its consolidated financial statements.

In June 2011, the FASB issued new guidance that gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total for comprehensive income. The entity is also required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements(s) where the components of net income and the components of other comprehensive income are presented. The guidance is to be applied retrospectively, for fiscal periods and interim periods within those years, beginning after December 15, 2011 and early adoption is permitted. In December 2011, the FASB issued new guidance deferring the changes in the June 2011 relating to presentation of classification adjustments. The Company's adoption of the new guidance, other than that related to presentation of reclassification adjustments, as of January 1, 2012 pertained to disclosure and presentation only and did not have a material impact on its consolidated financial position, results of operations and cash flows.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). This ASU was issued to provide largely identical guidance about fair value measurement and disclosure requirements for entities that disclose the fair value of an asset, a liability, or an instrument classified in shareholders' equity in their consolidated financial statements as that provided in the International Accounting Standards Board's new IFRS 13, Fair Value Measurement. This ASU does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under GAAP. This guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. In the period of adoption, a reporting entity will be required to disclose a change, if any, in valuation technique and related inputs that results from applying the ASU to quantify the total effect, if practicable. The Company has adopted this pronouncement and it did not have a material impact on its consolidated financial statements.

3. RESULTS OF OPERATIONS FOR MONTY'S RESTAURANT, MARINA AND OFFICE/RETAIL PROPERTY, COCONUT GROVE, FLORIDA

The Company, through two 50%-owned entities, Bayshore Landing, LLC ("Landing") and Bayshore Rawbar, LLC ("Rawbar"), (collectively, "Bayshore") owns a restaurant, office/retail and marina property located in Coconut Grove (Miami), Florida known as Monty's (the "Monty's Property").

Summarized combined statements of income for Landing and Rawbar for the three months ended March 31, 2012 and 2011 are presented below (Note: the Company's ownership percentage in these operations is 50%):

| Summarized Combined statements of income Bayshore Landing, LLC and Bayshore Rawbar, LLC | For the three months ended March 31, 2012 | For the three months ended March 31, 2011 |
|---|--|---|
| Revenues: | | |
| Food and Beverage Sales | \$ 1,746,000 | \$ 1,688,000 |
| Marina dockage and related | 273,000 | 286,000 |
| Retail/mall rental and related | 148,000 | 147,000 |
| Total Revenues | 2,167,000 | 2,121,000 |
| Expenses: | | |
| Cost of food and beverage sold | 519,000 | 474,000 |
| Labor and related costs | 317,000 | 298,000 |
| Entertainers | 49,000 | 48,000 |
| Other food and beverage related costs | 141,000 | 157,000 |
| Other operating costs | 49,000 | 42,000 |
| Repairs and maintenance | 77,000 | 106,000 |
| Insurance | 133,000 | 124,000 |
| Management fees | 57,000 | 84,000 |
| Utilities | 53,000 | 54,000 |
| Ground rent | 178,000 | 222,000 |
| Interest | 163,000 | 201,000 |
| Depreciation and amortization | 166,000 | 315,000 |
| Realized loss on interest rate swap | — | 198,000 |
| Total Expenses | 1,902,000 | 2,323,000 |
| Net income (loss) | \$ 265,000 | (\$ 202,000) |

4. 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.

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

Net realized and unrealized gain (loss) from investments in marketable securities for the three months ended March 31, 2012 and 2011 is summarized below:

| Description | Three Months Ended March 31, | |
|--|---------------------------------|----------|
| | 2012 | 2011 |
| Net realized gain from sales of securities | \$49,000 | \$79,000 |
| Unrealized net gain (loss) in trading securities | 43,000 | (17,000) |
| Total net gain from investments in marketable securities | \$92,000 | \$62,000 |

For the three months ended March 31, 2012 net realized gain from sales of marketable securities of approximately \$49,000 consisted of approximately \$65,000 of gross gains net of \$16,000 of gross losses. For the three months ended March 31, 2011 net realized gain from sales of marketable securities of approximately \$79,000 consisted of approximately \$94,000 of gross gains net of \$15,000 of gross losses.

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.

5. OTHER INVESTMENTS

As of March 31, 2012, the Company's portfolio of other investments had an aggregate carrying value of approximately \$3.7 million. As of March 31, 2012, the Company has committed to fund approximately \$966,000 as required by agreements with the investees. The carrying value of these investments is equal to contributions less distributions and loss valuation adjustments. During the three months ended March 31, 2012, the Company contributed an additional \$23,000 toward fulfilling capital commitments on existing investments, plus a new investment in a medical technology related company for \$51,000 which was fully funded in January 2012. Cash distributions received from other investments for the three months ended March 31, 2012 totaled approximately \$107,000 from one investment in a privately owned partnership owning diversified operating companies.

Net income from other investments for the three months ended March 31, 2012 and 2011, is summarized below:

| | 2012 | 2011 |
|--|----------|---------|
| Partnership owning diversified businesses | \$31,000 | \$— |
| Venture capital fund – technology | — | — |
| Income from investment in 49% owned affiliate (T.G.I.F. Texas, Inc.) | 17,000 | 9,000 |
| Total net income from other investments | \$48,000 | \$9,000 |

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 31, 2012 and December 31, 2011, aggregated by investment category and the length of time that investments have been in a continuous loss position

| Investment Description | As of March 31, 2012 | | | | | |
|--|----------------------|-----------------|------------------------|-----------------|------------|-----------------|
| | 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 | \$— | — | \$379,000 | \$(54,000) | \$379,000 | \$(54,000) |
| Partnerships owning diversified businesses | — | — | 231,000 | (58,000) | 231,000 | (58,000) |
| Partnerships owning real estate and related investments | — | — | 257,000 | (35,000) | 257,000 | (35,000) |
| Total | \$— | — | \$867,000 | \$(147,000) | \$867,000 | \$(147,000) |

| Investment Description | As of December 31, 2011 | | | | | |
|--|-------------------------|-----------------|------------------------|-----------------|------------|-----------------|
| | 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 | \$327,000 | \$(20,000) | \$47,000 | \$(39,000) | \$374,000 | \$(59,000) |
| Partnerships owning diversified businesses | — | — | 228,000 | (61,000) | 228,000 | (61,000) |
| Partnerships owning real estate and related investments | — | — | 256,000 | (56,000) | 256,000 | (56,000) |

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

| | | | | | | |
|-------|-----------|------------|-----------|-------------|-----------|-------------|
| Total | \$327,000 | \$(20,000) | \$531,000 | \$(156,000) | \$858,000 | \$(176,000) |
|-------|-----------|------------|-----------|-------------|-----------|-------------|

6

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 as of March 31, 2012 the Company recorded a loss of approximately \$28,000 from an investment in a partnership which operates and leases executive suites in Miami, Florida. The Company has funded \$120,000 to date in this investment and the losses incurred were associated with the initial start up of the venture in 2010. There were no OTTI impairment valuation adjustments for the three months ended March 31, 2011.

6. INTEREST RATE SWAP CONTRACT

The Company is exposed to interest rate risk through its borrowing activities. In order to minimize the effect of changes in interest rates, the Company has entered into an interest rate swap contract under which the Company agrees to pay an amount equal to a specified rate of 7.57% times a notional principal approximating the outstanding loan balance, and to receive in return an amount equal to 2.45% plus the one-month LIBOR Rate times the same notional amount. The Company designated this interest rate swap contract as a cash flow hedge.

As of March 31, 2012 the fair value of this hedge was an unrealized loss of approximately \$1,837,000, as compared with an unrealized loss of \$1,975,000 as of December 31, 2011 which resulted in an unrealized gain of \$138,000 (or \$69,000, net of noncontrolling interest) for the three months ended March 31, 2012. This amount has been recorded as other comprehensive income and will be reclassified to interest expense over the life of the contract.

The following tables present the required disclosures in accordance with ASC Topic 815-10:

Fair Values of Derivative Instruments:

| | Liability Derivative | | | |
|---|----------------------|--------------|-------------------|--------------|
| | March 31, 2012 | | December 31, 2011 | |
| | Balance | | Balance | |
| | Sheet | Fair | Sheet | Fair |
| | Location | Value | Location | Value |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate swap contract | Liabilities | \$ 1,837,000 | Liabilities | \$ 1,975,000 |
| Total derivatives designated as hedging instruments under ASC Topic 815 | | \$ 1,837,000 | | \$ 1,975,000 |

The Effect of Derivative Instruments on the Statements of Comprehensive Income for the Three Months Ended March 31, 2012 and 2011:

| | Amount of Gain Recognized in OCI on Derivative (Effective Portion) |
|--|--|
| Derivatives in ASC Topic 815 Cash Flow Hedging Relationships | |

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

| | For the three Months ended March 31, 2012 | For the three Months ended March 31, 2011 |
|------------------------------|---|--|
| Interest rate swap contracts | \$69,000 | 130,500 |
| Total | \$69,000 | 130,500 |

7

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with ASC Topic 820, the Company measures cash equivalents, marketable securities, other investments and interest rate swap contract at fair value. Our cash equivalents, marketable securities and interest rate swap contract are classified within Level 1 or Level 2. This is because our cash equivalents, marketable securities and interest rate swap are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Our other investments are classified within Level 3 because they are valued using valuation models which use some inputs that are unobservable and supported by little or no market activity and are significant.

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

| Description | Fair value measurement at reporting date using | | | |
|------------------------------|--|--|---|---|
| | Total March 31, 2012 | 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 | \$54,251 | — | \$54,251 | — |
| Money market mutual funds | 1,546,291 | \$1,546,291 | — | — |
| Marketable securities: | | | | |
| Corporate debt securities | 903,118 | — | 903,118 | — |
| Marketable equity securities | 1,007,831 | 1,007,831 | — | — |
| Total assets | \$3,511,491 | \$2,554,122 | \$957,369 | \$— |
| Liabilities: | | | | |
| Interest rate swap contract | 1,837,000 | — | 1,837,000 | — |
| Total liabilities | \$1,837,000 | — | \$1,837,000 | — |

| Description | Fair value measurement at reporting date using | | | |
|------------------------------|--|--|---|---|
| | Total December 31, 2011 | 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 | \$54,104 | — | \$54,104 | — |
| Money market mutual funds | 1,536,787 | \$1,536,787 | — | — |
| Marketable securities: | | | | |
| Corporate debt securities | 885,252 | — | 885,252 | — |
| Marketable equity securities | 1,134,225 | 1,134,225 | — | — |
| Total assets | \$3,610,368 | \$2,671,012 | \$939,356 | \$— |
| Liabilities: | | | | |
| | 1,975,000 | — | 1,975,000 | — |

Interest rate swap
contract

Total liabilities

\$1,975,000

—

\$1,975,000

—

8

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

| Description | Fair value measurement at reporting date using | | | | Total gains (losses) for three months ended 3/31/2012 |
|--|--|--|---|---|---|
| | Total March 31, 2012 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) (a) | Other Significant Unobservable Inputs (Level 3) (b) | |
| Assets: | | | | | |
| Other investments by investment focus: | | | | | |
| Technology & Communication | \$ 508,159 | \$ — | \$ 508,159 | \$ — | \$— |
| Diversified businesses | 1,411,411 | — | 1,411,411 | — | — |
| Real estate and related | 1,455,755 | — | 502,760 | 953,015 | (27,666) |
| Other | 300,000 | — | — | 300,000 | — |
| | \$ 3,675,345 | \$ — | \$ 2,422,330 | \$ 1,253,015 | \$ (27,666) |
| Goodwill (Bay shore) | 5,628,000 | | | 5,628,000 | |
| Total assets | \$ 9,303,345 | \$ — | \$ 2,422,330 | \$ 6,881,015 | \$ (27,666) |

| Description | Fair value measurement at reporting date using | | | | Total losses for year ended 12/31/2011 |
|--|--|--|---|---|--|
| | Total December 31, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) (a) | Other Significant Unobservable Inputs (Level 3) (b) | |
| Assets: | | | | | |
| Other investments by investment focus: | | | | | |
| Technology & Communication | \$ 477,646 | \$ — | \$ 477,646 | \$ — | \$ (2,437) |
| Diversified businesses | 1,444,521 | — | 1,444,521 | — | — |
| Real estate and related | 1,523,159 | — | 542,478 | 980,681 | (84,270) |
| Other | 300,000 | — | — | 300,000 | — |
| | \$ 3,745,326 | \$ — | \$ 2,464,645 | \$ 1,280,681 | \$ (86,707) |
| Goodwill (Bayshore) | 5,628,000 | | | 5,628,000 | — |
| Total assets | \$ 9,373,326 | \$ — | \$ 2,464,645 | \$ 6,908,681 | \$ — |

(a) 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, 2012, it is probable that all of the investments in this 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. In January 2012 the Company invested approximately \$51,000 in a medical technology entity representing the full commitment to this investment. As of March 31, 2012, the amount of the Company's unfunded commitments related to the aforementioned investments is approximately \$966,000.

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 \$1 million primarily consist of one investment in a commercial building located near the Company's offices purchased in 2005. This investment is measured using primarily inputs provided by the (b) managing member of the partnerships with whom the 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 investments in private bank stocks include a private bank and trust located in Coral Gables, Florida in the amount of \$250,000 made in 2009, and a \$50,000 investment in a bank located in El Campo, Texas made in 2010. The fair values of these bank stock investments have been estimated using the cost method less distributions received and other than temporary impairments. This investment is valued using inputs provided by the management of the banks.

The following table includes a roll-forward of the investments classified within level 3 of the fair value hierarchy for the three months ended March 31, 2012:

| | |
|--|----------------------|
| | Level 3 Investments: |
| Balance at January 1, 2012 | \$ 1,300,000 |
| Additional investment in limited partnership | — |
| Other than temporary impairment loss | (28,000) |
| Transfers from Level 2 | — |
| Balance at March 31, 2012 | \$ 1,272,000 |

8. SEGMENT INFORMATION

The Company has three reportable segments: Real estate rentals; Food and Beverage sales; and Other investments and related income. The Real estate and rentals segment primarily includes the leasing of its Grove Isle property, marina dock rentals at both Monty's and Grove Isle marinas, and the leasing of office and retail space at its Monty's property. The Food and Beverage sales segment consists of the Monty's restaurant operation. Lastly, the Other investment and related income segment includes all of the Company's other investments, marketable securities, loans, notes and other receivables and the Grove Isle spa operations which individually do not meet the criteria as a reportable segment.

| | For the three months ended March 31, | |
|---|--------------------------------------|---------------|
| | 2012 | 2011 |
| Net revenues: | | |
| Real estate and marina rentals | \$ 888,000 | \$ 876,000 |
| Food and beverage sales | 1,746,000 | 1,688,000 |
| Spa revenues | 121,000 | 112,000 |
| Total net revenues | \$ 2,755,000 | \$ 2,676,000 |
| Income (loss) before income taxes: | | |
| Real estate and marina rentals | \$ 278,000 | \$ 255,000 |
| Food and beverage sales | 86,000 | 58,000 |
| Other investments and related income | (299,000) | (511,000) |
| Total net income (loss) before income taxes attributable to the Company | \$ 65,000 | (\$ 198,000) |

9. INCOME TAXES

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 derecognition, 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 December 31, 2008, 2009, 2010 and 2011, the tax years which remain subject to examination by major tax jurisdictions as of March 31, 2012.

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**RESULTS OF OPERATIONS**

The Company reported net income of approximately \$69,000 (\$.07 per share) for the three months ended March 31, 2012. For the three months ended March 31, 2011 the Company reported a net loss of approximately \$207,000 (\$.20 per share).

As discussed further below, total revenues for the three months ended March 31, 2012 as compared with the same period in 2011, increased by approximately \$78,000 or 3%. Total expenses for the three months ended March 31, 2012, as compared with the same period in 2011, decreased by approximately \$234,000 or 8%.

REVENUES

Rentals and related revenues for the three months ended March 31, 2012 as compared with the same period in 2011 increased by \$12,000 (or 3%), primarily as a result of an inflation adjustment in rent due from the tenant at Grove Isle.

Restaurant operations:

Summarized statements of income for the Company's Monty's restaurant for the three months ended March 31, 2012 and 2011 is presented below:

| Summarized statements of income of Monty's restaurant | Three months ended March 31, 2012 | Percentage of sales | Three months ended March 31, 2011 | Percentage of sales |
|--|-----------------------------------|---------------------|-----------------------------------|---------------------|
| Revenues: | | | | |
| Food and beverage sales | \$1,746,000 | 100 % | \$1,688,000 | 100 % |
| Expenses: | | | | |
| Cost of food and beverage sold | 519,000 | 29.7 % | 474,000 | 28.0 % |
| Labor, entertainment and related costs | 366,000 | 21.0 % | 346,000 | 20.5 % |
| Other food and beverage direct costs | 78,000 | 4.5 % | 67,000 | 4.0 % |
| Other operating costs | 110,000 | 6.3 % | 135,000 | 8.0 % |
| Insurance | 80,000 | 4.6 % | 76,000 | 4.5 % |
| Management and accounting fees | 35,000 | 2.0 % | 38,000 | 2.3 % |
| Utilities | 55,000 | 3.1 % | 63,000 | 3.7 % |
| Rent (as allocated) | 164,000 | 9.4 % | 158,000 | 9.4 % |
| Total Expenses | 1,407,000 | 80.6 % | 1,357,000 | 80.4 % |
| Income before depreciation and noncontrolling interest | \$339,000 | 19.4 % | \$331,000 | 19.6 % |

For the three months ended March 31, 2012 as compared with the same period in 2011 restaurant sales increased by approximately \$58,000 (or 3%), with food sales increasing by \$43,000 (or 4%) and beverage sales increasing \$15,000 (or 2%).

Restaurant expenses for the three months ended March 31, 2012 as compared with the same period in 2011 remained consistent as a percentage of sales.

Marina operations:

Summarized and combined statements of income for marina operations:

(The Company owns 50% of the Monty's marina and 95% of the Grove Isle marina)

| Summarized statements of income of marina operations | Combined marina operations Three months ended March 31, 2012 | Combined marina operations Three months ended March 31, 2011 |
|--|--|--|
| Revenues: | | |
| Monty's dockage fees and related | \$ 286,000 | \$ 301,000 |
| Grove Isle marina slip owners dues and dockage fees | 126,000 | 112,000 |
| Total marina revenues | 412,000 | 413,000 |
| Expenses: | | |
| Labor and related costs | 64,000 | 71,000 |
| Insurance | 26,000 | 22,000 |
| Management fees | 18,000 | 18,000 |
| Bay bottom lease | 54,000 | 56,000 |
| Repairs and maintenance | 33,000 | 41,000 |
| Other | 18,000 | 11,000 |
| Total Expenses | 213,000 | 219,000 |
| Income before interest, depreciation and noncontrolling interest | \$ 199,000 | \$ 194,000 |

There were no significant changes in marina operations for the three months ended March 31, 2012 as compared to the same period in 2011.

Spa operations:

Below are summarized statements of income for Grove Isle spa operations for the three months ended March 31, 2012 and 2011. The Company owns 50% of the Grove Isle Spa with the other 50% owned by an affiliate of Grand Heritage, the tenant of the Grove Isle Resort:

| Summarized statements of income of spa operations | Three months ended March 31, 2012 | Three months ended March 31, 2011 |
|---|---|---|
| Revenues: | | |
| Services provided | \$ 104,000 | \$ 94,000 |
| Membership and other | 17,000 | 18,000 |
| Total spa revenues | 121,000 | 112,000 |
| Expenses: | | |
| Cost of sales | 21,000 | 18,000 |
| Salaries, wages and related | 38,000 | 32,000 |

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

| | | |
|------------------------------------|---------|---------|
| Other operating expenses | 58,000 | 44,000 |
| Management and administrative fees | 5,000 | 6,000 |
| Other non-operating expenses | 3,000 | 3,000 |
| Total Expenses | 125,000 | 103,000 |

(Loss) income before depreciation and noncontrolling interest (\$ 4,000) \$ 9,000

Spa revenues for the three months ended March 31, 2012 as compared with the same period in 2011 increased by \$9,000 (or 8%). This came at the expense of higher promotional costs which was the main reason Spa expenses for the three months ended March 31, 2012 as compared with the same period in 2011 increased by \$22,000 (or 21%).

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, 2012 and 2011 was approximately \$92,000 and \$62,000, 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, 2012 and 2011 was approximately \$48,000 and \$9,000, respectively. For further details refer to Note 5 to Condensed Consolidated Financial Statements (unaudited).

Realized loss from interest rate swap contract:

In conjunction with amendment of the Bayshore bank loan in March 2011 the interest rate swap contract liability was paid down by \$198,400 (in the same proportion as the amount of the loan principal paid down). As a result, the Company reclassified a previously unrealized loss of \$198,400 from accumulated other comprehensive income to realized loss on interest rate swap contract within the condensed consolidated statements of comprehensive income for the three months ended March 31, 2011. There was no realized loss from the interest rate swap contract for the three months ended March 31, 2012.

EXPENSES

Expenses for rental and other properties for the three months ended March 31, 2012 and 2011 were \$115,000 and \$182,000, respectively. This decrease of \$67,000 (or 37%) was primarily due to decreased ground rent at the Monty's property due to prior period rent adjustments.

For comparisons of all food and beverage related expenses refer to Restaurant Operations (above) summarized statement of income for Monty's restaurant.

For comparisons of all marina related expenses refer to Marina Operations (above) for summarized and combined statements of income for marina operations.

For comparisons of all spa related expenses refer to Spa Operations (above) for summarized statements of income for spa operations.

Depreciation and amortization expense for the three months ended March 31, 2012 and 2011 were \$223,000 and \$381,000, respectively. This decrease of approximately \$158,000 (or 41%) was primarily due to non-recurring amortization of loan costs associated with the Monty's loan modification completed in March 2011.

Professional fees and expenses for the three months ended March 31, 2012 and 2011 were \$46,000 and \$87,000, respectively. This decrease of \$41,000 (or 47%) was primarily due to lower legal expenses at the Monty's property and lower professional fees at the corporate level.

Interest expense for the three months ended March 31, 2012 and 2011 were \$220,000 and \$252,000, respectively. This decrease of \$32,000 (or 13%) was primarily due to lower outstanding loan balance as a result of the previously reported refinancing of the Monty's property bank loan in March 2011.

EFFECT OF INFLATION:

Inflation affects the costs of operating and maintaining the Company's investments. In addition, rentals under certain leases are based in part on the lessee's sales and tend to increase with inflation, and certain leases provide for periodic adjustments according to changes in predetermined price indices.

LIQUIDITY, CAPITAL EXPENDITURE REQUIREMENTS AND CAPITAL RESOURCES

The Company's material commitments primarily consist of maturities of debt obligations of approximately \$6.2 million in 2012 and contributions committed to other investments of approximately \$966,000 due upon demand. The funds necessary to meet these obligations are expected from the proceeds from the sales of properties or investments, bank construction loan, refinancing of existing bank loans, distributions from investments and available cash.

Included in the maturing debt obligations for 2012 is a note payable to the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF") of approximately \$3.2 million due on demand. The obligation due to TGIF will be paid with funds available from distributions from its investment in TGIF and from available cash.

MATERIAL COMPONENTS OF CASH FLOWS

For the three months ended March 31, 2012, net cash provided by operating activities was approximately \$497,000. This was primarily from the Company's rental operations cash flow.

For the three months ended March 31, 2012, net cash provided by investing activities was approximately \$172,000. This consisted primarily of approximately \$447,000 in net proceeds from sales of marketable securities and distributions from other investment of \$107,000. These sources of funds were partially offset by purchases of marketable securities of \$226,000, contributions to other investments of \$73,000 and additions to fixed assets of \$83,000.

For the three months ended March 31, 2012, net cash used in financing activities was approximately \$114,000 consisting solely of loan principal repayments.

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

The Company 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 has been dismissed as to all counts related to the Company; however the association has filed an appeal. The Company believes that the claims are without merit and intends to vigorously defend its position. 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 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: None

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/ Larry Rothstein

Dated: May 15, 2012 Larry Rothstein
President, Treasurer and Secretary
Principal Financial Officer

/s/ Carlos Camarotti

Dated: May 15, 2012 Carlos Camarotti
Vice President- Finance and Controller
Principal Accounting Officer