

HMG COURTLAND PROPERTIES INC
Form 10-Q
August 14, 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 June 30, 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
(State or other jurisdiction of
incorporation or organization)

59-1914299
(I.R.S. Employer
Identification No.)

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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 August 14, 2014.

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

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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**

	June 30, 2014 (UNAUDITED)	December 31, 2013
ASSETS		
Investment properties, net of accumulated depreciation:		
Office building and other commercial property	\$ 928,014	\$ 809,905
Total investment properties, net	928,014	809,905
Cash and cash equivalents	6,083,594	17,655,568
Investments in marketable securities	12,054,970	4,722,597
Other investments	4,018,094	3,304,336
Investment in affiliate	2,413,250	2,445,891
Loans, notes and other receivables	1,512,249	1,408,150
Other assets	35,545	32,773
TOTAL ASSETS	\$ 27,045,716	\$ 30,379,220
LIABILITIES		
Note payable to affiliate	\$ 2,400,000	\$ 2,502,891
Accounts payable, accrued expenses and other liabilities	189,885	202,552
Due to Adviser	—	2,095,701
Income tax payable	—	1,592,716
Deferred income taxes	308,000	217,000
TOTAL LIABILITIES	2,897,885	6,610,860
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 1,048,926 issued and outstanding as of June 30, 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	(55,121,231)	(55,547,873)
Total stockholders' equity	23,913,198	23,486,556
Non controlling interest	234,633	281,804
TOTAL EQUITY	24,147,831	23,768,360
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 27,045,716	\$ 30,379,220

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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
REVENUES				
Real estate rentals and related revenue	\$ 20,156	\$ 15,600	\$36,845	\$31,800
EXPENSES				
Operating expenses:				
Rental and other properties	24,926	19,266	41,567	35,671
Adviser's base fee	165,000	255,000	330,000	510,000
General and administrative	44,378	59,445	101,686	156,128
Professional fees and expenses	59,510	17,968	141,027	86,775
Directors' fees and expenses	26,250	24,028	48,750	46,528
Depreciation and amortization	5,002	4,039	9,041	8,078
Interest expense	25,268	22,660	48,724	45,232
Total expenses	350,334	402,406	720,795	888,412
Loss before other income and income taxes	(330,178)	(386,806)	(683,950)	(856,612)
Net realized and unrealized gains (losses) from investments in marketable securities	511,258	(69,840)	637,894	32,803
Net income from other investments	71,829	53,530	84,096	143,148
Interest, dividend and other income	418,188	54,894	488,186	96,720
Total other income	1,001,275	38,584	1,210,176	272,671
Income (loss) before income taxes	671,097	(348,222)	526,226	(583,941)
Provision for income taxes	60,000	—	91,000	—
Income (loss) from continuing operations	611,097	(348,222)	435,226	(583,941)
Income from discontinued operations	—	608,796	—	17,914,545
Net income	611,097	260,574	435,226	17,330,604
Noncontrolling interests in continuing operations	(4,896)	(15,668)	(8,584)	(28,007)
Noncontrolling interests in discontinued operations	—	1,685	—	(58,594)
Net income attributable to noncontrolling interest	(4,896)	(13,983)	(8,584)	(86,601)
Net income attributable to the Company	\$ 606,201	\$ 246,591	\$426,642	\$ 17,244,003
Amounts attributable to the Company				
Continuing operations	606,201	(363,890)	426,642	(611,948)
Discontinued operations	—	610,481	—	17,855,951
Net income attributable to the Company	\$ 606,201	\$ 246,591	\$426,642	\$ 17,244,003
Weighted average common shares outstanding-basic	1,048,926	974,526	1,048,926	972,537
Weighted average common shares outstanding-diluted	1,049,434	1,045,011	1,050,849	1,036,556

Net income (loss) per common:				
Continuing operations basic and diluted	\$ 0.58	\$ (0.37) \$0.41	\$(0.63)
Discontinued operations-basic	\$ —	\$ 0.63	\$ —	\$18.36
Discontinued operations-diluted	\$ —	\$ 0.58	\$ —	\$17.23
Basic net income per share	\$ 0.58	\$ 0.26	\$0.41	\$17.73
Diluted net income per share	\$ 0.58	\$ 0.21	\$0.41	\$16.60
<u>Other comprehensive income:</u>				
Unrealized gain on interest rate swap agreement	\$ —	\$ —	\$ —	\$982,500
Total other comprehensive income	—	—	—	982,500
Comprehensive income	\$ 606,201	\$ 246,591	\$426,642	\$18,226,503

See notes to the condensed consolidated financial statements

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

	For the six months ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributable to the Company	\$ 426,642	\$ 17,244,003
Adjustments to reconcile net income attributable to the Company to net cash used in operating activities:		
Depreciation and amortization	9,041	8,078
Non-employee stock compensation expense	—	372
Net income from other investments, excluding impairment losses	(84,096)	(143,148)
Gain from dissolution of joint venture with related party	(226,157)	—
Gain from the sale of discontinued operations	—	(17,855,951)
Net gain from investments in marketable securities	(637,894)	(32,803)
Net income attributable to non controlling interest	8,584	28,007
Deferred income tax provision	91,000	—
Changes in assets and liabilities:		
Other assets and other receivables	31,129	(38,626)
Accounts payable, accrued expenses and other liabilities	(3,756,839)	(8,702)
Total adjustments	(4,565,232)	(18,042,773)
Net cash used in operating activities	(4,138,590)	(798,770)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of discontinued operations	—	23,033,221
Collections in notes and advances from related parties	226,157	—
Distributions from other investments	210,735	325,246
Contributions to other investments	(846,756)	(49,500)
Net proceeds from sales and redemptions of securities	1,303,196	397,930
Purchase of marketable securities	(7,997,675)	(1,205,449)
Additions in mortgage loans and notes receivable	(138,000)	—
Purchases and improvements of properties	(127,150)	—
Proceeds from partial sale of affiliate	39,000	—
Net cash (used in) provided by investing activities	(7,330,493)	22,501,448
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock options exercised	—	24,000
Repayment of mortgages and notes payables	(102,891)	(18,747)
Net cash (used in) provided by financing activities	(102,891)	5,253
Net (decrease) increase in cash and cash equivalents	(11,571,974)	21,707,931
Cash and cash equivalents at beginning of the period	17,655,568	1,510,773
Cash and cash equivalents at end of the period	\$ 6,083,594	\$ 23,218,704
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 49,000	\$ 45,000

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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

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 and six months ended June 30, 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. Amounts in footnotes are rounded to the nearest thousands.

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.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional

footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

The Company does not believe that any other 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 April 2014, the Company purchased approximately \$3.5 million of preferred equity of large capital real estate investment trusts (REITS), consisting of approximately 20 preferred stock positions with no one position exceeding \$400,000 in value as of June 30, 2014.

In March 2014, the Company purchased approximately \$3.5 million of marketable securities consisting of approximately 50 common stock positions in large capital REITS. No one stock position of this purchase exceeds \$400,000 in value as of June 30, 2014.

Net realized and unrealized gain (loss) from investments in marketable securities for the three and six months ended June 30, 2014 and 2013 is summarized below:

<u>Description</u>	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net realized gain from sales of securities	\$34,000	\$ 11,000	\$46,000	\$8,000
Unrealized net gain (loss) in trading securities	477,000	(81,000)	592,000	25,000
Total net gain (loss) from investments in marketable securities	\$511,000	(\$70,000)	\$638,000	\$33,000

For the three and six months ended June 30, 2014, net unrealized gains from trading securities were \$477,000 and \$592,000, respectively. This is compared to net unrealized (losses) gains of (\$81,000) and \$25,000 for the three and

six months ended June 30, 2013, respectively. The increase in unrealized gains was primarily from REIT marketable securities purchased in 2014.

For the three months ended June 30, 2014, net realized gain from sales of marketable securities was approximately \$34,000, and consisted of approximately \$46,000 of gross gains and \$12,000 of gross losses. For the six months ended June 30, 2014, net realized gain from sales of marketable securities was approximately \$46,000, and consisted of approximately \$80,000 of gross gains net of \$34,000 of gross losses.

For the three months ended June 30, 2013, net realized gain from sales of marketable securities was approximately \$11,000, consisted of all gains, no losses. For the six months ended June 30, 2013, net realized gain from sales of marketable securities was approximately \$8,000, and consisted of approximately \$31,000 of gross gains net of \$23,000 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.

4. OTHER INVESTMENTS

As of June 30, 2014, the Company's portfolio of other investments had an aggregate carrying value of approximately \$4 million and we have commitments to fund approximately \$1.8 million 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 six months ended June 30, 2014, cash distributions received from other investments totaled approximately \$211,000 from several investments in privately owned partnerships owning diversified operating companies. During the six months ended June 30, 2014, the Company made contributions to other investments of approximately \$847,000. This consisted primarily of two new investments of \$300,000 each, one of \$100,000 and various follow on contributions totaling approximately \$147,000.

Net income from other investments for the three and six months ended June 30, 2014 and 2013, is summarized below:

<u>Description</u>	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Partnerships owning diversified businesses	\$ 74,000	\$ 14,000	\$ 77,000	\$ 40,000
Partnerships owning real estate and related	—	8,000	1,000	41,000
Income from investment in 49% owned affiliate (T.G.I.F. Texas, Inc.)	(2,000)	32,000	6,000	62,000
Total net income from other investments (excluding other than temporary impairment losses)	\$ 72,000	\$ 54,000	\$ 84,000	\$ 143,000

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The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of June 30, 2014 and December 31, 2013, aggregated by investment category and the length of time that investments have been in a continuous loss position:

<u>Investment Description</u>	As of June 30, 2014					
	12 Months or less	Greater than 12 Months	Total			
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Partnerships owning investments in technology related industries	—	—	\$ 370,000	\$ (56,000)	\$ 370,000	\$ (56,000)
Partnerships owning real estate and related investments	—	—	211,000	(7,000)	211,000	(7,000)
Other investments	\$ 231,000	\$ (19,000)	—	—	231,000	(19,000)
Total	\$ 231,000	\$ (19,000)	\$ 581,000	\$ (63,000)	\$ 812,000	\$ (82,000)

<u>Investment Description</u>	As of December 31, 2013					
	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	\$—	\$—	\$346,000	\$(76,000)	\$346,000	\$(76,000)
Partnerships owning real estate and related investments	—	—	246,000	(11,000)	246,000	(11,000)
Total	\$—	\$—	\$592,000	\$(87,000)	\$592,000	\$(87,000)

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 and six months ended June 30, 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 and six months ended June 30, 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 June 30, 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	\$4,170,000	\$ 4,170,000	\$ —	—
Money market mutual funds	1,502,000	1,502,000	—	—
Time deposits	55,000	—	55,000	—
Marketable securities:				
Marketable equity securities	11,076,000	11,076,000	—	—

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Corporate debt securities	979,000	—	979,000	—
Total assets	\$ 17,782,000	\$ 16,748,000	\$ 1,034,000	\$ —
6				

<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	—
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	\$ —

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

<u>Description</u>	Fair value measurement at reporting date using				Total gains
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3) (b)	(losses) for three and six months ended 6/30/2014
Assets:					
<u>Other investments by investment focus:</u>					
Technology & Communication	\$ 495,000	\$ —	\$ 495,000	\$ —	\$ —
Diversified businesses	1,132,000	—	1,132,000	—	—
Real estate and related	1,766,000	—	721,000	1,045,000	—
Other	625,000	—		625,000	—
	\$ 4,018,000	\$ —	\$ 2,348,000	\$ 1,670,000	\$ —

Total	Fair value measurement at reporting date using			Total
	Quoted Prices in Active	Significant Other	Significant	losses for

<u>Description</u>	December 31,	Markets for Observable Identifiable Assets (Level 1) (Level 2) (a)	Unobservable Inputs (Level 3) (b)	year ended
Assets: <u>Other investments by investment focus:</u>	2013			12/31/2013