

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

59-1914299  
(I.R.S. Employer  
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 August 14, 2012.

**HMG/COURTLAND PROPERTIES, INC.**

**Index**

|  | PAGE<br>NUMBER |
|--|----------------|
| PART I. Financial<br>Information   |                |
| <u>Item 1.</u><br>Financial<br>Statements  |                |
| <u>Condensed<br/>Consolidated<br/>Balance Sheets<br/>as of June 30,<br/>2012</u>   | 1              |
| <u>(Unaudited) and<br/>December 31,<br/>2011</u>   |                |
| <u>Condensed<br/>Consolidated<br/>Statements of<br/>Comprehensive<br/>Income for the<br/>Three and Six<br/>Months Ended<br/>June 30, 2012<br/>and 2011</u> | 2              |
| <u>(Unaudited)</u>   |                |
| <u>Condensed<br/>Consolidated<br/>Statements of<br/>Cash Flows for<br/>the Six Months<br/>Ended June 30,<br/>2012 and 2011</u>                             | 3              |
| <u>(Unaudited)</u>   |                |
| <u>Notes to<br/>Condensed<br/>Consolidated<br/>Financial</u>   | 4              |

Statements  
(Unaudited)

|  |    |
|--|----|
| <u>Item 2.</u><br><u>Management's</u><br><u>Discussion and</u><br><u>Analysis of</u><br><u>Financial</u><br><u>Condition and</u><br><u>Results of</u><br><u>Operations</u> | 12 |
|--|----|

|  |    |
|--|----|
| <u>Item 3.</u><br><u>Quantitative</u><br><u>and Qualitative</u><br><u>Disclosures</u><br><u>About Market</u><br><u>Risks</u> | 16 |
|--|----|

|  |    |
|--|----|
| <u>Item 4. Controls</u><br><u>and Procedures</u> | 16 |
|--|----|

PART II. Other  
Information

|  |    |
|--|----|
| <u>Item 1. Legal</u><br><u>Proceedings</u> | 16 |
|--|----|

|  |    |
|--|----|
| <u>Item 2.</u><br><u>Unregistered</u><br><u>Sales of Equity</u><br><u>Securities and</u><br><u>Use of Proceeds</u> | 16 |
|--|----|

|  |    |
|--|----|
| <u>Item 3. Defaults</u><br><u>Upon Senior</u><br><u>Securities</u> | 16 |
|--|----|

|  |    |
|--|----|
| <u>Item 4. Mine</u><br><u>Safety</u><br><u>Disclosures</u> | 16 |
|--|----|

|  |    |
|--|----|
| <u>Item 5. Other</u><br><u>Information</u> | 16 |
|--|----|

|                         |    |
|-------------------------|----|
| <u>Item 6. Exhibits</u> | 16 |
|-------------------------|----|

|                   |    |
|-------------------|----|
| <u>Signatures</u> | 17 |
|-------------------|----|

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 Securities 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,<br>2012<br>(UNAUDITED) | December<br>31,<br>2011 |
|--|---------------------------------|-------------------------|
| <b>ASSETS</b>  |                                 |                         |
| Investment properties, net of accumulated depreciation:                                |                                 |                         |
| Commercial properties  | \$ 6,979,876                    | \$7,057,005             |
| Hotel, club and spa facility   | 3,340,766                       | 3,447,870               |
| Marina properties  | 1,776,345                       | 1,893,452               |
| Land held for development  | —                               | 27,689                  |
| Total investment properties, net   | 12,096,987                      | 12,426,016              |
| Cash and cash equivalents  | 2,920,080                       | 2,366,363               |
| Investments in marketable securities   | 1,948,209                       | 2,019,476               |
| Other investments  | 3,657,328                       | 3,745,327               |
| Investment in affiliate  | 2,718,093                       | 2,686,887               |
| Loans, notes and other receivables   | 683,998                         | 683,998                 |
| Notes and advances due from related parties  | 701,769                         | 696,909                 |
| Deferred taxes   | 649,000                         | 632,000                 |
| Goodwill   | 5,628,627                       | 5,628,627               |
| Other assets   | 582,921                         | 710,227                 |
| <b>TOTAL ASSETS</b>  | <b>\$ 31,587,012</b>            | <b>\$31,595,830</b>     |
| <b>LIABILITIES</b>   |                                 |                         |
| Mortgages and notes payable  | \$ 14,304,108                   | \$14,531,833            |
| Accounts payable, accrued expenses and other liabilities                               | 582,207                         | 740,618                 |
| Interest rate swap contract payable  | 2,059,000                       | 1,975,000               |
| <b>TOTAL LIABILITIES</b>   | <b>16,945,315</b>               | <b>17,247,451</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 1,023,955 issued          | 1,023,955                       | 1,023,955               |
| Additional paid-in capital   | 24,375,069                      | 24,366,099              |
| Less: Treasury stock at cost (13,529 shares as of June 30, 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   | (54,150,237 )                   | (54,383,928 )           |
| Accumulated other comprehensive loss   | (1,029,500 )                    | (987,500 )              |
| Total stockholders equity  | 11,731,019                      | 11,530,358              |
| Non controlling interest   | 2,910,678                       | 2,818,021               |
| <b>TOTAL EQUITY</b>  | <b>14,641,697</b>               | <b>14,348,379</b>       |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>                                       | <b>\$ 31,587,012</b>            | <b>\$31,595,830</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 |            | For the six months ended |            |
|--|----------------------------|------------|--------------------------|------------|
|  | June 30,                   | June 30,   | June 30,                 | June 30,   |
|  | 2012                       | 2011       | 2012                     | 2011       |
| <b>REVENUES</b>  |                            |            |                          |            |
| Real estate rentals and related revenue  | \$486,762                  | \$464,209  | \$961,950                | \$927,561  |
| Food & beverage sales  | 1,610,845                  | 1,607,675  | 3,356,837                | 3,295,691  |
| Marina revenues  | 418,921                    | 402,480    | 831,292                  | 815,379    |
| Spa revenues   | 119,240                    | 97,678     | 240,263                  | 209,797    |
| Total revenues   | 2,635,768                  | 2,572,042  | 5,390,342                | 5,248,428  |
| <b>EXPENSES</b>  |                            |            |                          |            |
| Operating expenses:  |                            |            |                          |            |
| Rental and other properties  | 184,671                    | 165,994    | 299,890                  | 347,997    |
| Food and beverage cost of sales  | 447,543                    | 447,991    | 966,997                  | 921,679    |
| Food and beverage labor and related costs  | 359,662                    | 340,129    | 725,716                  | 685,631    |
| Food and beverage other operating costs  | 556,507                    | 526,091    | 1,077,685                | 1,063,951  |
| Marina expenses  | 203,974                    | 224,365    | 417,262                  | 443,146    |
| Spa expenses   | 125,537                    | 107,078    | 250,067                  | 209,898    |
| Depreciation and amortization  | 222,277                    | 236,448    | 445,768                  | 617,742    |
| Adviser's base fee   | 255,000                    | 255,000    | 510,000                  | 510,000    |
| General and administrative   | 99,729                     | 78,916     | 190,508                  | 172,959    |
| Professional fees and expenses   | 79,896                     | 109,204    | 125,568                  | 196,330    |
| Directors' fees and expenses   | 18,750                     | 21,306     | 43,500                   | 45,306     |
| Total operating expenses   | 2,553,546                  | 2,512,522  | 5,052,961                | 5,214,639  |
| Interest expense   | 220,282                    | 218,461    | 440,783                  | 470,650    |
| Total expenses   | 2,773,828                  | 2,730,983  | 5,493,744                | 5,685,289  |
| Loss before other income (loss) and income taxes                                     | (138,060 )                 | (158,941 ) | (103,402 )               | (436,861 ) |
| Net realized and unrealized gains (losses) from investments in marketable securities | 4,954                      | (30,978 )  | 97,096                   | 31,980     |
| Net income from other investments  | 268,898                    | 35,979     | 316,446                  | 45,312     |
| Realized loss on interest rate swap agreement  | —                          | —          | —                        | (198,400 ) |
| Other than temporary impairment losses from other investments                        | —                          | (86,707 )  | (27,666 )                | (86,707 )  |
| Interest, dividend and other income  | 34,644                     | 30,134     | 68,871                   | 126,022    |
| Total other income (loss)  | 308,496                    | (51,572 )  | 454,747                  | (81,793 )  |
| Income (loss) before income taxes  | 170,436                    | (210,513 ) | 351,345                  | (518,654 ) |
| Benefit from for income taxes  | (13,000 )                  | (59,000 )  | (17,000 )                | (50,000 )  |
| Net income (loss)  | 183,436                    | (151,513 ) | 368,345                  | (468,654 ) |



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

|  |              |              |             |              |
|--|--------------|--------------|-------------|--------------|
| Less: Net (income) loss attributable to noncontrolling interest in consolidated entities | (18,366 )    | (30,529 )    | (134,654 )  | 80,481       |
| Net income (loss) attributable to the Company  | \$165,070    | \$(182,042 ) | \$233,691   | \$(388,173 ) |
| Other comprehensive income:  |              |              |             |              |
| Unrealized (loss) gain on interest rate swap agreement                                   | \$(111,000 ) | \$(89,500 )  | \$(42,000 ) | \$41,000     |
| Total other comprehensive income   | (111,000 )   | (89,500 )    | (42,000 )   | 41,000       |
| Comprehensive income (loss)  | \$54,070     | \$(271,542 ) | \$191,691   | \$(347,173 ) |
| Net income (loss) Per Common Share:  |              |              |             |              |
| Basic and diluted  | \$0.16       | \$(0.18 )    | \$0.23      | \$(0.38 )    |
| Weighted average common shares outstanding-Basic and diluted                             | 1,010,426    | 1,010,426    | 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 six months ended<br>June 30, |              |
|--|--------------------------------------|--------------|
|  | 2012                                 | 2011         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                      |              |
| Net income (loss) attributable to the Company  | \$233,691                            | \$(388,173 ) |
| Adjustments to reconcile net income (loss) attributable to the Company to net cash provided by operating activities: |                                      |              |
| Depreciation and amortization  | 445,768                              | 617,742      |
| Non-employee stock compensation expense  | 8,970                                | —            |
| Net income from other investments, excluding impairment losses   | (316,446 )                           | (45,312 )    |
| Other than temporary impairment losses from other investments  | 27,666                               | 86,707       |
| Net gain from investments in marketable securities   | (97,096 )                            | (31,980 )    |
| Realized loss on interest rate swap agreement  | —                                    | 198,400      |
| Net income (loss) attributable to non controlling interest   | 134,654                              | (80,481 )    |
| Deferred income tax benefit  | (17,000 )                            | (50,000 )    |
| Changes in assets and liabilities:   |                                      |              |
| Other assets and other receivables   | 137,364                              | 52,477       |
| Accounts payable, accrued expenses and other liabilities   | (158,411 )                           | (43,084 )    |
| Total adjustments  | 165,469                              | 704,469      |
| Net cash provided by operating activities  | 399,160                              | 316,296      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                      |              |
| Purchases and improvements of properties   | (126,796 )                           | (163,057 )   |
| Increase in notes and advances from related parties  | (4,860 )                             | (4,759 )     |
| Distributions from other investments   | 494,931                              | 119,222      |
| Contributions to other investments   | (168,548 )                           | (118,963 )   |
| Net proceeds from sales and redemptions of securities  | 700,216                              | 641,788      |
| Purchase of marketable securities  | (512,661 )                           | (440,081 )   |
| Net cash provided by investing activities  | 382,282                              | 34,150       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                      |              |
| Repayment of mortgages and notes payables  | (227,725 )                           | (2,599,997)  |
| Partial settlement of interest rate swap contract  | —                                    | (198,400 )   |
| Withdrawals from restricted cash   | —                                    | 2,379,947    |
| Distributions to minority partners   | —                                    | (101,181 )   |
| Net cash used in financing activities  | (227,725 )                           | (519,631 )   |
| Net increase (decrease) in cash and cash equivalents   | 553,717                              | (169,185 )   |
| Cash and cash equivalents at beginning of the period   | 2,366,363                            | 3,618,200    |
| Cash and cash equivalents at end of the period   | \$2,920,080                          | \$3,449,015  |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>   |                                      |              |
| Cash paid during the period for interest   | \$441,000                            | \$471,000    |

|  |     |     |
|--|-----|-----|
| 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 condensed consolidated 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 and six months ended June 30, 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**

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. 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 and six months ended June 30, 2012 and 2011 are presented below (Note: the Company's ownership percentage in these operations is 50%):

| Summarized Combined statements of income<br>Bayshore Landing, LLC and<br>Bayshore Rawbar, LLC | For the<br>three<br>months<br>ended<br>June 30,<br>2012 | For the<br>three<br>months<br>ended<br>June 30,<br>2011 | For the six<br>months<br>ended<br>June 30,<br>2012 | For the six<br>months<br>ended<br>June 30,<br>2011 |
|---|---|---|--|--|
| Revenues:   |   |   |  |  |
| Food and Beverage Sales   | \$1,611,000   | \$1,608,000   | \$3,357,000  | \$3,296,000  |
| Marina dockage and related  | 281,000   | 271,000   | 554,000  | 557,000  |
| Retail/mall rental and related  | 160,000   | 147,000   | 308,000  | 294,000  |
| Total Revenues  | 2,052,000   | 2,026,000   | 4,219,000  | 4,147,000  |
| Expenses:   |   |   |  |  |
| Cost of food and beverage sold  | 448,000   | 448,000   | 967,000  | 922,000  |
| Labor and related costs   | 310,000   | 292,000   | 627,000  | 590,000  |
| Entertainers  | 50,000  | 48,000  | 99,000   | 96,000   |
| Other food and beverage related costs   | 142,000   | 150,000   | 283,000  | 307,000  |
| Other operating costs   | 34,000  | 28,000  | 83,000   | 70,000   |
| Repairs and maintenance   | 113,000   | 108,000   | 190,000  | 214,000  |
| Insurance   | 129,000   | 130,000   | 262,000  | 254,000  |
| Management fees   | 80,000  | 76,000  | 137,000  | 160,000  |
| Utilities   | 61,000  | 70,000  | 114,000  | 124,000  |
| Ground rent   | 279,000   | 224,000   | 457,000  | 446,000  |
| Interest  | 163,000   | 166,000   | 326,000  | 367,000  |
| Depreciation and amortization   | 162,000   | 168,000   | 328,000  | 483,000  |
| Realized loss on interest rate swap   | —   | —   | —  | 198,000  |
| Total Expenses  | 1,971,000   | 1,908,000   | 3,873,000  | 4,231,000  |
| Net income (loss)   | \$81,000  | \$118,000   | \$346,000  | \$(84,000 )  |

**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.

Net realized and unrealized gain (loss) from investments in marketable securities for the three and six months ended June 30, 2012 and 2011 is summarized below:

| Description   | Three months ended |            | Six months ended |          |
|---|--------------------|------------|------------------|----------|
|   | June 30,<br>2012   | 2011       | June 30,<br>2012 | 2011     |
| Net realized gain (loss) from sales of securities               | \$18,000           | \$(2,000)  | \$68,000         | \$78,000 |
| Unrealized net (loss) gain in trading securities                | (13,000)           | (29,000)   | 29,000           | (46,000) |
| Total net gain (loss) from investments in marketable securities | \$5,000            | \$(31,000) | \$97,000         | \$32,000 |

For the three and six months ended June 30, 2012, net unrealized (losses) gains from trading securities were (\$13,000) and \$29,000, respectively. This is compared to net unrealized (losses) of (\$29,000) and (\$46,000) for the three and six months ended June 30, 2011, respectively.

For the three months ended June 30, 2012, net realized gain from sales of marketable securities of approximately \$18,000, and consisted of approximately \$39,000 of gross gains net of \$21,000 of gross losses. For the six months ended June 30, 2012 net realized gain from sales of marketable securities of approximately \$68,000, and consisted of approximately \$104,000 of gross gains net of \$36,000 of gross losses.

For the three months ended June 30, 2011, net realized loss from sales of marketable securities of approximately \$2,000, and consisted of approximately \$10,000 of gross losses net of \$8,000 of gross gains. For the six months ended June 30, 2011, net realized gain from sales of marketable securities of approximately \$78,000, and consisted of approximately \$103,000 of gross gains net of \$25,000 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 June 30, 2012, the Company's portfolio of other investments had an aggregate carrying value of approximately \$3.7 million. As of June 30, 2012, the Company has committed to fund approximately \$871,000 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 six months ended June 30, 2012, the Company contributed a total of \$168,000 in other investments. These contributions include one new investment in a medical technology related company for \$51,000 which was fully funded in January 2012 and follow on contributions totaling \$117,000 towards funding commitments in various other existing investments. Cash distributions received from other investments for the six months ended June 30, 2012 totaled approximately \$494,000. These distributions include approximately \$274,000 from real estate funds and \$200,000 from funds investing in diversified businesses.

Net income from other investments for the three and six months ended June 30, 2012 and 2011, is summarized below (excluding other than temporary impairment loss):

| Description  | Three months ended June 30, |          | Six months ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2012                        | 2011     | 2012                      | 2011     |
| Partnerships owning real estate and related  | \$255,000                   | \$25,000 | \$255,000                 | \$—      |
| Partnerships owning diversified businesses   | —                           | —        | 30,000                    | 25,000   |
| Income from investment in 49% owned affiliate (T.G.I.F. Texas, Inc.)                       | 14,000                      | 11,000   | 31,000                    | 20,000   |
| Total net income from other investments (excluding other than temporary impairment losses) | \$269,000                   | \$36,000 | \$316,000                 | \$45,000 |

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of June 30, 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 June 30, 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 | \$—                 | —               | \$372,000              | \$(67,000)      | \$372,000  | \$(67,000)      |
| Partnerships owning diversified businesses                       | —                   | —               | 298,000                | (58,000)        | 298,000    | (58,000)        |
| Partnerships owning real estate and related investments          | —                   | —               | 240,000                | (51,000)        | 240,000    | (51,000)        |
| Total  | \$—                 | —               | \$910,000              | \$(176,000)     | \$910,000  | \$(176,000)     |

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



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 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. In June 2011 the Company recognized an impairment loss of approximately \$84,000 from this same investment. There were no OTTI impairment valuation adjustments for the three months ended June 30, 2012 and 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 June 30, 2012 the fair value of this hedge was an unrealized loss of approximately \$2,059,000, as compared with an unrealized loss of \$1,975,000 as of December 31, 2011 which resulted in an unrealized loss of \$84,000 (or \$42,000, net of noncontrolling interest) for the six months ended June 30, 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   |             |                        |             |
|---|------------------------|-------------|------------------------|-------------|
|   | June 30, 2012          |             | December 31, 2011      |             |
|   | Balance Sheet Location | Fair Value  | Balance Sheet Location | Fair Value  |
| Derivatives designated as hedging instruments:                          |                        |             |                        |             |
| Interest rate swap contract   | Liabilities            | \$2,059,000 | Liabilities            | \$1,975,000 |
| Total derivatives designated as hedging instruments under ASC Topic 815 |                        | \$2,059,000 |                        | \$1,975,000 |

**The Effect of Derivative Instruments on the Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2012 and 2011:****The Effect of Derivative Instruments on the Statements of Comprehensive Income**

## Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)

|                              | For the<br>three<br>Months<br>ended<br>June 30,<br>2012 | For the<br>three<br>Months<br>ended<br>June 30,<br>2011 | For the<br>six<br>Months<br>ended<br>June 30,<br>2012 | For the<br>six<br>Months<br>ended<br>June 30,<br>2011 |
|------------------------------|---|---|---|---|
| Interest rate swap contracts | \$(111,000)   | \$(89,500)  | \$(42,000)  | \$41,000  |
| Total                        | \$(111,000)   | \$(89,500)  | \$(42,000)  | \$41,000  |

**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 observable market 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:

| <u>Description</u>           | Fair value measurement at reporting date using |  |   |   |
|------------------------------|--|--|---|---|
|                              | Total June 30, 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                | \$54,353                                       | —  | \$54,353                                      | —   |
| Money market mutual funds    | 1,561,821                                      | \$1,561,821  | —   | —   |
| Marketable securities:       |  |  |   |   |
| Corporate debt securities    | 942,914  | —  | 942,914                                       | —   |
| Marketable equity securities | 1,005,295                                      | 1,005,295  | —   | —   |
| Total assets                 | \$3,564,383                                    | \$2,567,116  | \$997,267                                     | \$—                                       |
| Liabilities:                 |  |  |   |   |
| Interest rate swap contract  | 2,059,000                                      | —  | 2,059,000                                     | —   |
| Total liabilities            | \$2,059,000                                    | —  | \$2,059,000                                   | —   |

| <u>Description</u>           | 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 | 1,134,224                                      | 1,134,224  | —   | —   |
| Total assets                 | \$3,610,367                                    | \$2,671,011  | \$939,356                                     | \$—                                       |
| Liabilities:                 |  |  |   |   |
| Interest rate swap contract  | 1,975,000                                      | —  | 1,975,000                                     | —   |

|                   |             |   |             |   |
|-------------------|-------------|---|-------------|---|
| Total liabilities | \$1,975,000 | — | \$1,975,000 | — |
|-------------------|-------------|---|-------------|---|

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

| <u>Description</u>                            | Fair value measurement at reporting date using |  |   |   | Total losses for the three and six months ended 6/30/2012 |
|---|--|--|---|---|---|
|   | Total June 30, 2012                            | 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                    | \$512,562                                      | \$ —   | \$512,562   | \$ —  | \$ —  |
| Diversified businesses                        | 1,388,989                                      | —  | 1,388,989   | —   | —   |
| Real estate and related                       | 1,455,777                                      | —  | 502,760   | 953,017                                       | (27,666 )   |
| Other   | 300,000  | —  | —   | 300,000                                       | —   |
|   | \$3,657,328                                    | \$ —   | \$2,404,311                                       | \$ 1,253,017                                  | \$ (27,666 )  |
| Goodwill (Bayshore)                           | 5,628,627                                      |  |   | 5,628,627                                     |   |
| Total assets                                  | \$9,285,955                                    | \$ —   | \$2,404,311                                       | \$ 6,881,644                                  | \$ (27,666 )  |

| <u>Description</u>                            | 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 Other Observable Inputs (Level 2) (a) | Significant Unobservable Inputs (Level 3) (b) |  |
| Assets:                                       |  |  |   |   |  |
| <u>Other investments by investment focus:</u> |  |  |   |   |  |
| Technology & Communication                    | \$477,646                                      | \$ —   | \$477,646   | \$ —  | \$ (2,437 )                            |
| Diversified businesses                        | 1,444,521                                      | —  | 1,444,521   | —   | —                                      |
| Real estate and related                       | 1,523,160                                      | —  | 542,479   | 980,681                                       | (84,270 )                              |
| Other   | 300,000  | —  | —   | 300,000                                       | —                                      |
|   | \$3,745,327                                    | \$ —   | \$2,464,646                                       | \$ 1,280,681                                  | \$ (86,707 )                           |
| Goodwill (Bayshore)                           | 5,628,627                                      |  |   | 5,628,627                                     | —                                      |
| Total assets                                  | \$9,373,954                                    | \$ —   | \$2,464,646                                       | \$ 6,909,308                                  | \$ (86,707 )                           |

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 June 30, 2012, it is probable that all of the investments in this class will be sold (a) 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 six months ended June 30, 2012, the Company made contributions totaling \$168,000 in this type of other investments. These contributions include one new investment a medical technology related company for \$51,000 which was fully funded in January 2012 and follow on contributions totaling \$117,000 towards funding commitments in various other existing investments. As of June 30, 2012, the amount of the Company's unfunded commitments related to the aforementioned investments is approximately \$871,000.

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 six months ended June 30, 2012:

|  | Level 3<br>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 June 30, 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.



|   | Three months ended |              | Six months ended |              |
|---|--------------------|--------------|------------------|--------------|
|   | June 30,<br>2012   | 2011         | June 30,<br>2012 | 2011         |
| Net Revenues:   |                    |              |                  |              |
| Real estate and marina rentals  | \$906,000          | \$867,000    | \$1,793,000      | \$1,743,000  |
| Food and beverage sales   | 1,611,000          | 1,607,000    | 3,357,000        | 3,295,000    |
| Spa revenues  | 119,000            | 98,000       | 240,000          | 210,000      |
| Total net revenues  | \$2,636,000        | \$2,572,000  | \$5,390,000      | \$5,248,000  |
| Income (loss) before income taxes:                                      |                    |              |                  |              |
| Real estate and marina rentals  | \$285,000          | \$239,000    | \$562,000        | \$495,000    |
| Food and beverage sales   | 38,000             | 56,000       | 124,000          | 114,000      |
| Other investments and related income                                    | (171,000 )         | (536,000 )   | (469,000 )       | (1,047,000 ) |
| Total net income (loss) attributable to the Company before income taxes | \$152,000          | \$(241,000 ) | \$217,000        | \$(438,000 ) |

## 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 June 30, 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 general and administrative expense.

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

**RESULTS OF OPERATIONS**

For the three and six months ended June 30, 2012, the Company reported net income of approximately \$165,000 (\$.16 per share) and \$234,000 (\$.23 per share), respectively. For the three and six months ended June 30, 2011, the Company reported a net loss of approximately \$182,000 (\$.18 per share) and \$388,000 (\$.38 per share), respectively.

Total revenues for the six months ended June 30, 2012 as compared with the same period in 2011, increased by approximately \$142,000 or 3%. Total revenues for the three months ended June 30, 2012 as compared with the same period in 2011, increased by approximately \$64,000 or 2%.

Total expenses for the six months ended June 30, 2012, as compared with the same periods in 2011, decreased by approximately \$191,000 or 3%. Total expenses for the three months ended June 30, 2012, as compared with the same periods in 2011, increased by approximately \$43,000 or 2%.

**REVENUES**

Rentals and related revenues for the three and six months ended June 30, 2012 as compared with the same period in 2011 increased by \$23,000 (or 5%) and \$34,000 (or 4%), respectively. This was 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 and six months ended June 30, 2012 and 2011 is presented below:

|           | For the three months<br>ended June 30, |      | For the six months<br>ended June 30, |      |
|-----------|--|------|--------------------------------------|------|
|           | 2012                                   | 2011 | 2012                                 | 2011 |
| Revenues: |  |      |                                      |      |

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

|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Food and Beverage Sales                                 | \$1,611,000 | \$1,608,000 | \$3,357,000 | \$3,296,000 |
| Expenses:   |             |             |             |             |
| Cost of food and beverage sold                          | 448,000     | 448,000     | 967,000     | 922,000     |
| Labor and related costs                                 | 310,000     | 292,000     | 627,000     | 590,000     |
| Entertainers  | 50,000      | 48,000      | 99,000      | 96,000      |
| Other food and beverage direct costs                    | 77,000      | 64,000      | 155,000     | 131,000     |
| Other operating costs                                   | 65,000      | 86,000      | 128,000     | 176,000     |
| Repairs and maintenance                                 | 72,000      | 35,000      | 119,000     | 80,000      |
| Insurance   | 79,000      | 81,000      | 159,000     | 157,000     |
| Management and accounting fees                          | 35,000      | 26,000      | 70,000      | 64,000      |
| Utilities   | 58,000      | 65,000      | 113,000     | 128,000     |
| Rent (as allocated)                                     | 170,000     | 170,000     | 334,000     | 328,000     |
| Total Expenses  | 1,364,000   | 1,315,000   | 2,771,000   | 2,672,000   |
| Income before depreciation and non controlling interest | \$247,000   | \$293,000   | \$586,000   | \$624,000   |

*Amounts above are presented as a percentage of sales below:*

|   | For the three<br>months<br>ended June<br>30,<br>2012 |       | For the six<br>months<br>ended June<br>30,<br>2011 |       |
|---|--|-------|--|-------|
| Revenues:   |  |       |  |       |
| Food and Beverage Sales                                 | 100 %  | 100 % | 100 %  | 100 % |
| Expenses:   |  |       |  |       |
| Cost of food and beverage sold                          | 28 %   | 28 %  | 29 %   | 28 %  |
| Labor and related costs                                 | 19 %   | 18 %  | 19 %   | 18 %  |
| Entertainers  | 3 %  | 3 %   | 3 %  | 3 %   |
| Other food and beverage direct costs                    | 5 %  | 4 %   | 5 %  | 4 %   |
| Other operating costs                                   | 4 %  | 5 %   | 4 %  | 5 %   |
| Repairs and maintenance                                 | 4 %  | 2 %   | 3 %  | 2 %   |
| Insurance   | 5 %  | 5 %   | 5 %  | 5 %   |
| Management fees   | 2 %  | 2 %   | 2 %  | 2 %   |
| Utilities   | 4 %  | 4 %   | 3 %  | 4 %   |
| Rent (as allocated)                                     | 11 %   | 11 %  | 10 %   | 10 %  |
| Total Expenses  | 85 %   | 82 %  | 83 %   | 81 %  |
| Income before depreciation and non-controlling interest | 15 %   | 18 %  | 17 %   | 19 %  |

For the six months ended June 30, 2012 as compared with the same period in 2011, restaurant sales increased by approximately \$61,000 (2%), with food sales increasing by \$57,000 (or 3%) and beverage sales increasing \$4,000 (or less than 1%).

For the three months ended June 30, 2012 as compared with the same period in 2011, restaurant sales increased by \$3,000 (less than 1%), with food sales increasing by \$14,000 (1%) and beverage sales decreasing \$11,000 (2%).

For the three and six months ended June 30, 2012 as compared with the same periods in 2011, total restaurant expenses increased by \$49,000 (4%) and \$99,000 (4%), respectively. This was primarily due to higher food costs and increased labor costs.

#### Marina operations:

Summarized and combined statements of income for marina operations for the three and six months ended June 30, 2012 and 2011: (The Company owns 50% of the Monty's marina and 95% of the Grove Isle marina)

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

|   | For the three months<br>ended June 30, |           | For the six months<br>ended June 30, |           |
|---|--|-----------|--------------------------------------|-----------|
|   | 2012                                   | 2011      | 2012                                 | 2011      |
| <b>Marina Revenues:</b>                                 |  |           |                                      |           |
| Monty's dockage fees and related income                 | \$293,000                              | \$290,000 | \$579,000                            | \$591,000 |
| Grove Isle marina slip owners dues and dockage fees     | 126,000                                | 113,000   | 252,000                              | 224,000   |
| Total marina revenues                                   | 419,000                                | 403,000   | 831,000                              | 815,000   |
| <b>Marina Expenses:</b>                                 |  |           |                                      |           |
| Labor and related costs                                 | 66,000                                 | 60,000    | 130,000                              | 131,000   |
| Insurance   | 21,000                                 | 21,000    | 47,000                               | 43,000    |
| Management fees   | 18,000                                 | 18,000    | 36,000                               | 36,000    |
| Utilities, net of tenant reimbursement                  | (11,000 )                              | (2,000 )  | (21,000 )                            | (18,000 ) |
| Rent and bay bottom lease expense                       | 56,000                                 | 54,000    | 110,000                              | 110,000   |
| Repairs and maintenance                                 | 24,000                                 | 54,000    | 57,000                               | 95,000    |
| Other   | 30,000                                 | 19,000    | 58,000                               | 46,000    |
| Total marina expenses                                   | 204,000                                | 224,000   | 417,000                              | 443,000   |
| Income before depreciation and non controlling interest | \$215,000                              | \$179,000 | \$414,000                            | \$372,000 |

Total marina revenues for the three and six months ended June 30, 2012 as compared to the same periods in 2011 increased by \$16,000 (or 4%) and \$16,000 (or 2%). This was primarily due to a rate increased in the Grove Isle Marina slip owner's dues.

Total marina expenses for the three and six months ended June 30, 2012 as compared to the same periods in 2011 decreased by \$20,000 (or 9%) and \$26,000 (or 6%). This was primarily due to decreased repairs and maintenance expense at the Monty's marina.

### Spa operations:

Below are summarized statements of income for Grove Spa operations for the three and six months ended June 30, 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 June 30, 2012 | Three months ended June 30, 2011 | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
|--|----------------------------------|----------------------------------|--------------------------------|--------------------------------|
| Revenues:  |                                  |                                  |                                |                                |
| Services provided  | \$97,000                         | \$78,000                         | \$201,000                      | \$172,000                      |
| Membership and other   | 22,000                           | 20,000                           | 39,000                         | 38,000                         |
| Total spa revenues   | 119,000                          | 98,000                           | 240,000                        | 210,000                        |
| Expenses:  |                                  |                                  |                                |                                |
| Cost of sales (commissions and other)                                    | 23,000                           | 16,000                           | 44,000                         | 34,000                         |
| Salaries, wages and related  | 39,000                           | 33,000                           | 77,000                         | 65,000                         |
| Other operating expenses   | 54,000                           | 47,000                           | 112,000                        | 91,000                         |
| Management and administrative fees                                       | 3,000                            | 5,000                            | 8,000                          | 11,000                         |
| Other non-operating expenses   | 6,000                            | 6,000                            | 9,000                          | 9,000                          |
| Total Expenses   | 125,000                          | 107,000                          | 250,000                        | 210,000                        |
| Income (loss) before interest, depreciation and non-controlling interest | \$(6,000)                        | \$(9,000)                        | \$(10,000)                     | \$-0-                          |

Spa revenues for the three and six months ended June 30, 2012 as compared with the same period in 2011 increased by \$21,000 (or 22%) and \$30,000 (or 14%), respectively. This came at the expense of higher promotional costs which was the main reason Spa expenses for the three and six months ended June 30, 2012 as compared with the same period in 2011 increased by \$18,000 (or 17%) and \$40,000 (or 19%).

Net realized and unrealized gain (loss) from investments in marketable securities:

Net realized and unrealized gain from investments in marketable securities for the three and six months ended June 30, 2012 was approximately \$5,000 and \$97,000, respectively. This is as compared to net realized and unrealized (loss) gain from investments in marketable securities for the three and six months ended June 30, 2011 of approximately (\$30,000) and \$32,000, 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 and six months ended June 30, 2012 was approximately \$269,000 and \$316,000, respectively. This is as compared to net income from other investments for the three and six months ended June 30, 2011 of \$36,000 and \$45,000, 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 and six months ended June 30, 2012.

Interest, dividend and other income:

Interest, dividend and other income for the six months ended June 30, 2012 was approximately \$69,000, as compared to income of approximately \$126,000 for the six months ended June 30, 2011. This decrease of \$57,000 (or 45%) was primarily due to a decrease of service related income from Courtland Houston of \$50,000.

**EXPENSES**

Expenses for rental and other properties for the three and six months ended June 30, 2012 were \$185,000 and \$300,000, respectively. This is as compared to the same expenses of approximately \$166,000 and \$348,000 for the three and six months ended June 30, 2011. The increase in the three month comparable periods of \$19,000 (or 11%) was due to increased rent expense from adjustments to Monty's rent due to the City of Miami which the Company is contesting. The decrease in the six month comparable periods of \$48,000 (or 14%) was primarily due to decreased repairs and maintenance expenses.

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 and six months ended June 30, 2012 compared to the same periods in 2011 decreased by \$14,000 (or 6%) and \$172,000 (or 28%), respectively. The decrease in the six month comparable periods was primarily due to the non-recurring amortization of loan costs associated with the Monty's loan modification completed in March 2011.

General and administrative expense for the three and six months ended June 30, 2012 compared to the same periods in 2011 increased by approximately \$21,000 (or 26%) and \$17,000 (or 10%), respectively. This was primarily due to the abandonment and write off of land held for development with a cost basis of \$28,000.



Professional fees and expenses for the three and six months ended June 30, 2012 compared to the same periods in 2011 decreased by \$29,000 (or 27%) and \$70,000 (or 36%), respectively. These changes were primarily due to lower legal costs relating to ongoing Grove Isle litigation.

**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 \$3.4 million in 2012 and contributions committed to other investments of approximately \$871,000 due upon demand. The funds necessary to meet these obligations are expected to come from the proceeds from the sales of properties or investments, bank loans, refinancing of existing bank loans, distributions from investments and available cash.

In June 2012 the Company renewed and modified the existing bank mortgage note payable on the Grove Isle property with the same lender. The renewal and modification extends the maturity date to June 30, 2016 and calls for the same monthly principal payments of \$10,000 plus interest calculated at the one-month LIBOR rate plus 3% with an interest rate floor 4.5%.

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 six months ended June 30, 2012, net cash provided by operating activities was approximately \$399,000. This was primarily from the cash flow provided by the Company's rental operations.

For the six months ended June 30, 2012, net cash provided by investing activities was approximately \$382,000. This consisted primarily of approximately \$700,000 in net proceeds from sales of marketable securities and distributions from other investment of \$495,000. These sources of funds were partially offset by purchases of marketable securities of \$513,000, contributions to other investments of \$169,000 and additions to fixed assets of \$127,000.

For the six months ended June 30, 2012, net cash used in financing activities was approximately \$228,000 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 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.

Dated: August 14, 2012 /s/ Larry Rothstein  
President, Treasurer and Secretary  
Principal Financial Officer

Dated: August 14, 2012 /s/Carlos Camarotti  
Vice President- Finance and Controller  
Principal Accounting Officer