

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.)

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. 1,048,926 Common shares were outstanding as of August 14, 2014.

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

| | PAGE NUMBER |
|--|------------------------|
| PART I. Financial Information | |
| Item 1. Financial Statements | |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2014 (Unaudited) and December 31, 2013</u> | 1 |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013 (Unaudited)</u> | 2 |
| <u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013 (Unaudited)</u> | 3 |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | 4 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 11 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risks</u> | 12 |
| <u>Item 4. Controls and Procedures</u> | 12 |
| PART II. Other Information | |
| <u>Item 1. Legal Proceedings</u> | 12 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 12 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 12 |
| <u>Item 4. Mine Safety Disclosures</u> | 12 |
| <u>Item 5. Other Information</u> | 12 |
| <u>Item 6. Exhibits</u> | 12 |
| <u>Signatures</u> | 13 |

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 | | For the six months ended | |
|--|----------------------------|------------|--------------------------|---------------|
| | June 30, | | 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 |

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

| | | | | |
|---|------------|------------|------------|---------------|
| 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 |

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

| | | |
|---|--------------|--------------|
| Cash paid during the period for income taxes | \$ 1,593,000 | \$ — |
| Non-cash Investing Activities: | | |
| Note receivable received for sales of discontinued operations | \$ — | \$ 1,000,000 |

See notes to the condensed consolidated financial statements

3

HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements prepared in accordance with instructions for Form 10-Q, include all adjustments (consisting only of normal recurring accruals) which are necessary for a fair presentation of the results for the periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the Company's Annual Report for the year ended December 31, 2013. The balance sheet as of December 31, 2013 was derived from audited consolidated financial statements as of that date. The results of operations for the three 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 | | Six months ended | |
|---|--------------------|------------|------------------|----------|
| | June 30, 2014 | 2013 | June 30, 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 | | Six months ended June | |
|--|-------------------------|-----------|-----------------------|------------|
| | 30, 2014 | 2013 | 30, 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 |

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

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) |

5

| <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 | — | — |

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

| | | | | |
|---------------------------|---------------|---------------|--------------|------|
| 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 (losses) for three and six months ended 6/30/2014 |
|---|--|---|--|---|
| | Total June 30, 2014 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) (a) | |
| 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 losses for |
|-------|--|---|---------------------------------------|---------------------|
| | Quoted Prices in Active | Significant Other Observable Inputs | Significant Unobservable Inputs | |
| | | | | |

| <u>Description</u> | December 31, 2013 | Markets for Observable Identifiable Assets (Level 1) (Level 2) (a) | | Unobservable Inputs (Level 3) (b) | year ended 12/31/2013 |
|---|-------------------|--|--------------|-----------------------------------|-----------------------|
| | | | | | |
| <u>Assets:</u> | | | | | |
| <u>Other investments by investment focus:</u> | | | | | |
| Technology & Communication | \$ 472,000 | \$ — | \$ 472,000 | \$ — | \$ 50,000 |
| Diversified businesses | 1,098,000 | — | 1,098,000 | — | — |
| Real estate and related | 1,409,000 | — | 462,000 | 947,000 | — |
| Other | 325,000 | — | — | 325,000 | — |
| | \$ 3,304,000 | \$ — | \$ 2,032,000 | \$ 1,272,000 | \$ 50,000 |

Other investments measured at fair value on a non-recurring basis include investments in certain entities that calculate net asset value per share (or its equivalent such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed, "NAV"). This class primarily consists of private equity funds that have varying investment focus. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held it is estimated that the underlying assets of the fund would be liquidated over 5 to 10 years. As of June 30, 2014, 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, 2014, the Company received distributions of approximately \$211,000 from this type of investment primarily from investments in diversified businesses and real estate. During the six months ended June 30, 2014, the Company made contributions totaling \$447,000 in this type of investment. As of June 30, 2014, the amount of the Company's unfunded commitments related to the aforementioned investments is approximately \$1.8 million.

Other investments above which are measured on a nonrecurring basis using Level 3 unobservable inputs consist of investments primarily in commercial real estate in Florida through private partnerships, two investments in the stock of private banks in Florida and Texas, and others. 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 \$1,045,000 include one investment in a commercial building located near the Company's offices purchased in 2005 with a carrying value as of June 30, 2014 of \$724,000. These investments (b) are measured using primarily inputs provided by the 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 fair values of these investments have been estimated using the cost method less distributions received and other than temporary impairments. These investments are valued using inputs provided by the management of the investee.

The activity in investments classified within level 3 of the fair value hierarchy for the six months ended June 30, 2014 primarily consisted of contributions to new investments.

6. INCOME TAXES

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

As of June 30, 2014 the Company (excluding CII) had no net operating loss carryover, and it has estimated a tax loss of approximately \$292,000 for the six months ended June 30, 2014.

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

As of June 30, 2014, CII has an estimated net operating loss carryover of approximately \$297,000. CII has no current provision or benefit for state and federal income taxes for the six months ended June 30, 2014

The Company accounts for income taxes in accordance with ASC Topic 740, "Accounting for Income Taxes". ASC Topic 740 requires a Company to use the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred taxes only pertain to CII. As a result, primarily of timing differences associated with the carrying value of other investments and the future benefit of a net operating loss, the Company has recorded a net deferred tax liability as of June 30, 2014 and December 31, 2013 of \$308,000 and \$217,000, respectively. This increase of \$91,000 is a deferred tax expense and was primarily the result of a net increase in investments with book basis in excess of tax of approximately \$245,000.

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

| | Six months ended June 30, 2014 | 2013 |
|-----------|--------------------------------|--------------|
| Current: | | |
| Federal | \$— | \$144,000 |
| State | — | 75,000 |
| | — | 219,000 |
| Deferred: | | |
| Federal | \$82,000 | \$764,000 |
| State | 9,000 | 85,000 |
| | 91,000 | 849,000 |
| Total | \$ 91,000 | \$ 1,068,000 |

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

8

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our consolidated financial statements. Our evaluation was performed for the tax years ended since December 31, 2010 which are the tax years which remain subject to examination by major tax jurisdictions as of June 30, 2014.

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

7. DISCONTINUED OPERATIONS AND REAL ESTATE INTERESTS HELD FOR SALE

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

In June 2013 the Company received approximately \$327,000 of past due rental payments from the Grove Isle tenant. This amount is included in the realized gain on the sale of Grove Isle. Also in June 2013 the Purchaser exercised its option to purchase our 50% interest in the spa for \$100,000 as provided in the Agreement. There was no gain or loss realized on this transaction.

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

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

| | For the three months ended June 30, 2013 | For the six months ended June 30, 2013 |
|---|---|---|
| <u>Revenues:</u> | | |
| Rental and related revenue | \$ — | \$ 171,000 |
| Food & beverage sales | — | 1,950,000 |
| Marina revenue | — | 382,000 |
| Other | — | — |
| Total revenue | \$ — | \$ 2,503,000 |
| <u>Expenses:</u> | | |
| Rental operating expenses | — | 97,000 |
| Food & beverage operation expenses | — | 1,430,000 |
| Marina expenses | — | 178,000 |
| Professional fees | — | 53,000 |
| Interest expense | — | 190,000 |
| Depreciation, amortization and other expenses | — | 199,000 |
| Total expenses | \$ — | \$ 2,147,000 |
| Less: noncontrolling interest sold | — | (212,000) |
| Gain on sale of discontinued operations | 313,000 | 18,839,000 |
| Benefit from (provision for) income tax expense on gain on sale of discontinued ops | 296,000 | (1,068,000) |
| Income from discontinued operations | \$ 609,000 | \$ 17,915,000 |

10

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

RESULTS OF OPERATIONS

The Company reported net income of approximately \$606,000 (\$.58 per share) and approximately \$427,000 (\$.41 per share) for the three and six months ended June 30, 2014, respectively. For the three and six months ended June 30, 2013, we reported net income of \$247,000 (\$.26 per basic share and \$.21 per diluted share) and \$17,244,000 (\$17.73 per basic shares and \$16.60 per diluted shares), respectively.

REVENUES

Rentals and related revenues for the three and six months ended June 30, 2014 and 2013 primarily consists of rent from the Advisor to CII for its corporate office.

Net realized and unrealized gain from investments in marketable securities:

Net realized gain from investments in marketable securities for the three and six months ended June 30, 2014 was approximately \$34,000 and \$46,000, respectively. Net realized gain from investments in marketable securities for the three and six months ended June 30, 2013 was approximately \$11,000 and \$8,000, respectively. Net unrealized (loss) gain from investments in marketable securities for the three and six months ended June 30, 2014 was approximately \$477,000 and \$592,000, respectively. Net unrealized (loss) gain from investments in marketable securities for the three and six months ended June 30, 2013 was approximately (\$81,000) and \$25,000, respectively. For further details refer to Note 3 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, 2014 was approximately \$72,000 and \$84,000, respectively. Net income from other investments for the three and six months ended June 30, 2013 was approximately \$54,000 and \$143,000, respectively. For further details refer to Note 4 to Condensed Consolidated Financial Statements (unaudited).

Interest, dividend and other income:

Interest, dividend and other income for the three and six months ended June 30, 2014 was approximately \$418,000 and \$488,000, respectively. Interest, dividend and other income for the three and six months ended June 30, 2013 was approximately \$55,000 and \$97,000, respectively. The increase in the three and six months ended June 30, 2014 as compared with the same periods in 2013 was approximately \$363,000 (662%) and \$391,000 (405%), respectively. These increases are primarily the result of a gain from the dissolution of South Bayshore Associates (SBA). In 2014 SBA was dissolved and the note payable to the Company of \$905,000 was distributed 75% to the Company and 25% to Transco. Transco repaid its portion of the note (approximately \$226,000) in June 2014 and recognized this amount as other income. Also, interest and dividends from marketable securities have increased by \$77,000 and \$90,000 for the three and six months ended June 30, 2014, respectively, as compared with the same periods in 2013.

EXPENSES

Adviser's base fee for the three and six months ended June 30, 2014 as compared with the same periods in 2013 decreased by \$90,000 (35%) and \$180,000 (35%), respectively. As previously reported, on September 19, 2013, the shareholders approved the renewal and amendment of the Advisory Agreement between the Company and the Adviser for a term commencing January 1, 2014 and expiring December 31, 2014. The sole amendment to the Advisory Agreement was the change in the remuneration of the Adviser to decrease the Adviser's current regular monthly compensation from \$85,000 to \$55,000, or \$1,020,000 to \$660,000 annually.

Professional fees and expenses for the three and six months ended June 30, 2014 as compared with the same periods in 2013 increased by approximately \$42,000 (231%) and \$54,000 (63%), respectively, primarily due to increased legal fees.

General and administrative expenses for the three and six months ended June 30, 2014 as compared with the same periods in 2013 decreased by approximately \$15,000 (25%) and \$54,000 (35%), respectively, primarily due to decreased costs associated with Courtland Houston, Inc. a subsidiary that was dissolved on December 31, 2013.

EFFECT OF INFLATION

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

LIQUIDITY, CAPITAL EXPENDITURE REQUIREMENTS AND CAPITAL RESOURCES

The Company's material commitments primarily consist of a note payable to the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF") of approximately \$2.4 million due on demand and contributions committed to other investments of approximately \$1.8 million due upon demand. The funds necessary to meet these obligations are expected to come from the proceeds from the sales of investments, distributions from investments and available cash.

MATERIAL COMPONENTS OF CASH FLOWS

For the six months ended June 30, 2014, net cash used in operating activities was approximately \$4.6 million. This primarily consisted of federal and state tax payments of approximately \$1.6 million and \$2.1 million in payments to the Adviser for 2013 incentive fees.

For the six months ended June 30, 2014, net cash used in investing activities was approximately \$7.3 million and consisted primarily of approximately \$8 million in purchases of marketable securities, \$847,000 of contributions to other investments, less proceeds from sales of marketable securities of \$1.3 million.

For the six months ended June 30, 2014, net cash used in financing activities was \$103,000, consisting of a principal payment on the loan due to affiliate.

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, 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 has 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 him by others within those entities and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Control Over Financial Reporting.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 3. Defaults Upon Senior Securities: None.

Item 4. Mine Safety Disclosures: Not applicable

Item 5. Other Information: None

Item 6. Exhibits:

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

12

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HMG/COURTLAND PROPERTIES, INC.

/s/ Maurice Wiener

Dated: August 14, 2014 Maurice Wiener
CEO and President

/s/ Carlos Camarotti

Dated: August 14, 2014 Carlos Camarotti
Vice President- Finance and Controller
Principal Accounting Officer