

HMG COURTLAND PROPERTIES INC  
Form 10-Q  
November 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 September 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 59-1914299  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

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

305-854-6803  
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the exchange Act). Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 1,048,926 Common shares were outstanding as of November 14, 2014.

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

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Cautionary Statement. This Form 10-Q contains certain statements relating to future results of the Company that are considered “forward-looking statements” within the meaning of the Private Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to, changes in political and economic conditions; interest rate fluctuation; competitive pricing pressures within the Company’s market; equity and fixed income market fluctuation; technological change; changes in law; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations as well as other risks and uncertainties detailed elsewhere in this Form 10-Q or from time-to-time in the filings of the Company with the

Securities and Exchange Commission. Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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

	September 30, 2014 (UNAUDITED)	December 31, 2013
<b>ASSETS</b>		
Investment properties, net of accumulated depreciation:		
Office building and other commercial property	\$ 797,788	\$ 809,905
Total investment properties, net	797,788	809,905
Cash and cash equivalents	6,569,830	17,655,568
Investments in marketable securities	11,261,510	4,722,597
Other investments	4,007,659	3,304,336
Investment in affiliate	2,429,978	2,445,891
Loans, notes and other receivables	1,384,959	1,408,150
Investment in real estate partnership	180,351	—
Other assets	35,463	32,773
<b>TOTAL ASSETS</b>	<b>\$ 26,667,538</b>	<b>\$ 30,379,220</b>
<b>LIABILITIES</b>		
Note payable to affiliate	\$ 2,400,000	\$ 2,502,891
Accounts payable, accrued expenses and other liabilities	232,549	202,552
Due to Adviser	—	2,095,701
Income tax payable	—	1,592,716
Deferred income taxes	217,000	217,000
<b>TOTAL LIABILITIES</b>	<b>2,849,549</b>	<b>6,610,860</b>
<b>STOCKHOLDERS' EQUITY</b>		
Excess common stock, \$1 par value; 100,000 shares authorized: no shares issued	—	—
Common stock, \$1 par value; 1,200,000 shares authorized and 1,048,926 issued and outstanding as of September 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	(55,449,076 )	(55,547,873 )
Total stockholders' equity	23,585,353	23,486,556
Non-controlling interest	232,636	281,804
<b>TOTAL EQUITY</b>	<b>23,817,989</b>	<b>23,768,360</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 26,667,538</b>	<b>\$ 30,379,220</b>

*See notes to the condensed consolidated financial statements*

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

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>				
Real estate rentals and related revenue	\$24,310	\$16,744	\$61,155	\$ 48,544
<b>EXPENSES</b>				
Operating expenses:				
Rental and other properties	24,397	15,637	65,964	51,308
Adviser's base fee	165,000	255,000	495,000	765,000
General and administrative	63,571	89,027	165,257	245,155
Professional fees and expenses	84,736	49,378	225,763	136,153
Directors' fees and expenses	28,279	35,522	77,029	82,050
Depreciation and amortization	6,354	4,039	15,395	12,117
Interest expense	23,482	22,693	72,206	67,925
Total expenses	395,819	471,296	1,116,614	1,359,708
Loss before other income and income taxes	(371,509 )	(454,552 )	(1,055,459 )	(1,311,164 )
Net realized and unrealized (losses) gains from investments in marketable securities	(252,315 )	20,960	385,579	53,763
Net income from other investments	30,419	86,521	114,515	229,669
Other than temporary impairment losses from other investments	(11,092 )	—	(11,092 )	—
Interest, dividend and other income	183,656	67,030	671,841	163,750
Total other (loss) income	(49,332 )	174,511	1,160,843	447,182
(Loss) income before income taxes	(420,841 )	(280,041 )	105,384	(863,982 )
Benefit from income taxes	(91,000 )	0	0	0
(Loss) income from continuing operations	(329,841 )	(280,041 )	105,384	(863,982 )
(Loss) income from discontinued operations	0	(1,659,737)	0	16,254,808
Net (loss) income	(329,841 )	(1,939,778)	105,384	15,390,826
Noncontrolling interests in continuing operations	1,997	20,714	(6,587 )	(7,293 )
Noncontrolling interests in discontinued operations	0	(28,558 )	0	(87,152 )
Net income (loss) attributable to noncontrolling interest	1,997	(7,844 )	(6,587 )	(94,445 )
Net (loss) income attributable to the Company	\$(327,844 )	\$(1,947,622)	\$98,797	\$ 15,296,381
Amounts attributable to the Company				
Continuing operations	(327,844 )	(259,327 )	98,797	(871,275 )
Discontinued operations	0	(1,688,295)	0	16,167,656
Net (loss) income attributable to the Company	\$(327,844 )	\$(1,947,622)	\$98,797	\$ 15,296,381
Weighted average common shares outstanding-basic	1,048,926	1,031,350	1,048,926	1,004,599
Weighted average common shares outstanding-diluted	1,048,926	1,031,350	1,049,954	1,025,939

Net (loss) income per common:				
Continuing operations-basic	\$(0.31	) \$(0.25	) \$0.09	\$ (0.87 )
Continuing operations-diluted	\$(0.31	) \$(0.25	) \$0.09	\$ (0.85 )
Discontinued operations-basic	\$—	\$(1.64	) \$—	\$ 16.09
Discontinued operations-diluted	\$—	\$(1.64	) \$—	\$ 15.76
Basic net income per share	\$(0.31	) \$(1.89	) \$0.09	\$ 15.23
Diluted net income per share	\$(0.31	) \$(1.89	) \$0.09	\$ 14.91
<u>Other comprehensive income:</u>				
Unrealized gain on interest rate swap agreement	\$—	\$—	\$—	\$ 982,500
Total other comprehensive income	0	0	0	982,500
Comprehensive (loss) income	\$(327,844	) \$(1,947,622)	\$98,797	\$ 16,278,881

*See notes to the condensed consolidated financial statements*



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

	For the nine months ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income attributable to the Company	\$98,797	\$15,296,381
Adjustments to reconcile net income attributable to the Company to net cash used in operating activities:		
Depreciation and amortization	15,395	12,117
Non-employee stock compensation expense	—	20,498
Net income from other investments, excluding impairment losses	(114,515 )	(229,669 )
Other than temporary impairment loss from other investments	11,092	
Gain from dissolution of joint venture with related party	(226,157 )	—
Gain from the sale of discontinued operations	—	(16,167,656)
Net gain from investments in marketable securities	(385,579 )	(53,763 )
Net income attributable to non controlling interest	6,587	7,293
Changes in assets and liabilities:		
Other assets and other receivables	20,501	(37,309 )
Accounts payable, accrued expenses and other liabilities	(3,721,483 )	(12,643 )
Total adjustments	(4,394,159 )	(16,461,132)
Net cash used in operating activities	(4,295,362 )	(1,164,751 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of discontinued operations	—	23,030,262
Collections in notes and advances from related parties	226,157	—
Distributions from other investments	512,096	447,124
Contributions to other investments	(1,135,083 )	(70,750 )
Net proceeds from sales and redemptions of securities	6,175,986	864,151
Purchase of marketable securities	(12,329,319)	(3,121,298 )
Additions in loans and notes receivable	(138,000 )	—
Collections in loans and notes receivable	138,000	—
Investment in real estate partnership	(180,351 )	—
Purchases and improvements of properties	(274,691 )	—
Proceeds from sales of properties	278,720	—
Proceeds from partial sale of affiliate and distributions from affiliate	39,000	196,016
Net cash (used in) provided by investing activities	(6,687,485 )	21,345,505
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Stock options exercised	—	122,314
Repayment note to affiliate	(102,891 )	(311,488 )
Net cash (used in) provided by financing activities	(102,891 )	(189,174 )
Net (decrease) increase in cash and cash equivalents	(11,085,738)	19,991,580
Cash and cash equivalents at beginning of the period	17,655,568	1,510,773
Cash and cash equivalents at end of the period	\$6,569,830	\$21,502,353

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$72,000	\$68,000
Cash paid during the period for income taxes	\$1,593,000	\$—
Non-cash Investing Activities:		
Note receivable received for sales of discontinued operations	\$—	\$1,000,000

*See notes to the condensed consolidated financial statements*

**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 nine months ended September 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 September 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 September 30, 2014.

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

Description	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net realized gain (loss) from sales of securities	\$ 290,000	(\$15,000)	\$336,000	(\$7,000 )
Unrealized net (loss) gain in trading securities	(542,000)	36,000	50,000	61,000
Total net (loss) gain from investments in marketable securities	(\$252,000 )	\$ 21,000	\$386,000	\$ 54,000

For the three months ended September 30, 2014, net realized gain from sales of marketable securities was approximately \$290,000, and consisted of approximately \$312,000 of gross gains and \$22,000 of gross losses. For the nine months ended September 30, 2014, net realized gain from sales of marketable securities was approximately \$336,000, and consisted of approximately \$393,000 of gross gains net of \$57,000 of gross losses.

For the three months ended September 30, 2013, net realized loss from sales of marketable securities of approximately \$15,000 consisting of approximately \$29,000 in gross losses net of \$14,000 of gross gains. For the nine months ended September 30, 2013, net realized loss from sales of marketable securities of was approximately \$7,000, and consisted of approximately \$52,000 of gross losses net of \$45,000 of gross gains.

For the three and nine months ended September 30, 2014, net unrealized (loss) gain from trading securities was approximately (\$542,000) and \$50,000, respectively. This is compared to net unrealized gain of \$36,000 and \$61,000 for the three and nine months ended September 30, 2013, respectively.

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. INVESTMENT IN REAL ESTATE PARTNERSHIP**

In September 2014, the Company, through a newly-formed wholly owned subsidiary (HMG Orlando LLC, a Delaware limited liability company), acquired a one-third equity membership interest in JY-TV Associates, LLC a Florida limited liability company ("JY-TV") and entered into the Amended and Restated Operating Agreement of JY-TV (the "Agreement"). JY-TV was formed in 2014 for the sole purpose of purchasing and constructing up to two hundred fifty (250) unit rental apartments on approximately 9.5 acres in Orlando, Florida. The other two initial members of JY-TV are not related to the Company. As provided in the Agreement, the three members have each

committed to fund approximately \$1.8 million in equity in this project. As of September 30, 2014 the Company has funded \$150,000 towards this commitment. JY-TV is in the process of obtaining construction financing of approximately \$27 million and construction is expected to commence in 2015. This investment will be accounted for under the equity method.

## **5. OTHER INVESTMENTS**

As of September 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 \$1.9 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 nine months ended September 30, 2014, cash distributions received from other investments totaled approximately \$512,000 from several investments in privately owned partnerships owning diversified operating companies. During the nine months ended September 30, 2014, the Company made contributions to other investments of approximately \$1.1 million. This consisted primarily of two new investments of \$300,000 each, one of \$200,000, one of \$100,000 and various follow on contributions to existing investments totaling approximately \$200,000.

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

Description	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Partnerships owning diversified businesses	\$14,000	\$63,000	\$91,000	\$104,000
Partnerships owning real estate and related	—	—	1,000	40,000
Income from investment in 49% owned affiliate (T.G.I.F. Texas, Inc.)	16,000	24,000	23,000	86,000
Total net income from other investments (excluding other than temporary impairment losses)	\$30,000	\$87,000	\$115,000	230,000

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

Investment Description	As of September 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	—	—	\$290,000	\$(50,000)	\$290,000	\$(50,000)
Other investments	\$231,000	\$(19,000)	—	—	231,000	(19,000)
Total	\$231,000	\$(19,000)	\$290,000	\$(50,000)	\$521,000	\$(69,000)

Investment Description	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 ("OTTI") the Company recorded approximately \$11,000 in OTTI impairment valuation adjustments for the three and nine months ended September 30, 2014. There were not OTTI adjustments for the three and nine months ended September 30, 2013.

## **6. 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 nine months ended September 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	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	September 30, 2014			
Assets:				
Cash equivalents:				
U.S. Treasury bills	\$ 4,200,000	\$ 4,200,000	\$ —	—
Money market mutual funds	1,529,000	1,529,000	—	—
Time deposits	55,000	—	55,000	—
Marketable securities:				
Marketable equity securities	10,351,000	10,351,000	—	—
Corporate debt securities	911,000	—	911,000	—
Total assets	\$ 17,046,000	\$ 16,080,000	\$ 966,000	\$ —

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

Total	Fair value measurement at reporting date using			Total losses for three and nine
	Quoted Prices in Active Observable Inputs	Significant Other	Significant	

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	September 30, 2014	Markets for Identical Assets (Level 1)	(Level 2) (a)	Unobservable Inputs (Level 3) (b)	months ended 9/30/2014
<b>Assets:</b>					
<b><u>Other investments by investment focus:</u></b>					
Technology & Communication	\$ 414,000	\$ —	\$ 414,000	\$ —	\$ (11,000 )
Diversified businesses	1,222,000	—	1,222,000	—	—
Real estate and related	1,746,000	—	702,000	1,044,000	—
Other	626,000	—	—	626,000	—
	\$ 4,008,000	\$ —	\$ 2,338,000	\$ 1,670,000	\$ (11,000 )
Fair value measurement at reporting date using					Total
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3) (b)	losses for year ended
	December 31, 2013				12/31/2013
<b>Assets:</b>					
<b><u>Other investments by investment focus:</u></b>					
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 September 30, 2014, it is probable that all of the investments in this class will (a) be sold at an amount different from the NAV of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this class have been estimated using recent observable information such as audited financial statements and/or statements of partners' capital obtained directly from investees on a quarterly or other regular basis. During the nine months ended September 30, 2014, the Company received distributions of approximately \$509,000 from this type of investment primarily from investments in diversified businesses and real estate. During the nine months ended September 30, 2014, the Company made contributions totaling \$735,000 in this type of investment. As of September 30, 2014, the amount of the Company's unfunded commitments related to the aforementioned investments is approximately \$1.9 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 \$1,044,000 include one investment in a commercial building located near the Company's offices purchased in 2005 with a carrying value as of September 30, 2014 of \$724,000. These (b) investments 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 nine months ended September 30, 2014 is as follows:

	Level 3 Investments:
Balance at January 1, 2014	\$ 1,272,000
Investments in Level 3 investments	400,000
Distributions from Level 3 investments	(2,000 )
Transfers from Level 2	—
Balance at September 30, 2014	\$ 1,670,000

## 7. 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 September 30, 2014 the Company (excluding CII) had net operating loss carryover (NOL) of approximately \$30,000.



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 September 30, 2014, CII has an estimated NOL of approximately \$1.3 million. CII has established a valuation reserve of \$1 million on this NOL due to CII historically having tax losses.

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, the Company has recorded a net deferred tax liability of \$217,000 as of September 30, 2014 and December 31, 2013.

The (benefit from) provision for income taxes in the consolidated statements of comprehensive income consists of the following:

Nine months ended September 30,	2014	2013
Current:		
Federal	\$ —	\$ 1,581,000
State	—	275,000
	—	\$ 1,856,000
Deferred:		
Federal	(\$19,000 )	\$ 754,000
State	(1,000 )	84,000
	(20,000)	838,000
Less: release of valuation allowance	20,000	
Total	—	\$ 2,694,000

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

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

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

As previously reported, on February 25, 2013 the Company completed the sale of its interests in Grove Isle Associates LLLP, Grove Isle Yacht Club Associates, Grove Isle Investments Inc. and CII Yacht Club, Inc., which represent interests in the Grove Isle hotel, club, tennis courts and marina (collectively, the “Grove Isle Property”) to Grove Isle Yacht & Tennis, LLC, a Florida limited liability company and an unrelated entity (“the Purchaser”), pursuant to a purchase agreement entered into on the same day (the “Agreement”). The purchase price was \$24.4 million, consisting of \$23.4 million in cash and a \$1 million promissory note due from the Purchaser. Approximately \$2.7 million of the proceeds were used to pay off the existing mortgage on the Grove Isle Property. The Company realized 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 September 30, 2013	For the nine months ended September 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	(34,000	)	18,805,000
Benefit from (provision for) income tax expense on gain on sale of discontinued ops	(1,626,000	)	(2,694,000
Income from discontinued operations	\$ (1,660,000	)	\$ 16,255,000

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

**RESULTS OF OPERATIONS**

The Company reported a net loss of approximately \$328,000 (\$.31 per share) for the three months ended September 30, 2014 and net income of approximately \$99,000 (\$.09 per share) for the nine months ended September 30, 2014. For the three and nine months ended September 30, 2013, we reported net (loss) income of (\$1,948,000) (\$1.89 per share) and \$15,296,000 (\$15.23 per basic shares and \$14.91 per diluted shares), respectively.

**REVENUES**

Rentals and related revenues for the three and nine months ended September 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 nine months ended September 30, 2014 was approximately \$290,000 and \$336,000, respectively. Net realized loss from investments in marketable securities for the three and nine months ended September 30, 2013 was approximately \$15,000 and \$7,000, respectively. Net unrealized (loss) gain from investments in marketable securities for the three and nine months ended September 30, 2014 was approximately (\$542,000) and \$50,000, respectively. Net unrealized gain from investments in marketable securities for the three and nine months ended September 30, 2013 was approximately \$36,000 and \$61,000, 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 nine months ended September 30, 2014 was approximately \$30,000 and \$115,000, respectively. Net income from other investments for the three and nine months ended September 30, 2013 was approximately \$87,000 and \$230,000, respectively. For further details refer to Note 5 to Condensed Consolidated Financial Statements (unaudited).

**Interest, dividend and other income:**



Interest, dividend and other income for the three and nine months ended September 30, 2014 was approximately \$184,000 and \$672,000, respectively. Interest, dividend and other income for the three and nine months ended September 30, 2013 was approximately \$67,000 and \$164,000, respectively. The increase in the three months ended September 30, 2014 as compared with the same period in 2013 was approximately \$117,000 (174%), and was primarily the result of increased interest and dividends from marketable securities. The increase in the nine months ended September 30, 2014 as compared with the same period in 2013 was approximately \$508,000 (310%) and was primarily due to 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.

## **EXPENSES**

Adviser's base fee for the three and nine months ended September 30, 2014 as compared with the same periods in 2013 decreased by \$90,000 (35%) and \$270,000 (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 nine months ended September 30, 2014 as compared with the same periods in 2013 increased by approximately \$35,000 (72%) and \$90,000 (66%), respectively, primarily due to increased legal fees and tax and accounting services.

General and administrative expenses for the three and nine months ended September 30, 2014 as compared with the same periods in 2013 decreased by approximately \$25,000 (29%) and \$80,000 (33%), 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, contributions committed to other investments of approximately \$1.9 million due upon demand and approximately \$1.7 million remaining equity contributes in our interest in investment in real estate partnership, JY-TV. JY-TV is in the process of obtaining a construction loan of approximately \$27 million. 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 nine months ended September 30, 2014, net cash used in operating activities was approximately \$4.3 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 nine months ended September 30, 2014, net cash used in investing activities was approximately \$6.7 million and consisted primarily of approximately \$12.3 million in purchases of marketable securities, \$1.1 million of contributions to other investments, less proceeds from sales of marketable securities of \$6.2 million and distributions from other investments of approximately \$512,000.

For the nine months ended September 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 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 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.

(b) Amended and Restated Operating Agreement of JY-TV Associates LLC. Filed herewith

SIGNATURES

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

HMG/COURTLAND PROPERTIES, INC.

/s/ Maurice Wiener

Dated: November 14, 2014 Maurice Wiener  
CEO and President

/s/ Carlos Camarotti

Dated: November 14, 2014 Carlos Camarotti  
CFO and Vice President  
Principal Accounting Officer

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