

HMG COURTLAND PROPERTIES INC
Form 10-Q
May 13, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly period ended March 31, 2016

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)

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Delaware 59-1914299
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

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 x 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 x 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 x
(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. 1,035,493 Common shares were outstanding as of May 13, 2016.

HMG/COURTLAND PROPERTIES, INC.

Index

| | PAGE NUMBER |
|---|------------------------|
| PART I. <u>Financial Information</u> | |
| <u>Item 1. Financial Statements</u> | |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2016 (Unaudited) and December 31, 2015</u> | 1 |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015 (Unaudited)</u> | 2 |
| <u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015 (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> | 10 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 10 |
| <u>Item 4. Controls and Procedures</u> | 11 |
| PART II. <u>Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 11 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 11 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 11 |
| <u>Item 4. Mine Safety Disclosures</u> | 11 |
| <u>Item 5. Other Information</u> | 11 |
| <u>Item 6. Exhibits</u> | 11 |
| <u>Signatures</u> | 12 |

Cautionary Statement. This Form 10-Q contains certain statements relating to future results of the Company that are considered "forward-looking statements" within the meaning of the Private Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to, changes in political and economic conditions; interest rate fluctuation; competitive pricing pressures within the Company's market; equity and fixed income market fluctuation; technological change; changes in

law; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations as well as other risks and uncertainties detailed elsewhere in this Form 10-Q or from time-to-time in the filings of the Company with the Securities and Exchange Commission. Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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

| | March 31, 2016 (UNAUDITED) | December 31, 2015 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Investment properties, net of accumulated depreciation: | | |
| Office building and other commercial property | \$ 844,325 | \$ 833,680 |
| Total investment properties, net | 844,325 | 833,680 |
| Cash and cash equivalents | 6,334,687 | 11,213,385 |
| Investments in marketable securities | 10,537,473 | 10,507,750 |
| Other investments | 4,432,047 | 3,895,317 |
| Investment in affiliate | 2,061,413 | 2,061,706 |
| Loans, notes and other receivables | 1,230,318 | 1,260,620 |
| Investment in real estate partnership | 2,322,695 | 2,322,695 |
| Other assets | 32,000 | 129,755 |
| TOTAL ASSETS | \$ 27,794,958 | \$ 32,224,908 |
| LIABILITIES | | |
| Note payable to affiliate | \$ 1,800,000 | \$ 1,800,000 |
| Margin payable | 4,076,291 | 7,999,166 |
| Accounts payable, accrued expenses and other liabilities | 86,350 | 23,132 |
| Due to Adviser | 36,799 | 36,799 |
| Dividend payable | - | 517,747 |
| Deferred income taxes | 217,000 | 217,000 |
| TOTAL LIABILITIES | 6,216,440 | 10,593,844 |
| 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 as of March 31, 2016 and December 31, 2015, and 1,035,493 and 1,053,926 shares issued as of March 31, 2016 and December 31, 2015, respectively. | 1,035,493 | 1,053,926 |
| Additional paid-in capital | 24,050,249 | 24,255,614 |
| Less: Treasury shares (18,433 shares as of December 31, 2015) | - | (223,798) |
| Undistributed gains from sales of properties, net of losses | 52,709,950 | 52,709,950 |
| Undistributed losses from operations | (56,433,884) | (56,375,340) |
| Total stockholders' equity | 21,361,808 | 21,420,352 |
| Non controlling interest | 216,710 | 210,712 |
| TOTAL STOCKHOLDERS' EQUITY | 21,578,518 | 21,631,064 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 27,794,958 | \$ 32,224,908 |

See notes to the condensed consolidated financial statements

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

| | For the three months ended March 31, | |
|---|---|------------|
| | 2016 | 2015 |
| REVENUES | | |
| Real estate rentals and related revenue | \$ 15,600 | \$ 16,200 |
| EXPENSES | | |
| Operating expenses: | | |
| Rental and other properties | 24,139 | 22,089 |
| Adviser's base fee | 165,000 | 165,000 |
| General and administrative | 95,736 | 72,808 |
| Professional fees and expenses | 91,648 | 75,971 |
| Directors' fees and expenses | 21,565 | 27,250 |
| Depreciation and amortization | 3,849 | 4,039 |
| Interest expense | 23,471 | 27,232 |
| Total expenses | 425,408 | 394,389 |
| Loss before other income and income taxes | (409,808) | (378,189) |
| Net realized and unrealized gains from investments in marketable securities | 163,712 | 182,103 |
| Net income from other investments | 37,090 | 66,951 |
| Interest, dividend and other income | 149,431 | 184,351 |
| Total other income | 350,233 | 433,405 |
| Net (loss) income | (59,575) | 55,216 |
| Noncontrolling interests | 1,031 | 426 |
| Net (loss) income attributable to the Company | \$ (58,544) | \$ 55,642 |
| Weighted average common shares outstanding-basic & diluted | 1,035,493 | 1,042,915 |
| Net income (loss) per common share - basic and diluted | \$ (0.06) | \$ 0.05 |

See notes to the condensed consolidated financial statements

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

| | For the three months ended March 31, | |
|--|---|--------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income attributable to the Company | \$ (58,544 |) \$ 55,642 |
| Adjustments to reconcile net (loss) income attributable to the Company to net cash used in operating activities: | | |
| Depreciation and amortization | 3,849 | 4,039 |
| Non-employee stock compensation expense | - | 5,771 |
| Net income from other investments, excluding impairment losses | (37,090 |) (66,951 |
| Net gain from investments in marketable securities | (163,712 |) (182,103 |
| Net income attributable to non controlling interest | (1,031 |) (426 |
| Changes in assets and liabilities: | | |
| Other assets and other receivables | 128,057 | 54,014 |
| Accounts payable, accrued expenses and other liabilities | 63,218 | (43,933 |
| Total adjustments | (6,709 |) (229,589 |
| Net cash used in operating activities | (65,253 |) (173,947 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment in real estate partnership | - | (1,191,065 |
| Distributions from other investments | 227,657 | 681,756 |
| Contributions to other investments | (727,004 |) (536,036 |
| Net proceeds from sales and redemptions of securities | 1,172,613 | 3,428,784 |
| Purchase of marketable securities | (1,038,624 |) (2,965,411 |
| Improvements of properties | (14,494 |) - |
| Net cash used in investing activities | (379,852 |) (581,972 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Margin repayment | (3,922,875 |) (3,227,826 |
| Purchase of treasury stock | - | (136,246 |
| Dividend paid | (517,747 |) (526,963 |
| Contribution from non-controlling partner | 7,029 | - |
| Net cash used in financing activities | (4,433,593 |) (3,891,035 |
| Net decrease in cash and cash equivalents | (4,878,698 |) (4,646,954 |
| Cash and cash equivalents at beginning of the period | 11,213,385 | 9,451,152 |
| Cash and cash equivalents at end of the period | \$ 6,334,687 | \$ 4,804,198 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | \$ 23,000 | \$ 27,000 |

| | | |
|--|------|-----------|
| Cash paid during the period for income taxes | \$ - | \$ 50,000 |
|--|------|-----------|

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, 2015. The balance sheet as of December 31, 2015 was derived from audited consolidated financial statements as of that date. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the full year.

The condensed consolidated financial statements include the accounts of HMG/Courtland Properties, Inc. (the "Company") and entities in which the Company owns a majority voting interest or controlling financial interest. All material transactions and balances with consolidated and unconsolidated entities have been eliminated in consolidation or as required under the equity method.

2. RECENT ACCOUNTING PRONOUNCEMENTS

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, 2015 for recent accounting pronouncements. The Company does not believe that any recently issued, but not yet effective accounting standards, if currently adopted, will have a material effect on the Company's consolidated financial position, results of operations and cash flows.

3. 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. Included in investments in marketable securities is approximately \$8.6 million and \$8.3 million, of large capital real estate investment trusts (REITs) as of March 31, 2016 and December 31, 2015, respectively.

Net realized and unrealized gain from investments in marketable securities for the three months ended March 31, 2016 and 2015 is summarized below:

| Description | Three Months Ended March 31, | |
|--|------------------------------|--------------|
| | 2016 | 2015 |
| Net realized (loss) gain from sales of securities | \$ (47,000 |) \$ 155,000 |
| Unrealized net gain in trading securities | 211,000 | 27,000 |
| Total net gain from investments in marketable securities | \$ 164,000 | \$ 182,000 |

For the three months ended March 31, 2016, net realized losses from sales of marketable securities of approximately \$47,000 consisted of approximately \$143,000 of gross losses net of \$96,000 of gross gains. For the three months ended March 31, 2015, net realized gain from sales of marketable securities of approximately \$155,000 consisted of approximately \$262,000 of gross gains net of \$107,000 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. INVESTMENT IN REAL ESTATE PARTNERSHIP

As previously reported, 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"). Also, as previously reported, on May 19, 2015, pursuant to the terms of a Construction Loan Agreement, between JY-TV Associates LLC ("JY-TV" or the "Borrower", which is one-third owned by a wholly-owned subsidiary of the Company) and Wells Fargo Bank ("Lender"), Lender loaned to the Borrower the principal sum of \$27 million pursuant to a senior secured construction loan ("Loan"). The proceeds of the Loan are being used to finance the previously reported construction of multi-family residential apartments containing 240 units totaling approximately 239,000 net rentable square feet on a 9.5 acre site located in Orlando, Florida ("Project"). Total development costs for the Project are estimated at \$34 million and the Borrower's equity totals approximately \$7 million. Construction of the Project commenced in June 2015 and is proceeding as planned.

As previously reported, the Company and certain affiliates of the other two members of the Borrower ("Guarantors") entered into a Completion Guaranty Agreement ("Completion Guaranty") and a Repayment Guaranty Agreement ("Repayment Guaranty") (collectively, the "Guaranties") with the Lender. Under the Completion Guaranty, Guarantors shall unconditionally guaranty, on a joint and several bases, lien free completion of all improvements with respect to the Project and any construction or completion obligations required to be made by the Borrower pursuant to any approved leases. Under the Repayment Guaranty, Guarantors shall provide an unconditional guaranty including the repayment of \$11.5 million of the principal balance of the Loan, repayment of all accrued but unpaid interest and payment of any other sums payable under any of the Loan Agreement. Each Guarantor is required to maintain compliance at all times with certain financial covenants, as defined. As of March 31, 2016 the Company was in compliance with all debt covenants.

5. OTHER INVESTMENTS

As of March 31, 2016, the Company's portfolio of other investments had an aggregate carrying value of approximately \$4.4 million and we have committed to fund approximately \$2.2 million as required by agreements with the investees. The carrying value of these investments is equal to contributions less distributions and loss valuation adjustments, if any.

During the three months ended March 31, 2016, we made contributions to other investments of approximately \$727,000, consisting primarily of a \$300,000 investment in an income and value real estate fund and \$250,000 in a stock fund. The remaining contributions were made towards existing investment commitments.

During the three months ended March 31, 2016, we received distributions from other investments of approximately \$228,000 primarily from various real estate related investments.

Net income from other investments for the three months ended March 31, 2016 and 2015, is summarized below:

| | 2016 | 2015 |
|---|----------|----------|
| Partnership owning real estate & related | \$6,000 | \$45,000 |
| Partnership owning diversified businesses | 31,000 | 7,000 |
| Income from investment in affiliate -T.G.I.F. Texas, Inc. | - | 15,000 |
| Total net income from other investments | \$37,000 | \$67,000 |

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 31, 2016 and December 31, 2015, aggregated by investment category and the length of time that investments have been in a continuous loss position:

| Investment Description | As of March 31, 2016 | | | | | |
|--|----------------------|-----------------|------------------------|-----------------|-------------|-----------------|
| | 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 | \$— | \$— | \$ 4,000 | \$(12,000) | \$4,000 | \$(12,000) |
| Partnerships owning diversified businesses investments | 641,000 | (46,000) | 181,000 | (20,000) | 822,000 | (66,000) |
| Other (private banks, etc.) | — | — | 288,000 | (12,000) | 288,000 | (12,000) |
| Total | \$641,000 | \$(46,000) | \$473,000 | \$(44,000) | \$1,114,000 | \$(90,000) |

| Investment Description | As of December 31, 2015 | | | | | |
|--|-------------------------|-----------------|------------------------|-----------------|------------|-----------------|
| | 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 | \$— | \$— | \$ 5,000 | \$(12,000) | \$5,000 | \$(12,000) |
| Partnerships owning diversified businesses investments | 272,000 | (28,000) | 184,000 | (16,000) | 456,000 | (44,000) |
| Other (private banks, etc.) | — | — | 288,000 | (12,000) | 288,000 | (12,000) |
| Total | \$272,000 | \$(28,000) | \$477,000 | \$(40,000) | \$748,000 | \$(68,000) |

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 months ended March 31, 2016 and 2015.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with ASC Topic 820, the Company measures cash and cash 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 months ended March 31, 2016 and for the year ended December 31, 2015, 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:

| Description | Fair value measurement at reporting date using | | | |
|------------------------------|--|--|---|---|
| | Total March 31, 2016 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market mutual funds | \$ 818,000 | \$ 818,000 | \$ — | \$ — |
| U.S. T-bills | 5,208,000 | 5,208,000 | — | — |
| Marketable securities: | | | | |
| Corporate debt securities | 764,000 | — | 764,000 | — |
| Marketable equity securities | 9,774,000 | 9,774,000 | — | — |
| Total assets | \$ 16,564,000 | \$ 15,800,000 | \$ 764,000 | \$ — |

| Description | Fair value measurement at reporting date using | | | |
|------------------------------|--|--|---|---|
| | Total December 31, 2015 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market mutual funds | \$ 943,000 | \$ 943,000 | \$ — | \$ — |
| U.S. T-bills | 9,478,000 | 9,478,000 | — | — |
| Marketable securities: | | | | |
| Corporate debt securities | 737,000 | — | 737,000 | — |
| Marketable equity securities | 9,771,000 | 9,771,000 | — | — |
| Total assets | \$ 20,929,000 | \$ 20,192,000 | \$ 737,000 | \$ — |

Carrying amount is the estimated fair value for corporate debt securities and time deposits based on a market-based approach using observable (Level 2) inputs such as prices of similar assets in active markets.

The following are the major categories of assets and liabilities measured at fair value on a nonrecurring basis during the three months ended March 31, 2016 and for the year ended December 31, 2015. This category includes other investments which are measured using significant other observable inputs (Level 2) and significant unobservable inputs (Level 3):

| Description | Fair value measurement at reporting date using | | | | Total Losses |
|-------------|--|----------------------------|----------------------|------------------------------------|-----------------|
| | Total March 31, | Quoted Prices in Active | Significant Other | Significant Unobservable Inputs | |

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| Description | 2016 | Markets for Identical Assets | | | for the three months ended 3/31/2016 |
|--|--------------|------------------------------|---------------|---------------|--------------------------------------|
| | | (Level 1) | (Level 2) (a) | (Level 3) (b) | |
| Assets: | | | | | |
| Other investments by investment focus: | | | | | |
| Technology & Communication | \$ 284,000 | \$ — | \$ 284,000 | \$ — | \$ — |
| Diversified businesses | 2,134,000 | — | 2,134,000 | — | — |
| Real estate and related | 1,379,000 | — | 1,282,000 | 97,000 | — |
| Other | 635,000 | — | — | 635,000 | — |
| Total assets | \$ 4,432,000 | \$ — | \$ 3,700,000 | \$ 732,000 | \$ — |

| Description | Fair value measurement at reporting date using | | | | Total losses for year ended 12/31/2015 |
|--|--|--|-------------------------------|---------------------------------------|--|
| | Total | Quoted Prices in Active Markets for Identical Assets | Significant Observable Inputs | Other Significant Unobservable Inputs | |
| | December 31, 2015 | (Level 1) | (Level 2) (a) | (Level 3) (b) | |
| Assets: | | | | | |
| Other investments by investment focus: | | | | | |
| Technology & Communication | \$ 284,000 | \$ — | \$ 284,000 | \$ — | \$ — |
| Diversified businesses | 1,859,000 | — | 1,859,000 | — | — |
| Real estate and related | 1,117,000 | — | 1,019,000 | 98,000 | — |
| Other | 635,000 | — | — | 635,000 | — |
| Total assets | \$ 3,895,000 | \$ — | \$ 3,162,000 | \$ 733,000 | \$ — |

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 March 31, 2016, it is probable that all of the investments in this class will be (a) 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 three months ended March 31, 2016, the Company received distributions of approximately \$227,000 from this type of investment primarily from investments in diversified businesses and real estate. During the three months ended March 31, 2016, the Company made contributions totaling \$727,000 in this type of investment. As of March 31, 2016, the amount of the Company's unfunded commitments related to the aforementioned investments is approximately \$2.2 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 and two investments in the stock of private banks in Florida and Texas. The Company does not know when it will have the ability to redeem the investments and has categorized them as a Level 3 fair value measurement. The Level 3 real estate and related investments of approximately \$97,000 include various investments in real estate and related. Investments in this category are measured using primarily inputs provided by the managing member of the partnerships with whom the (b) 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 other Level 3 investments include investments in private bank stocks and a reinsurance company. The fair values of these other Level 3 investments have been estimated using the cost method less distributions received and other than temporary impairments. This investment is valued using inputs provided by the management of the investee.

The following table includes a roll-forward of the investments classified within level 3 of the fair value hierarchy for the three months ended March 31, 2016:

| | Level 3 Investments: |
|--|----------------------|
| Balance at January 1, 2016 | \$ 733,000 |
| Investment in Level 3 investments | |
| Distributions from Level 3 investments, net of gains | (1,000) |
| Balance at March 31, 2016 | \$ 732,000 |

7. INCOME TAXES

The Company (excluding CII) as a qualifying real estate investment trust 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.

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.

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 of March 31, 2016 and December 31, 2015, the Company has recorded a net deferred tax liability of \$217,000 as a result of timing differences associated with the carrying value of the investment in affiliate (TGIF) and other investments. CII's NOL carryover to 2017 is estimated at \$1.1 million expiring beginning in 2022 and has been fully reserved due to CII historically having tax losses.

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

| Three months ended March 31, | 2016 | 2015 |
|--------------------------------|----------|---------|
| Current: | | |
| Federal | \$- | \$- |
| State | - | - |
| | - | - |
| Deferred: | | |
| Federal | \$80,000 | \$2,000 |
| State | 12,000 | 1,000 |
| | 92,000 | 3,000 |
| Additional valuation allowance | (92,000) | (3,000) |
| Total | \$- | \$- |

The Company follows the provisions of ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes" which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC Topic 740, 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. This topic 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 December 31, 2015. The Company's federal income tax returns since 2012 are subject to examination by the Internal Revenue Service, generally for a period of three years after the returns were filed.

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. STOCK OPTIONS

Stock based compensation expense is recognized using the fair-value method for all awards. During the three months ended March 31, 2016 options to purchase 7,500 shares of the Company's common stock to one director were forfeited.

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The following table summarizes stock option activity during the three months ended March 31, 2016.

| | Options Outstanding | Weighted Average Exercise Price |
|--------------------------------|------------------------|--|
| Outstanding at January 1, 2016 | 20,700 | \$ 17.54 |
| Forfieted | (7,500) | \$ 18.89 |
| Outstanding at March 31, 2016 | 13,200 | \$ 16.77 |

The following table summarizes information concerning outstanding and exercisable options as of March 31, 2016:

| Strike Price | Number Outstanding and exercisable | Weighted Average Strike Price |
|--------------|---------------------------------------|----------------------------------|
| \$ 12.75 | 3,000 | \$ 12.75 |
| \$ 17.84 | 9,500 | \$ 17.84 |
| \$ 19.50 | 700 | \$ 19.50 |
| | 13,200 | \$ 16.77 |

As of March 31, 2016 the options outstanding and exercisable had no intrinsic value.

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 \$59,000 (or \$.06 per share) for the three months ended March 31, 2016. For the three months ended March 31, 2015 the Company reported net income of approximately \$56,000 (or \$.05 share).

REVENUES

Rentals and related revenues for the three months ended March 31, 2016 and 2015 consists of rent from the Advisor to CII for its corporate office.

Net realized and unrealized gain from investments in marketable securities:

Net realized and unrealized gain from investments in marketable securities for the three months ended March 31, 2016 and 2015 was approximately \$164,000 and \$182,000, 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 months ended March 31, 2016 and 2015 was approximately \$37,000 and \$67,000, respectively. For further details, refer to Note 5 to Condensed Consolidated Financial Statements (unaudited).

Interest, dividend and other income for the three months ended March 31, 2016 as compared with the same period in 2015 decreased by approximately \$35,000 (or 19%) primarily due to decreased non-recurring other income.

EXPENSES

General and administrative expenses for the three months ended March 31, 2016 as compared with the same period in 2015 increased by approximately \$23,000 (or 31%) primarily due to increased other taxes and related expenses.

Professional fees and expenses for the three months ended March 31, 2016 as compared with the same period in 2015 increased by approximately \$16,000 (or 21%) primarily due to increased auditing and tax preparation fees.

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 \$1.8 million due on demand, contributions committed to other investments of approximately \$2.2 million due upon demand. The funds necessary to meet these obligations are expected from the proceeds from the sales of investments, distributions from investments and available cash.

MATERIAL COMPONENTS OF CASH FLOWS

For the three months ended March 31, 2016, net cash used in operating activities was approximately \$65,000, primarily consisting of operating expenses.

For the three months ended March 31, 2016, net cash used in investing activities was approximately \$380,000. This consisted primarily of \$1 million in purchases of marketable securities, and \$727,000 of contributions to other investments. These uses of funds were partially offset by net proceeds from sales of marketable securities of \$1.2 million and distributions from other investments of \$228,000.

For the three months ended March 31, 2016, net cash used in financing activities was \$4.4 million, consisting of repayments of margin borrowings of \$3.9 million and a dividend payment of \$518,000.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q have concluded that, based on such evaluation, our disclosure controls and procedures were effective and designed to ensure that material information relating to us and our consolidated subsidiaries, which we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, was made known to them by others within those entities and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Control Over Financial Reporting.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings: None.

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

Item 3. Defaults Upon Senior Securities: None.

Item 4. Mine Safety Disclosures: Not applicable.

Item 5. Other Information: None

Item 6. Exhibits:

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

SIGNATURES

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

HMG/COURTLAND PROPERTIES, INC.

Dated: May 13, 2016 /s/ Maurice Wiener
CEO and President

Dated: May 13, 2016 /s/Carlos Camarotti
Vice President- Finance and Controller
Principal Accounting Officer