

HMG COURTLAND PROPERTIES INC
Form 10QSB
May 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(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, 2006

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.)

1870 S. Bayshore Drive, Coconut Grove, Florida

(Address of principal executive offices)

33133

(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)

Check 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 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.

1,023,955 Common shares were outstanding as of March 31, 2006.

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

| | PAGE NUMBER |
|---|------------------------|
| PART I. | |
| Financial Information | |
| <u>Item 1. Financial Statements</u> | |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2006 (Unaudited) and December 31, 2005</u> | 1 |
| <u>Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2006 and 2005 (Unaudited)</u> | 2 |
| <u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2006 and 2005 (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> | 9 |
| <u>Item 3. Controls and Procedures</u> | 13 |
| PART II. | |
| Other Information | |
| <u>Item 1. Legal Proceedings</u> | 13 |
| <u>Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities</u> | 13 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 13 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 13 |
| <u>Item 5. Other Information</u> | 13 |
| <u>Item 6. Exhibits and Reports on Form 8-K</u> | 13 |
| <u>Signatures</u> | 14 |

Cautionary Statement. This Form 10-QSB 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-QSB 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, 2006 (UNAUDITED) | December 31, 2005 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Investment properties, net of accumulated depreciation: | | |
| Commercial properties | \$ 6,459,840 | \$ 6,513,793 |
| Commercial properties- construction in progress | 701,403 | 171,727 |
| Hotel, club and spa facility | 5,785,047 | 5,845,030 |
| Marina properties | 3,064,790 | 2,899,085 |
| Land held for development | 589,419 | 589,419 |
| Total investment properties, net | 16,600,499 | 16,019,054 |
| Cash and cash equivalents | 2,582,935 | 2,350,735 |
| Investments in marketable securities | 6,139,230 | 6,576,954 |
| Other investments | 5,233,067 | 5,119,179 |
| Investment in affiliate | 3,098,528 | 3,074,530 |
| Loans, notes and other receivables | 2,055,039 | 2,037,651 |
| Notes and advances due from related parties | 753,259 | 767,768 |
| Deferred taxes | 40,000 | 88,000 |
| Goodwill | 7,728,627 | 7,728,627 |
| Interest rate swap contract asset | 130,000 | - |
| Other assets | 642,520 | 640,602 |
| TOTAL ASSETS | \$ 45,003,704 | \$ 44,403,100 |
| LIABILITIES | | |
| Mortgages and notes payable | \$ 21,403,571 | \$ 20,823,764 |
| Accounts payable and accrued expenses | 1,358,182 | 1,266,561 |
| Margin payable to broker | 1,319,896 | 1,211,925 |
| Interest rate swap contract payable | - | 266,000 |
| TOTAL LIABILITIES | 24,081,649 | 23,568,250 |
| Minority interests | 3,326,220 | 2,674,740 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$1 par value; 2,000,000 shares authorized; none issued | - | - |
| Excess common stock, \$1 par value; 500,000 shares authorized; none issued | - | - |
| Common stock, \$1 par value; 1,500,000 shares authorized; 1,317,535 shares issued and outstanding as of March 31, 2006 and December 31, 2005 | 1,317,535 | 1,317,535 |
| Additional paid-in capital | 26,585,595 | 26,585,595 |
| Undistributed gains from sales of properties, net of losses | 41,315,056 | 41,315,056 |
| Undistributed losses from operations | (49,121,517) | (49,046,362) |
| Accumulated other comprehensive income (loss) | 65,000 | (133,000) |
| | 20,161,669 | 20,038,824 |
| Less: Treasury stock, at cost (293,580 & 244,500 shares as of March 31, 2006 and December 31, 2005, respectively) | (2,565,834) | (1,878,714) |

| | | | | |
|--|----|------------|----|------------|
| TOTAL STOCKHOLDERS' EQUITY | | 17,595,835 | | 18,160,110 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ | 45,003,704 | \$ | 44,403,100 |

See notes to the condensed consolidated financial statements

(1)

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

| | Three months ended March 31, | |
|---|---------------------------------|------------|
| REVENUES | 2006 | 2005 |
| Real estate rentals and related revenue | \$ 415,230 | \$ 382,955 |
| Food & beverage sales | 1,786,051 | 1,564,448 |
| Marina revenues | 427,814 | 394,223 |
| Spa revenues | 129,130 | 61,124 |
| Net gain from investments in marketable securities | 136,353 | 7,780 |
| Net income (loss) from other investments | 112,818 | (83,631) |
| Interest, dividend and other income | 130,462 | 142,419 |
| Total revenues | 3,137,858 | 2,469,318 |
| EXPENSES | | |
| Operating expenses: | | |
| Rental and other properties | 254,452 | 219,751 |
| Food and beverage cost of sales | 530,396 | 451,758 |
| Food and beverage labor and related costs | 335,929 | 296,718 |
| Food and beverage other operating costs | 539,736 | 477,062 |
| Marina expenses | 260,016 | 212,195 |
| Spa expenses | 152,285 | 51,767 |
| Depreciation and amortization | 261,283 | 227,049 |
| Adviser's base fee | 225,000 | 225,000 |
| General and administrative | 78,277 | 71,802 |
| Professional fees and expenses | 78,648 | 58,418 |
| Directors' fees and expenses | 16,300 | 16,732 |
| Total operating expenses | 2,732,322 | 2,308,252 |
| Interest expense | 397,820 | 342,694 |
| Minority partners' interests in operating income of consolidated entities | 34,871 | 61,020 |
| Total expenses | 3,165,013 | 2,711,966 |
| Loss before income taxes | (27,155) | (242,648) |
| Provision for (benefit from) income taxes | 48,000 | (385,000) |
| Net (loss) income | (\$75,155) | \$ 142,352 |
| <u>Other comprehensive income:</u> | | |
| Unrealized gain on interest rate swap agreement | \$ 198,000 | \$ 146,500 |
| Total other comprehensive income | 198,000 | 146,500 |
| Comprehensive income | \$ 122,845 | \$ 288,852 |
| <u>Net (loss) income Per Common Share:</u> | | |
| Basic and diluted | (\$.07) | \$.13 |
| Weighted average common shares outstanding | 1,050,131 | 1,089,135 |

See notes to the condensed consolidated financial statements

(2)

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

| | Three months ended March 31, | |
|--|------------------------------|------------|
| | 2006 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | (\$75,155) | \$ 142,352 |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 261,283 | 227,049 |
| Net (income) loss from other investments | (112,818) | 92,856 |
| Net gain from investments in marketable securities | (136,353) | (7,780) |
| Minority partners' interest in operating income | 34,871 | 61,020 |
| Deferred income tax expense (benefit) | 48,000 | (385,000) |
| Changes in assets and liabilities: | | |
| Increase in other assets and other receivables | (46,586) | (154,121) |
| Net proceeds from sales and redemptions of securities | 791,871 | 157,068 |
| Increase in investments in marketable securities | (217,794) | (449,852) |
| Increase in accounts payable and accrued expenses | 91,621 | 172,127 |
| Increase in margin payable to brokers and other liabilities | 107,971 | 132,821 |
| Total adjustments | 822,066 | (153,812) |
| Net cash provided by (used in) operating activities | 746,911 | (11,460) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases and improvements of properties | (839,749) | (714,246) |
| Decrease in notes and advances from related parties | 14,509 | 95,738 |
| Additions in mortgage loans and notes receivables | - | (100,000) |
| Collections of mortgage loans and notes receivables | 24,303 | 87,831 |
| Distributions from other investments | 229,456 | 235,451 |
| Contributions to other investments | (254,525) | (131,192) |
| Net cash used in investing activities | (826,006) | (526,418) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Additional borrowings, mortgages and notes payables | 614,777 | - |
| Repayment of mortgages and notes payables | (34,970) | (34,709) |
| Purchase of treasury stock | (687,120) | - |
| Contributions from minority partners | 418,608 | - |
| Net cash provided by (used in) financing activities | 311,295 | (34,709) |
| | 232,200 | (572,587) |

Net increase (decrease) in cash and cash equivalents

| | | | | |
|--|--|-----------|--|-----------|
| Cash and cash equivalents at beginning of the period | | 2,350,735 | | 3,410,408 |
|--|--|-----------|--|-----------|

| | | | | |
|--|----|-----------|----|-----------|
| Cash and cash equivalents at end of the period | \$ | 2,582,935 | \$ | 2,837,821 |
|--|----|-----------|----|-----------|

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | | | |
|--|----|---------|----|---------|
| Cash paid during the period for interest | \$ | 398,000 | \$ | 343,000 |
|--|----|---------|----|---------|

See notes to the condensed consolidated financial statements

(3)

HMG/COURTLAND PROPERTIES, INC.
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-QSB, 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 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, 2005. The balance sheet as of December 31, 2005 was derived from audited financial statements as of that date. The results of operations for the three months ended March 31, 2006 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 PRONOUNCEMENT

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement provides guidance on accounting for reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. This Statement also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. This Statement also provides guidance on the correction of an error by restating previously issued financial statements. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect Financial Accounting Standards Board Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections to have a material effect on its financial statements.

3. RESULTS OF OPERATIONS FOR MONTY'S RESTAURANT, MARINA AND OFFICE/RETAIL PROPERTY, COCONUT GROVE, FLORIDA

The Company, through two 50%-owned entities, Bayshore Landing, LLC ("Landing") and Bayshore Rawbar, LLC ("Rawbar"), (collectively, "Bayshore") owns a restaurant, office/retail and marina property located in Coconut Grove (Miami), Florida known as Monty's (the "Monty's Property").

HMG/COURTLAND PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
(Unaudited)

Summarized combined statement of income for Landing and Rawbar for the three months ended March 31, 2006 and 2005 is presented below (Note: the Company's ownership percentage in these operations is 50%):

| Summarized Combined statements of income Bayshore Landing, LLC and Bayshore Rawbar, LLC | For the three months ended March 31, 2006 | For the three months ended March 31, 2005 |
|---|---|---|
| <u>Revenues:</u> | | |
| Food and Beverage Sales | \$ 1,786,000 | \$ 1,564,000 |
| Marina dockage and related | 316,000 | 281,000 |
| Retail/mall rental and related | 73,000 | 32,000 |
| Total Revenues | 2,175,000 | 1,877,000 |
| <u>Expenses:</u> | | |
| Cost of food and beverage sold | 530,000 | 452,000 |
| Labor and related costs | 284,000 | 243,000 |
| Entertainers | 52,000 | 54,000 |
| Other food and beverage related costs | 96,000 | 94,000 |
| Other operating costs | 216,000 | 149,000 |
| Insurance | 88,000 | 83,000 |
| Management fees | 93,000 | 96,000 |
| Utilities | 95,000 | 76,000 |
| Ground rent - City of Miami, FL | 172,000 | 206,000 |
| Interest | 240,000 | 224,000 |
| Depreciation | 109,000 | 90,000 |
| Total Expenses | 1,975,000 | 1,767,000 |
| Net Income | \$ 200,000 | \$ 110,000 |

(5)

HMG/COURTLAND PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
(Unaudited)

4. INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities consist primarily of large capital corporate equity and debt securities in varying industries or issued by government agencies with readily determinable fair values. These securities are stated at market value, as determined by the most recent traded price of each security at the balance sheet date. Consistent with the Company's overall current investment objectives and activities its entire marketable securities portfolio is classified as trading.

Net gain from investments in marketable securities for the three months ended March 31, 2006 and 2005 is summarized below:

| Description | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2006 | 2005 |
| Net realized gain from sales of securities | \$ 29,000 | \$ 42,000 |
| Unrealized net gain (loss) in trading securities | 107,000 | (34,000) |
| Total net gain from investments in marketable securities | \$ 136,000 | \$ 8,000 |

For the three months ended March 31, 2006 net realized gain from sales of marketable securities of approximately \$29,000 consisted of approximately \$164,000 of gross gains net of \$135,000 of gross losses. For the three months ended March 31, 2005 net realized gain from sales of marketable securities of approximately \$42,000 consisted of approximately \$49,000 of gross gains net of \$7,000 of gross losses.

Investment gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's net earnings. However, the amount of investment gains or losses on marketable securities for any given period has no predictive value and variations in amount from period to period have no practical analytical value.

5. OTHER INVESTMENTS

As of March 31, 2006, the Company has committed to invest approximately \$12.8 million in other investments primarily in private capital funds, of which approximately \$11.3 million has been funded. The carrying value of other investments (which reflects distributions and valuation adjustments) is approximately \$5.2 million as of March 31, 2006.

During the three months ended March 31, 2006 the Company made initial contributions to two new funds totaling \$205,000 and made follow-on contributions to three existing investments of approximately \$50,000. During this same period the Company received approximately \$229,000 in distributions primarily from one investment in which the partial redemption of \$100,000 was requested and granted.

HMG/COURTLAND PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
(Unaudited)

Net income (loss) from other investments for the three months ended March 31, 2006 and 2005, is summarized below:

| | 2006 | 2005 |
|--|------------|-------------|
| High yield distressed debt fund | \$ 38,000 | \$ - |
| Venture capital fund - technology | 51,000 | 20,000 |
| Others, net | - | (\$133,000) |
| Income from investment in 49% owned affiliate (T.G.I.F. Texas, Inc.) | 24,000 | 29,000 |
| Total net income (loss) from other investments | \$ 113,000 | (\$84,000) |

During the three months ended March 31, 2006, the Company received cash distributions from two funds, one from a high yield distressed debt fund the other from a technology venture fund. These distributions exceeded the carrying amount of the investments and accordingly were recognized as income.

In March 2005, the Company reduced the remaining carrying value (approximately \$147,000) of one of its investments in a privately held company in the personal cosmetic industry. This investment experienced a decline in demand for its product which is believed to result in other-than-temporary decline in the value of the investment. This write down is included under the caption "Others, net" in the table above.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to interest rate risk through its borrowing activities. In order to minimize the effect of changes in interest rates, the Company has entered into an interest rate swap contract under which the Company agrees to pay an amount equal to a specified rate of 7.57% times a notional principal approximating the outstanding loan balance, and to receive in return an amount equal to the one month LIBOR rate plus 2.45% times the same notional amount. The Company designated this interest rate swap contract as a cash flow hedge. As of March 31, 2006 the fair value (net of 50% minority interest) was a gain of \$65,000 and as of December 31, 2005 the fair value (net of 50% minority interest) of the cash flow hedge was a loss of approximately \$133,000. These amounts have been recorded as other comprehensive gain (loss) and will be reclassified to interest expense over the life of the swap contract.

7. PURCHASE OF TREASURY STOCK

In February 2006 the Company purchased 49,080 shares of the Company's common stock from one shareholder for \$687,000, or \$14 per share.

8. SEGMENT INFORMATION

The Company has three reportable segments: Real estate rentals; Food and Beverage sales; and Other investments and related income. The Real estate and rentals segment primarily includes the leasing of its Grove Isle property, marina dock rentals at both Monty's and Grove Isle marinas, and the leasing of office and retail space at its Monty's property. The Food and Beverage sales segment consists of the Monty's restaurant operation. Lastly, the Other investment and related income segment includes all of the Company's other investments, marketable securities, loans, notes and other receivables and the Grove Isle spa operations which individually do not meet the criteria as a reportable segment.

HMG/COURTLAND PROPERTIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)
(Unaudited)

8. SEGMENT INFORMATION (continued)

| | For the three months ended March 31, | |
|---|--------------------------------------|--------------|
| | 2006 | 2005 |
| <u>Net Revenues:</u> | | |
| Real estate and marina rentals | \$ 843,044 | \$ 777,178 |
| Food and beverage sales | 1,786,051 | 1,564,448 |
| Other investments and related income | 508,763 | 127,692 |
| Total Net Revenues | \$ 3,137,858 | \$ 2,469,318 |
| <u>Income (loss) before income taxes:</u> | | |
| Real estate and marina rentals | (\$4,973) | \$ 87,228 |
| Food and beverage sales | 73,063 | 61,280 |
| Other investments and related income | (95,245) | (391,156) |
| Total loss before income taxes | (\$27,155) | (\$242,648) |

(8)

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 \$75,000 (or \$.07 per share) for the three months ended March 31, 2006. This is as compared with net income of approximately \$142,000 (or \$.13 per share) for the three months ended March 31, 2005.

As discussed further below, total revenues for the three months ended March 31, 2006 as compared with the same period in 2005, increased by approximately \$668,000 or 27%. Total expenses for the three months ended March 31, 2006, as compared with the same period in 2005, increased by approximately \$453,000 or 17%.

REVENUES

Rentals and related revenues for the three months ended March 31, 2006 as compared with the same period in 2005 increased by \$32,000 (8%). This increase was primarily due to increased rental revenue from the Monty's retail mall

Restaurant operations:

A summarized statement of income for the Company's Monty's restaurant for the three months ended March 31, 2006 and 2005 is presented below:

| Summarized statement of income of Monty's restaurant | Three months ended March 31, 2006 | Percentage of sales | Three months ended March 31, 2005 | Percentage of sales |
|---|---|------------------------|---|------------------------|
| <u>Revenues:</u> | | | | |
| Food and Beverage Sales | \$ 1,786,000 | 100% | \$ 1,564,000 | 100% |
| <u>Expenses:</u> | | | | |
| Cost of food and beverage sold | 530,000 | 29.7% | 452,000 | 28.9% |
| Labor, entertainment and related costs | 336,000 | 18.8% | 297,000 | 19.0% |
| Other food and beverage direct costs | 70,000 | 3.9% | 54,000 | 3.5% |
| Insurance | 46,000 | 2.6% | 47,000 | 3.0% |
| Management fees | 81,000 | 4.5% | 81,000 | 5.2% |
| Utilities | 52,000 | 2.9% | 52,000 | 3.3% |
| Rent (as allocated) | 168,000 | 9.4% | 146,000 | 9.3% |
| Other | 123,000 | 6.9% | 96,000 | 6.1% |
| Total Expenses | 1,406,000 | 78.7% | 1,225,000 | 78.3% |
| Income before depreciation and minority interest | \$ 380,000 | 21.3% | \$ 339,000 | 21.7% |

The restaurant operations which are primarily outdoors benefited from less rain in the first quarter of 2006 as compared to 2005 and from the substantial completion of construction at the Monty's property in December 2005.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Marina operations:

Summarized and combined statements of income for marina operations:

(The Company owns 50% of the Monty's marina and 95% of the Grove Isle marina)

| Summarized statement of income of marina operations | Combined marina operations Three months ended March 31, 2006 | Combined marina operations Three months ended March 31, 2005 |
|---|---|---|
| <u>Revenues:</u> | | |
| Dockage fees and related income | \$ 315,000 | \$ 281,000 |
| Grove Isle marina slip owners dues | 113,000 | 113,000 |
| Total marina revenues | 428,000 | 394,000 |
| <u>Expenses:</u> | | |
| Labor and related costs | 54,000 | 57,000 |
| Insurance | 40,000 | 43,000 |
| Management fees | 9,000 | 11,000 |
| Utilities | 35,000 | 18,000 |
| Bay bottom lease | 59,000 | 38,000 |
| Repairs and maintenance | 39,000 | 24,000 |
| Other | 24,000 | 21,000 |
| Total Expenses | 260,000 | 212,000 |
| Income before gain interest, depreciation and minority interest | \$ 168,000 | \$ 182,000 |

The Monty's Marina dockage fee and related income for the three months ended March 31, 2006 as compared to the same period in 2005 increased by approximately \$34,000 or over 8%. This was the result of increased dockage after repairs and improvements to the marina were completed in December 2005. Bay bottom lease expense for the three months ended March 31, 2006 as compared to the same period in 2005 increased by approximately \$21,000 or 55% due to increased rent allocated to the Monty's Marina relating to its lease with the City of Miami, Florida. This lease calls for lease payments of 15% of marina revenue plus sales tax.

Spa revenues for the three months ended March 31, 2006 as compared with the same period in 2005 increased by \$68,000 or 111%. The spa began operations in the first quarter of 2005 and comparisons for these two periods are not meaningful at this time.

Net gain from investments in marketable securities for the three months ended March 31 2006 as a gain of approximately \$136,000, as compared with a net gain from investments in marketable securities of approximately \$8,000 for the same period in 2005. For further details refer to Note 4 to Condensed Consolidated Financial Statements (unaudited).

Net income from other investments for the three months ended March 31, 2006 was approximately \$113,000. This is as compared with a net loss of approximately \$84,000 for the same period in 2005. The increase in income was primarily from the write down of one investment for \$147,000 in 2005. For further details refer to Note 5 to Condensed Consolidated Financial Statements (unaudited).

(10)

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Interest and dividend income for the three months ended March 31, 2006 was approximately \$130,000 as compared with approximately \$142,000, for the same period in 2005. The decrease from last year of \$12,000 (or 8%) was primarily due to decreased investments in bonds and other marketable securities that yield interest and dividends.

EXPENSES

Expenses for rental and other properties for the three months ended March 31, 2006 increased by approximately \$35,000 (or 16%) as compared to that for the three months ended March 31, 2005. This increase was primarily due to a management fee of \$100,000 paid to the manager of the HMG-Fieber joint venture which sold its last property in August 2005. This increase was partially offset by decreased repairs and maintenance at the Monty's retail mall.

For comparisons of all food and beverage related expenses refer to Restaurant Operations (above) summarized statement of income for Monty's restaurant.

For comparisons of all marina related expenses refer to Marina Operations (above) for summarized and combined statements of income for marina operations.

Spa expenses for the three months ended March 31, 2006 were approximately \$152,000 as compared to \$52,000 for the three months ended March 31, 2005. The Grove Spa began operations in the first quarter of 2005 and comparisons between the two periods are not meaningful at this time.

Depreciation and amortization expense for the three months ended March 31, 2006 increased by approximately \$34,000 (or 15%) primarily due to the completion of the Grove Spa property in the first quarter of 2005.

Professional fees expense for the three months ended March 31, 2006 increased by approximately \$20,000 (or 35%) as compared with the same period in 2005. This increase was primarily the result of an increase in accounting fees.

Interest expense for the three months ended March 31, 2006 increased by approximately \$55,000 (or 16%), as compared with the same period in 2005. This was primarily due to increased bank borrowings for improvements made to the Monty's property.

EFFECT OF INFLATION:

Inflation affects the costs of operating and maintaining the Company's investments. In addition, rentals under certain leases are based in part on the lessee's sales and tend to increase with inflation, and certain leases provide for periodic adjustments according to changes in predetermined price indices.

LIQUIDITY, CAPITAL EXPENDITURE REQUIREMENTS AND CAPITAL RESOURCES

The Company's material commitments in 2006 primarily consist of maturities of debt obligations of approximately \$4.1 million and commitments to fund private capital investments of approximately \$1.5 million due upon demand. The funds necessary to meet these obligations are expected to be available from the proceeds of sales of properties or investments, refinancing, distributions from investments and available cash. The majority of maturing debt obligations for 2006 is a note payable to the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF") of approximately \$3.7 million. This amount is due on demand. It is expected that this obligation when due to TGIF would be paid with funds available from distributions from its investment in TGIF and from available cash.

**Management's Discussion and Analysis of Financial
Condition and Results of Operations
(continued)**

MATERIAL COMPONENTS OF CASH FLOWS

For the three months ended March 31, 2006, net cash provided by operating activities was approximately \$747,000. Included in this amount are proceeds and redemptions of marketable securities of \$792,000 partially offset by increased investments in marketable securities of approximately \$218,000.

For the three months ended March 31, 2006, net cash used in investing activities was approximately \$826,000. This consisted primarily of \$752,000 of improvements to the Monty's property.

For the three months ended March 31, 2006, net cash provided by financing activities was approximately \$311,000. This consisted of \$615,000 of additional borrowings under the Monty's property construction loan agreement and \$418,000 of contributions from minority partners. These sources of funds were partially offset by the purchase of treasury stock of \$687,000.

(12)

Item 3. 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 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-QSB have concluded that, based on such evaluation, our disclosure controls and procedures were adequate 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) There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter covered by this report or from the end of the reporting period to the date of this Form 10-QSB.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings: None.

Item 2. Changes in Securities and Small Business Issuers Purchase of Equity Securities: None.

Item 3. Defaults Upon Senior Securities: None.

Item 4. Submission of Matters to a Vote of Security Holders: None

Item 5. Other Information: None

Item 6. Exhibits and Reports on Form 8-K:

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

(b) Reports on Form 8-K filed for the quarter ended March 31, 2006: None.

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 15, 2006

/s/ Lawrence Rothstein
President, Treasurer and Secretary
Principal Financial Officer

Dated: May 15, 2006

/s/Carlos Camarotti
Vice President- Finance and Controller
Principal Accounting Officer

(14)
