

Edgar Filing: HMG COURTLAND PROPERTIES INC - Form 10QSB

HMG COURTLAND PROPERTIES INC  
Form 10QSB  
July 30, 2004

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

FORM 10-QSB

(Mark One)

--

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

For the Quarterly period ended June 30, 2004

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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  
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HMG/COURTLAND PROPERTIES, INC.  
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(Exact name of small business issuer as specified in its charter)

Delaware

59-1914299

-----  
(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
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)

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 x No

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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.

1,089,135 Common shares were outstanding as of June 30, 2004.

HMG/COURTLAND PROPERTIES, INC.

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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

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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

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#### CONDENSED CONSOLIDATED BALANCE SHEETS

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	June 30, 2004 ----
<b>ASSETS</b>	<b>(UNAUDITED)</b>
Investment properties, net of accumulated depreciation:	
Commercial and industrial	\$998,627
Hotel and club facility	4,016,529
Yacht slips	131,620
Land held for development	1,083,855
Total investment properties, net	6,230,631
Cash and cash equivalents	3,533,544
Cash restricted pending delivery of securities	95,986
Investments in marketable securities	6,659,481
Other investments	5,240,828
Investment in affiliate	2,960,035
Loans, notes and other receivables	905,726
Notes and advances due from related parties	778,369
Deferred taxes	464,000
Other assets	195,605
TOTAL ASSETS	\$27,064,205
<b>LIABILITIES</b>	
Mortgages and notes payable	\$7,367,445
Accounts payable and accrued expenses	258,814
Accrued income taxes payable	182,000
Sales of securities pending delivery	112,830

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TOTAL LIABILITIES	7,921,089	
Minority interests	301,478	
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; 1,315,635 shares issued and outstanding	1,315,635	
Additional paid-in capital	26,571,972	
Undistributed gains from sales of properties, net of losses	41,327,464	
Undistributed losses from operations	(48,455,569)	
	20,759,502	
Less: Treasury stock, at cost (226,500 shares)	(1,659,114)	
Notes receivable from exercise of stock options	(258,750)	
TOTAL STOCKHOLDERS' EQUITY	18,841,638	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$27,064,205	

See notes to the condensed consolidated financial statements

(1)

HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

REVENUES	Three months ended 2004	June 30, 2003
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Real estate rentals and related revenue	\$367,028	\$402,951

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Marina revenues	116,176	118,030
Net (loss) gain from investments in marketable securities	(249,477)	324,500
Net gain from other investments	152,270	77,650
Interest, dividend and other income	106,310	67,489
Total	492,307	990,620

EXPENSES

Operating expenses:		
Rental and other properties	117,961	121,187
Marina expenses	96,778	87,565
Depreciation and amortization	122,465	145,411
Adviser's base fee	225,000	225,000
General and administrative	80,736	74,277
Professional fees and expenses	40,634	64,252
Directors' fees and expenses	13,258	16,708
Total operating expenses	696,832	734,400

Interest expense	116,120	123,706
Minority partners' interests in operating gain of consolidated entities	4,427	10,659
Total expenses	817,379	868,765

(Loss) income before sales of properties and income taxes	(325,072)	121,855
Gain on sales of properties, net	1,801,335	39,112
Income (loss) before income taxes	1,476,263	160,967
Provision for income taxes	134,000	120,000
Net Income (loss)	\$1,342,263	\$40,967

Net Income (loss) Per Common Share:		
Basic	\$1.23	\$0.04
Diluted	\$1.22	\$0.04

Weighted average common shares outstanding Basic	1,089,135	1,089,135
Weighted average common shares outstanding Diluted	1,103,271	1,098,153

See notes to the condensed consolidated financial statements

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HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$1,179
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	266
Net gain from other investments	(104)
Gain on sales of properties, net	(1,848)
Net loss (gain) from investments in marketable securities	135
Minority partners' interest in operating gains	1
Deferred income tax expense	14
Changes in assets and liabilities:	
(Increase) decrease in other assets and other receivables	(153)
Net proceeds from sales and redemptions of securities	1,403
Increase in restricted cash	(95)
Increase (decrease) in sales of securities pending delivery	111
Increased investments in marketable securities	(3,304)
Increase in accounts payable and accrued expenses	185
Increase in accrued income taxes payable	182
Decrease in other liabilities	-
Total adjustments	(3,206)
Net cash (used in) provided by operating activities	(2,026)

CASH FLOWS FROM INVESTING ACTIVITIES:

Net proceeds from disposals of properties	3,440
Decrease in notes and advances from related parties	21
Net decrease in mortgage loans and notes receivables	291
Distributions from other investments	869
Contributions to other investments	(939)
Net cash provided by investing activities	3,685

CASH FLOWS FROM FINANCING ACTIVITIES:

Repayment of mortgages and notes payables	(718)
Net distributions to minority partners	(30)

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Net cash used in financing activities	(749)
Net increase in cash and cash equivalents	908
Cash and cash equivalents at beginning of the period	2,624
Cash and cash equivalents at end of the period	\$3,533
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the period for interest	\$229
Cash paid during the period for income taxes	--

See notes to condensed consolidated financial statements

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements prepared in accordance with instructions for Form 10QSB, 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, 2003. The balance sheet as of December 31, 2003 was derived from audited financial statements as of that date. The results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year.

2. RECENT ACCOUNTING PRONOUNCEMENTS.

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During April 2003, the FASB issued SFAS 149 - "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. In addition, except as stated below, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues

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that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a), which relate to forward purchases or sales of then-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not participate in such transactions, and accordingly, adoption of this statement did not have a material effect on the Company's financial statements.

During May 2003, the FASB issued SFAS 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a freestanding financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements". The Company does not participate in such transactions, and accordingly, adoption of this statement did not have a material effect on the Company's financial statements.

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

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities ("VIE's") created after January 31, 2003, and to VIE's in which an enterprise obtains an interest after that date. On October 9, 2003 the FASB issued FASB Staff Position No. FIN 46-6 "Effective Date of FASB Interpretation No.46 Consolidation of Variable Interest Entities," which defers the implementation date for public entities that hold an interest in a variable interest entity or potential variable interest entity from the first fiscal year or interim period beginning after June 15, 2003 to the end of the first interim or annual period ending after December 15, 2003. This deferral applies only if 1) the variable interest entity was created before February 1, 2003 and 2) the



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public entity has not issued financial statements reporting that variable interest entity in accordance with FIN 46, other than disclosures required by paragraph 26 of FIN 46. The adoption of FIN 46 did not have a material impact on the Company's financial position, liquidity or results of operations.

### 3. GAIN ON SALES OF PROPERTIES

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In April 2004 the Company sold its shopping center near Jacksonville, Florida for approximately \$3.9 million and recognized a net gain on the sale of \$1.8 million.

In March 2004 Grove Isle Yacht Club Associates (GIYCA) sold one yacht slip located in Miami, Florida resulting in a net gain to the Company of approximately \$48,000.

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

### 4. INVESTMENTS IN MARKETABLE SECURITIES

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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 (loss) from investments in marketable securities for the three and six months ended June 30, 2004 and 2003 is summarized below:

Description	Three months ended June 30,		Six mon
	2004	2003	2
Net realized loss from sales of securities	(\$5,000)	(\$40,000)	(\$13
Unrealized net (loss) gain in trading securities	(244,000)	373,000	(122
Net change in sales of securities pending delivery	---	(9,000)	
Total net (loss) gain from investments in marketable securities	(\$249,000)	\$324,000	(\$135

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For the three and six months ended June 30, 2004 net realized loss from sales of marketable securities of approximately \$5,000 and \$13,000 consisted of approximately \$10,000 of gross losses net of \$5,000 of gross gains for the three month period and approximately \$89,000 of gross losses net of \$76,000 of gross gains for the six month period. For the three and six months ended June 30, 2003 net realized loss from sales of marketable securities of approximately \$40,000 and \$75,000 consisted of approximately \$155,000 of gross losses net of \$115,000 of gross gains for the three month period and approximately \$204,000 of gross losses net of \$129,000 of gross gains for the six month period.

Net change in sales of securities pending delivery in 2003 represents the changes in the market value of those securities and the delivery of securities to realize gain or loss from these transactions. Such amounts in 2004 were insignificant.

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.

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

### 5. OTHER INVESTMENTS

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As of June 30, 2004, the Company has committed to invest approximately \$10.6 million in other investments primarily in private capital funds, of which approximately \$9.3 million has been funded. The carrying value of other investments (which reflects distributions and valuation adjustments) is approximately \$5.2 million. During the six months ended June 30, 2004 the Company has made contributions of approximately \$939,000 and has received distributions of approximately \$870,000 from these investments. The contributions include \$575,000 made to two new investments during the three months ended June 30, 2004. The distributions in 2004 primarily consisted of return of capital distribution in the amount of \$535,000 from an investment in a partnership which sold and recapitalized several of its operating businesses and distributed the proceeds to its partners.

Net (loss) gain from other investments for the three and six months ended June 30, 2004 and 2003, is summarized below:

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Description	Three months ended June 30,		Six
	2004	2003	2004
Partnership owning diversified operating companies	\$140,000	--	\$140,000
Technology-related venture fund	--	--	(104,000)
Real estate development and operation	2,000	79,000	40,000
Income from investment in 49% owned affiliate (T.G.I.F. Texas, Inc.)	13,000	2,000	34,000
Others, net	(3,000)	(3,000)	(6,000)
Total net gain (loss) from other investments	\$152,000	\$78,000	\$104,000

In May 2004, the Company received a distribution approximately \$271,000 from an investment in a partnership which recapitalized one of its operating companies. The excess of the distribution over the carrying value of the investment resulted in a capital gain of \$140,000.

In March 2004, the Company reduced the carrying value of one of its investments in a venture capital fund by \$104,000. This fund experienced a decline in the market value of its holdings in publicly-traded companies having a concentration in technology and communications

6. MORTGAGES AND NOTES PAYABLE

Included in mortgages and notes payable as of June 30, 2004 and December 31, 2003 is approximately \$3.7 million of notes payable to a 49%-owned affiliate, T.G.I.F. Texas, Inc., as previously disclosed.

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7. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the three and six months ended June 30, 2004 and 2003 are computed as follows:

For the three months ended For  
June 30,

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	2004 ----	2003 ----	2002 ---
Basic:			
-----			
Net Income (loss)	\$1,342,263	\$40,967	\$1,179,000
Weighted average shares outstanding	1,089,135	1,089,135	1,089,135
	-----		
Basic earnings (loss) per share	\$1.23	\$0.04	\$1.07
	=====		
Diluted:			
-----			
Net Income (loss)	\$1,342,263	\$40,967	\$1,179,000
Weighted average shares outstanding	1,089,135	1,089,135	1,089,135
Plus incremental shares from assumed conversion: Stock options	14,136	9,018	14,136
	-----		
Diluted weighted average common shares	1,103,271	1,098,153	1,103,271
	-----		
Diluted earnings (loss) per share	\$1.22	\$0.04	\$1.07
	=====		

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

RESULTS OF OPERATIONS

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The Company reported net income of approximately \$1.3 million (or \$1.23 per basic share and \$1.22 per diluted share) and \$1.2 million (or \$1.08 per basic share and \$1.07 per diluted share) for the three and six months ended June 30, 2004, respectively. This is as compared with net income of approximately \$41,000 (or \$.04 per basic and diluted share) for the three months ended March 31, 2003 and a net loss of approximately \$155,000 (or \$.14 per basic and diluted share) for the six months ended June 30, 2003. Total revenues for the three and six months ended June 30, 2004 as compared with the same periods in 2003, decreased by approximately \$498,000 or 50% and \$450,000 or 28%, respectively. Total expenses for the three and six months ended June 30, 2004, as compared with the same periods in 2003, decreased by approximately \$51,000 or 6% and \$84,000 or

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5%, respectively. Gain on sales of properties for the three and six months ended June 30, 2004 was approximately \$1.8 million as compared with gains of approximately \$39,000 and \$78,000 for the three and six months ended June 30, 2003.

### REVENUES

Rentals and related revenues for the three and six months ended June 30, 2004 as compared with the same comparable periods in 2003 decrease by \$36,000 (9%) and \$19,000 (2%), respectively. The decrease for the three month comparable periods was primarily due to the sale in April 2004 of the shopping center located near Jacksonville, Florida.

Net loss from investments in marketable securities for the three and six months ended June 30, 2004 was approximately \$249,000 and \$135,000, respectively. This is as compared with net gain from investments in marketable securities of approximately \$325,000 and \$300,000, respectively, for the same comparable periods in 2003. For further details refer to Note 4 to Condensed Consolidated Financial Statements (unaudited).

Net gain from other investments for the three and six months ended June 30, 2004 was approximately \$152,000 and \$104,000, respectively. This is as compared with a net gain of approximately \$78,000 and \$146,000, respectively, for the same comparable periods in 2003. For further details refer to Note 5 to Condensed Consolidated Financial Statements (unaudited).

Interest and dividend income for the three and six months ended June 30, 2004 was approximately \$106,000 and \$185,000, respectively. This is as compared with approximately \$67,000 and \$130,000, respectively, for the same comparable periods in 2003. The increases from last year of \$39,000 (or 58%) for the three month periods and \$55,000 (or 42%) for the six month periods was primarily due to an increase in investments bonds and other fixed income securities.

### EXPENSES

Expenses for rental and other properties for the six months ended June 30, 2004 decreased by approximately \$27,000 (or 10%) as compared to that for the six months ended June 30, 2003. This was primarily the result of decreased operating expenses of approximately \$39,000 relating to the sale of the shopping center in April 2004. This decrease was partially offset by increased insurance costs at the Grove Isle property.

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

Marina expenses for the three and six months ended June 30, 2004 increased by approximately \$9,000 (or 11%) and \$27,000 (or 15%), respectively, as compared with the same comparable periods in 2003. This was primarily due to increased insurance expense as a result of the reinstatement of windstorm coverage at the Grove Isle Marina in 2004 and increased payroll and related expenses.

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Professional fees expense for the three and six months ended June 30, 2004 decreased by approximately \$24,000 (or 37%) and \$40,000 (or 37%), respectively, as compared with the same comparable periods in 2003. This decrease was primarily the result of a reduction in the Company legal expenses.

Interest expense for the three and six months ended June 30, 2004 decreased by approximately \$8,000 (or 6%) and \$22,000 (or 9%), respectively, as compared with the same comparable periods in 2003. This decrease was primarily as the result of an overall reduction in outstanding debt.

### EFFECT OF INFLATION:

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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 2004 primarily consist of maturities of debt obligations of approximately \$3.8 million and commitments to fund private capital investments of approximately \$1.3 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 2004 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.

### MATERIAL COMPONENTS OF CASH FLOWS

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For the six months ended June 30, 2004, net cash used in operating activities was approximately \$2 million. Included in this amount is an increase in investments of marketable securities of approximately \$3.3 million less proceeds from sales of marketable securities of approximately \$1.4 million.

For the six months ended June 30, 2004, net cash provided by investing activities was approximately \$3.7 million. This was comprised primarily of proceeds from the sales of properties of approximately \$3.4 million.

For the six months ended June 30, 2004, net cash used in financing activities was approximately \$749,000 primarily consisting of repayments of mortgages and notes payable.

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### 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

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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 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.  
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Item 2. Changes in Securities and Small Business Issuers Purchase of Equity  
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Securities: None.  
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Item 3. Defaults Upon Senior Securities: None.  
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Item 4. Submission of Matters to a Vote of Security Holders: None.  
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Item 5. Other Information: None.  
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Item 6. Exhibits and Reports on Form 8-K:  
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(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 June 30, 2004:

(11)

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.  
-----

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Dated: July 30, 2004

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

Dated: July 30, 2004

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

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