HMG COURTLAND PROPERTIES INC
Form 10QSB
May 15, 2002

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 March 31, 2002

OR

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

For the transition period from ______________________ to ____________________

Commission file number 1-7865

HMG/COURTLAND PROPERTIES, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	59-1914299
(State or other jurisdiction of 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 ___

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 April 30, 2002.

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 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

	(UNAUDITED) March 31, 2002
ASSETS	
Investment properties, net of accumulated depreciation:	
Commercial and industrial	$2,840,784
Hotel and club facility	4,908,861
Yacht slips	628,626
Land held for development	1,864,558
Total investment properties, net	10,242,829
Cash and cash equivalents	2,888,406
Investments in marketable securities	3,792,456
Other investments	6,439,850
Investment in affiliate	2,874,526
Cash restricted pending delivery of securities	208,602
Loans, notes and other receivables	1,247,962
Notes and advances due from related parties	983,393
Deferred taxes	227,000
Other assets	257,174
TOTAL ASSETS	$29,162,198
LIABILITIES	
Mortgages and notes payable	$8,810,403
Accounts payable and accrued expenses	275,252
Sales of securities pending delivery	184,331
Income taxes payable	130,174
Other liabilities	195,726
TOTAL LIABILITIES	9,595,886
Minority interests	402,482
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	38,542,463
Undistributed losses from operations	(45,318,376)
	21,111,694
Less: Treasury stock, at cost (226,500 shares)	(1,659,114)
Notes receivable from exercise of stock options	(288,750)

TOTAL STOCKHOLDERS' EQUITY	19,163,830
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$29,162,198

See notes to condensed consolidated financial statements (unaudited)

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HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

REVENUES	Thre 200
Rentals and related revenue	$40
Marina revenues	12
Net (loss) gain from investments in marketable securities	(19
Net gain from other investments	3
Interest and dividends from invested cash, and other	7
Total revenues	44
EXPENSES	
Operating expenses:	
Rental and other properties	14
Marina	9
Advisor's base fee	16
General and administrative	6
Professional fees and expenses	4
Directors' fees and expenses	1
Depreciation and amortization	15
Total operating expenses	68
Interest expense	13
Minority partners' interests in operating (loss) gains of consolidated entities	(1
Total expenses	80
(Loss) income before sales of properties and income taxes	(36
Gain on sales of properties, net	
(Loss) income before income taxes	(35

(Benefit from) provision for income taxes	(17
Net (loss) income	($17
Net (Loss) Income Per Common Share:	
Basic and diluted	(
Weighted average common shares outstanding	1,08

See notes to condensed consolidated financial statements (unaudited)

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HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three mon Marc 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss) income	($178,360)
Adjustments to reconcile net (loss) income to net cash used in operating activities:	
Depreciation and amortization	151,875
Net gain from other investments	(31,497)
Gain on sales of properties, net	(7,695)
Net loss (gain) from marketable securities	195,570
Unrealized loss from sales of securities pending delivery	991
Minority partners' interest in operating (losses) gains	(12,736)
Changes in assets and liabilities:	
Decrease in other assets	(7,197)
Net proceeds from sales and redemptions of securities	993,858
Decrease in restricted cash	221,529
Increase in sales of securities pending delivery	
Increased investments in marketable securities	(376,799)
(Increase) decrease in accounts payable and accrued expenses	55,233
(Decrease) increase in current income taxes payable	(89,000)
(Decrease) increase in deferred taxes	(88,000)
(Decrease) increase in other liabilities	(186,598)
Total adjustments	819,534
Net cash provided by (used in) operating activities	641,174

CASH FLOWS FROM INVESTING ACTIVITIES:

Aquisitions and improvements of properties	
Net proceeds from disposals of properties	40,145
(Increase) decrease in notes and advances from related parties	(37,521)
Increase in mortgage loans, notes and other receivables	(2,594)
Decrease in mortgage loans, notes and other receivables	42,756
Distributions from other investments	15,418
Contributions to other investments	(350,024)
Net proceeds from sales and redemptions of securities	
Increased investments in marketable securities	
Net cash (used in) provided by investing activities	(291,820)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of mortgages and notes payables	(59,484)
Net distributions to minority partners	
Net cash used in financing activities	(59,484)
Net increase in cash and cash equivalents	289,870
Cash and cash equivalents at beginning of the period	2,598,536
Cash and cash equivalents at end of the period	$2,888,406
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the period for interest	$128,000
Cash paid during the period for income taxes	$1,000

See notes to condensed consolidated financial statements (unaudited)

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 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, 2001. The balance sheet as of December 31, 2001 was derived from audited financial statements as of that date. The results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year. Certain balances have been reclassified to conform with the current period presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS.

In July, 2001, the Financial Accounting Standard Board issued Statements on Financial Accounting Standards (SFAS) No. 141 (Business Combination) and 142 (Goodwill and Other Intangible Assets). SFAS No. 141 among other things eliminates the use of the pooling of interest method of accounting for business combination. Under the provision of SFAS No. 142, goodwill will no longer be amortized, but will be subject to a periodic test for impairment based upon fair value. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 must be adopted in the first quarter of fiscal years beginning after December 15, 2001. The adoption of these statements did not have a material impact on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). This Statement also amends ARB No. 51, Consolidated Financial Statements, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of this Statement were effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively. The adoption of SFAS No. 144 did not have a material impact on the Company's financial statements.

3. INVESTMENTS IN MARKETABLE SECURITIES

Investments in marketable securities consist primarily of large capital corporate equity and debt securities in varying industries 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. Effective in December 2001, management determined that the classification of its entire marketable securities portfolio as trading (versus available for sale, as defined by accounting principles generally accepted in the United States of America) would be more consistent with the Company's overall current investment objectives and activities. As a result, beginning December 31, 2001, all unrealized gains and losses on the Company's marketable securities portfolio were recorded in the statement of operations. As of March 31, 2001, gross unrealized gains and losses on available for sale securities were approximately $616,000 and $1,505,000, respectively, and a net unrealized loss of approximately $889,000 was recorded in accumulated comprehensive income in stockholders' equity.

Net (loss) gain from investments in marketable securities for the three months ended March 31, 2002 and 2001 is summarized below:

Description	2002	2001
Net realized (loss) gain from sales of securities	($59,092)	$1,017,208
Unrealized net loss in marketable securities	(136,478)	--
Net change in sales of securities pending delivery	(991)	(729,023)
Total net (loss) gain	($196,561)	$288,185

Net realized (loss) gain from sales of marketable securities of ($59,000) consisted of approximately $162,000 of gains net of $221,000 of losses for three year ended March 31, 2002. Net gain from sale of marketable securities for the three months ended March 31, 2001 was approximately $1,017,000, of which approximately $643,000 was realized from short positions closed in 2001.

The net change in unrealized loss of marketable securities for the three months ended March 31, 2002 was an additional net loss of $136,478.

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

4. OTHER INVESTMENTS

As a further diversification of the Company's investments in private capital funds, during the three months ended March 31, 2002, $800,000 was committed to purchase limited partnership interests in two private capital funds. Both funds seek to maximize total return on capital through investments in the debt securities of undervalued or financially troubled companies. Both commitments (one for $500,000 and the other for $300,000) are in funds managed by experienced general partners each with over $6 billion under management in funds and accounts focused on investments in distressed companies and related investment opportunities. The commitment of $300,000 will seek to deploy 50% of its assets in Asian investments (primarily Japan and Korea).

As of March 31, 2002, the Company has committed to invest approximately $11.4 million in other investments in private capital funds, of which approximately $8.9 million has been funded.

5. SUBSEQUENT EVENT

In April 2002, the Company sold approximately 50 acres of vacant land located in Massachusetts for $300,000. The estimated net gain on the sale is approximately $270,000.

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

RESULTS OF OPERATIONS

The Company reported net loss of approximately $178,000 or ($.16 per share) for the three months ended March 31, 2002. This is as compared with net income of approximately $836,000 (or $.77 per share) for the three months ended March 31, 2001. Total revenues for the three months ended March 31, 2002, as compared with the same period in 2001, decreased by approximately $562,000 (or 56%). Total expenses for the three months ended March 31, 2002, as compared with the same period in 2001, decreased by approximately $68,000 (or 8%). Gain on sales of properties for the three months ended March 31, 2002 was approximately $8,000, as compared to $1,286,000 for the three months ended March 31, 2001.

REVENUES

Rentals and related revenues for the three months ended March 31, 2002 were approximately $405,000. This is as compared with approximately $338,000 for the same comparable period in 2000. This increase of approximately $67,000 (or 20%) for the three-month comparable period was due to increased rent from the Company's Grove Isle hotel property of approximately $39,000 in accordance with changes in the Consumer Price Index and increased rent from the Company's Fashion Square shopping center of approximately $28,000 due to an additional tenant in the fourth quarter of 2001.

Net loss from investments in marketable securities for the three months ended March 31, 2002 was approximately $197,000. This is as compared with a net gain of approximately $288,000 for the same comparable period in 2001. See discussion in Note 3 to Condensed Consolidated Financial Statements.

Net gain from other investments for the three months ended March 31, 2002 was approximately $31,000. This is as compared with approximately $149,000 for the same period in 2001. This decrease of approximately $118,000 (or 79%) for the three-month comparable period was primarily attributable to non-recurring gains from investments in privately held partnerships, which made distributions during the first quarter of 2001.

Interest and dividends from invested cash for the three months ended March 31, 2002 was approximately $79,000. This is as compared with approximately $100,000 for the same period in 2001. This decrease of approximately $21,000 (or 21%) for the three-month comparable period was primarily attributable to decreased dividends and interest from investments in marketable securities.

EXPENSES

Operating expenses of rental and other properties for the three months ended March 31, 2002 were approximately $148,000. This is as compared with approximately $131,000 for the same period in 2001. This increase of approximately $17,000 (or 13%) for the three-month comparable period was primarily the result of increased insurance expense at the Grove Isle hotel property of approximately $30,000 partially offset by lower operating costs of HMG Fieber properties.

Marina related expenses for the three months ended March 31, 2002 were approximately $90,000. This is as compared with approximately $111,000 for the same period in 2001. The decrease of approximately $21,000 (or 19%) for the three-month comparable period was primarily attributable to lower insurance costs.

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

Interest expense for the three months ended March 31, 2002 was approximately $137,000. This is as compared with approximately $200,000 for the same period in 2001. The decrease of approximately $63,000 (or 31%) for the three-month comparable period was attributable to decreased interest rates on bank loans and amounts due to affiliate (T.G.I.F. Texas, Inc.).

Benefit from income taxes for the three months ended March 31, 2002 was approximately $175,000, consisting of $87,000 of current benefit and $88,000 of deferred benefit. The increased benefit from the prior year is due primarily non recurring gain on sales of properties in 2001.

EFFECT OF INFLATION:

Inflation affects the costs of operating and maintaining the Company's investments and the availability and terms of financing. 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 2002 primarily consist of maturities of debt obligations of approximately $3.7 million and commitments to fund private capital investments of approximately $2.5 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 2002 is a note payable to the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF") of approximately $3.6 million. This amount is due on demand. The obligation due to TGIF will be paid with funds available from distributions from its investment in TGIF and from available cash.

MATERIAL COMPONENTS OF CASH FLOWS

For the three months ended March 31, 2001, net cash provided by operating activities was approximately $641,000. Included in this amount are net proceeds from sales of marketable securities of approximately $994,000 less purchases of marketable securities of approximately $377,000.

For the three months ended March 31, 2002, net cash used in investing activities was approximately $292,000. This was comprised primarily of contributions to other investments of approximately $350,000 less proceeds from sales of properties of $40,000.

For the three months ended March 31, 2001, net cash used in financing activities was approximately $59,000 consisting of repayments of mortgages and notes payable.

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

RECENT ACCOUNTING PRONOUNCEMENTS.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

No items to report.

Item 6. Exhibits and Reports on Form 8-K

(a) There were no reports on Form 8-K filed for the quarter ended March 31, 2002.

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, 2002	/s/ Lawrence Rothstein Lawrence Rothstein President, Treasurer and Secretary Principal Financial Officer
Dated: May 15, 2002	/s/ Carlos Camarotti Carlos Camarotti Vice President - Finance and Controller Principal Accounting Officer