

HMG COURTLAND PROPERTIES INC  
Form 10-Q  
August 14, 2018

**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 June 30, 2018

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the exchange Act).

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. 1,013,292 Common shares were outstanding as of August 14, 2018.

**HMG/COURTLAND PROPERTIES, INC.**

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Cautionary Statement. This Form 10-Q contains certain statements relating to future results of the Company that are considered "forward-looking statements" within the meaning of the Private Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied as a result of certain risks and uncertainties, including, but not limited to, changes in political and economic conditions; interest rate fluctuation; competitive pricing pressures within the Company's market; equity and fixed income market fluctuation; technological change; changes in law; changes in fiscal, monetary, regulatory and tax policies; monetary fluctuations as well as other risks and uncertainties detailed elsewhere in this Form 10-Q or from time-to-time in the filings of the Company with the Securities and Exchange Commission. Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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

	June 30, 2018 (UNAUDITED)	December 31, 2017
<b>ASSETS</b>		
Investment properties, net of accumulated depreciation:		
Office building and other commercial property	\$ 869,563	\$ 857,464
Total investment properties, net	869,563	857,464
Cash and cash equivalents	19,751,644	5,223,995
Investments in marketable securities	5,190,532	4,549,745
Other investments	5,656,380	6,412,120
Investment in affiliate	1,614,967	1,757,607
Loans, notes and other receivables	1,036,256	1,561,750
Investment in residential real estate partnership	99,186	1,685,978
Other assets	153,457	108,020
<b>TOTAL ASSETS</b>	<b>\$ 34,371,985</b>	<b>\$ 22,156,679</b>
<b>LIABILITIES</b>		
Margin payable	\$ 9,912,841	\$ 267,198
Accounts payable, accrued expenses and other liabilities	114,093	119,171
Amounts due to Adviser for incentive fee	108,210	43,279
Note payable to affiliate	1,340,000	1,550,000
Deferred income taxes payable	117,732	84,153
<b>TOTAL LIABILITIES</b>	<b>11,592,876</b>	<b>2,063,801</b>
<b>STOCKHOLDERS' EQUITY</b>		
Excess common stock, \$1 par value; 100,000 shares authorized: no shares issued	-	-
Common stock, \$1 par value; 1,050,000 shares authorized, 1,046,393 and 1,035,493 shares issued as of June 30, 2018 and December 31, 2017, respectively	1,046,393	1,035,493
Additional paid-in capital	24,157,986	24,076,991
Less: Treasury shares at cost 33,101 shares	(340,281 )	(340,281 )
Undistributed gains from sales of properties, net of losses	55,149,410	52,208,753
Undistributed losses from operations	(57,478,224 )	(57,120,990 )
Total stockholders' equity	22,535,284	19,859,966
Noncontrolling interest	243,825	232,912
<b>TOTAL EQUITY</b>	<b>22,779,109</b>	<b>20,092,878</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 34,371,985</b>	<b>\$ 22,156,679</b>

*See notes to the condensed consolidated financial statements*



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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
<b>REVENUES</b>				
Real estate rentals and related revenue	\$ 18,091	\$ 18,830	\$ 36,183	\$ 35,840
<b>EXPENSES</b>				
Operating expenses:				
Rental and other properties	28,646	31,190	39,720	54,360
Adviser's base fee	165,000	165,000	330,000	330,000
General and administrative	35,498	37,336	120,141	117,504
Professional fees and expenses	19,040	27,309	121,292	107,173
Directors' fees and expenses	19,866	20,490	40,366	36,490
Depreciation and amortization	3,850	3,850	7,699	7,699
Interest expense	28,256	16,220	49,230	31,553
Total expenses	300,156	301,395	708,448	684,779
Loss before other income, income taxes and gain on sale of real estate	(282,065 )	(282,565 )	(672,265 )	(648,939 )
Net realized and unrealized gains from investments in marketable securities	45,223	104,141	24,462	230,653
Equity loss from operations of residential real estate partnership	-	(35,340 )	(143,890 )	(152,517 )
Net income from other investments	72,705	69,589	290,408	348,205
Interest, dividend and other income	97,935	123,040	188,543	263,882
Total other income	215,863	261,430	359,523	690,223
(Loss) income before income taxes and gain on sale of real estate	(66,202 )	(21,135 )	(312,742 )	41,284
Provision for income taxes	(6,374 )	-	(33,579 )	-
Net (loss) income before gain on sale of real estate	(72,576 )	(21,135 )	(346,321 )	41,284
Gain on sale of real estate, net	-	-	5,473,887	-
Net (loss) income	(72,576 )	(21,135 )	5,127,566	41,284
(Gain) loss from non-controlling interest	(1,663 )	120	(10,913 )	(9,931 )
Net (loss) income attributable to the company	\$ (74,239 )	\$ (21,015 )	\$ 5,116,653	\$ 31,353
Weighted average common shares outstanding-basic and diluted	1,013,292	1,002,392	1,010,362	1,002,392
Net (loss) income per common share:				
Basic and diluted net (loss) income per share	\$ (0.07 )	\$ (0.02 )	\$ 5.06	\$ 0.03



*See notes to the condensed consolidated financial statements*

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

	For the six months ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income attributable to the Company	\$ 5,116,653	\$ 31,353
Adjustments to reconcile net income attributable to the Company to net cash used in operating activities:		
Depreciation expense	7,699	7,699
Net income from other investments, excluding impairment losses	(290,408 )	(348,205 )
Equity (gain) on sale of residential real estate partnership	(5,473,887 )	152,517
Equity loss from operations of residential real estate partnership	143,890	-
Net gains from investments in marketable securities	(24,462 )	(230,653 )
Net gain attributable to non-controlling interest	10,913	9,931
Deferred income tax expense	33,579	-
Changes in assets and liabilities:		
Other assets and other receivables	5,026	81,914
Accounts payable, accrued expenses and other liabilities	(548,357 )	(38,379 )
Total adjustments	(6,136,007 )	(365,176 )
Net cash used in operating activities	(1,019,354 )	(333,823 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net proceeds from sales and redemptions of securities	1,035,099	2,816,257
Investments in marketable securities	(1,351,425 )	(2,631,149 )
Distribution from investment in residential real estate partnership	7,525,000	130,000
Distributions from other investments	1,338,178	762,823
Contributions to other investments	(667,646 )	(1,003,553 )
Proceeds from collections of mortgage loans and notes receivables	500,000	-
Distribution from affiliate	193,286	78,000
Purchases and improvements of properties	(19,797 )	(12,311 )
Net cash provided by investing activities	8,552,695	140,067
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Margin borrowings	9,645,643	81,376
Dividend paid	(2,533,230 )	(501,196 )
Repayment of note payable to affiliate	(210,000 )	-
Proceeds from stock options exercised	91,895	-
Net cash provided by (used in) financing activities	6,994,308	(419,820 )
Net increase (decrease) in cash and cash equivalents	14,527,649	(613,576 )
Cash and cash equivalents at beginning of the period	5,223,995	3,019,463
Cash and cash equivalents at end of the period	\$ 19,751,644	\$ 2,405,887
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	\$ 49,000	\$ 32,000

Cash paid during the period for income taxes	\$ -	\$ 3,000
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*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, 2017. The balance sheet as of December 31, 2017 was derived from audited consolidated financial statements as of that date. The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results to be expected for future periods or 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, 2017 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. Accordingly, all unrealized gains (losses) on this portfolio are recorded in the condensed consolidated statements of income. Included in investments in marketable securities is approximately \$3.09 million and \$2.96 million of large capital real estate investment trusts (REITs) as of June 30, 2018 and December 31, 2017, respectively.

Approximate net realized and unrealized (loss) gain from investments in marketable securities for the three and six months ended June 30, 2018 and 2017 is summarized below:

Description	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net realized gain (loss) from sales of securities	\$4,000	\$(71,000)	\$(4,000)	\$(89,000)
Unrealized net gain in trading securities	41,000	175,000	28,000	320,000
Total net gain from investments in marketable securities	\$45,000	\$104,000	\$24,000	\$231,000

For the three months ended June 30, 2018, net realized gain from sales of marketable securities was approximately \$4,000 which approximately all consisted of gross gains. For the six months ended June 30, 2018, net realized loss from sales of marketable securities was approximately \$4,000 and consisted of approximately \$29,000 of gross losses net of \$25,000 of gross gains.

For the three months ended June 30, 2017, net realized loss from sales of marketable securities was approximately \$71,000 and consisted of approximately \$98,000 of gross losses and \$27,000 of gross gains. For the six months ended June 30, 2017, net realized loss from sales of marketable securities was approximately \$89,000 and consisted of approximately \$182,000 of gross losses net of \$93,000 of gross gains.

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 on Form 8-K dated February 20, 2018, JY-TV Associates, LLC, a Florida limited liability company ("JY-TV") ("Seller") an entity one-third owned by HMG, completed the sale of its multi-family residential apartments located in Orlando, Florida pursuant to the previously reported Agreement of Sale (the "Agreement") to Murano 240, LLC (as per an Assignment and Assumption of Agreement of Sale with Cardone Real Estate Acquisitions, LLC), a Delaware limited liability company, an unrelated entity ("Purchaser"). The final sales price was \$50,150,000 and the sales proceeds were received in cash and payment of outstanding debt. The gain on the sale to HMG is approximately \$5.5 million, net of the incentive fee.

For the six months ended June 30, 2018 JY-TV reported a net income of approximately \$17.9 million, which includes approximately \$18.2 million in gain on sale of property, depreciation and amortization expense of \$402,000, interest expense of \$159,000 and write-off of certain prepaid and other assets upon the sale of property of approximately \$147,000. The Company's portion of JY-TV's net income is approximately \$5.9 million (\$144,000 of loss from operations and \$6.1 million in gain on sale of property (before the \$608,000 incentive fee). JY-TV made distributions totaling \$21.75 million in February 2018. The Company's portion of those distributions was \$7.25 million. In June 2018 JY-TV made another distribution of \$825,000, of which the Company's portion was \$275,000. Final accounting and distribution from JY-TV is expected before the end of fiscal 2018.

For the six months ended June 30, 2017 JY-TV reported a net loss of approximately \$457,000, which includes depreciation and amortization expense of \$777,000 and interest expense of \$573,000. The Company's portion of that loss is approximately \$153,000. In March 2017, JY-TV distributed \$390,000 to its members. The Company's portion of that distribution was \$130,000.

#### **5. OTHER INVESTMENTS**

As of June 30, 2018, the Company's portfolio of other investments had an aggregate carrying value of approximately \$5.6 million and we have committed to fund additional amounts of approximately \$2.0 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 six months ended June 30, 2018, we made cash contributions to other investments of approximately \$668,000, consisting of \$393,000 in follow on existing investment commitments and \$275,000 in two new investments in a partnership owning real estate in Orlando, Florida for \$200,000 and a partnership owning diversified businesses of \$75,000.

During the six months ended June 30, 2018, we received cash distributions from other investments of approximately \$1.3 million. These distributions included approximately \$475,000 (net of 10% holdback pending year end audit of partnership) received in June 2018 from the redemption of an investment in a partnership owning investment contracts which resulted in a loss of less than \$1,000, \$404,000 from one investment in a partnership owning rental apartments in San Antonio, Texas which were sold in March 2018 at a gain to the Company of approximately \$105,000, and \$106,000 in distributions from an on-going investment in a power and energy partnership. The other distributions were primarily from real estate and related investments. Also, in the first quarter of 2018 the Company's investments in two private banks experienced mergers with publicly traded larger banks and we received stock in those publicly traded banks plus approximately \$34,000 in cash. The cash portion was recorded as gain from other investments. The bank securities we received from the mergers are being held in our marketable securities portfolio at the carrying value equal to our original investment in the private banks (with an unrealized gain of approximately \$168,000 as of June 30, 2018).

Net income from other investments for the three and six months ended June 30, 2018 and 2017, is approximately as follows:

Description	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Partnerships owning real estate and related	\$ 32,000	\$ 24,000	\$ 164,000	\$ 127,000
Partnerships owning diversified businesses	27,000	37,000	42,000	179,000
Other (bank stocks)	2,000		34,000	
Income from investment in 49% owned affiliate (T.G.I.F. Texas, Inc.)	12,000	8,000	51,000	42,000
Total net income from other investments	\$ 73,000	\$ 69,000	\$ 291,000	\$ 348,000

The following tables present approximate gross unrealized losses and fair values for those investments that were in an unrealized loss position as of June 30, 2018 and December 31, 2017, aggregated by investment category and the length of time that investments have been in a continuous loss position:

Investment Description	As of June 30, 2018					
	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	\$-	\$ -	\$ 121,000	\$ (42,000 )	\$ 121,000	\$ (42,000 )
Total	\$-	\$ -	\$ 121,000	\$ (42,000 )	\$ 121,000	\$ (42,000 )

Investment Description	As of December 31, 2017					
	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	\$ 138,000	\$ (24,000 )	\$ -	\$ -	\$ 138,000	\$ (24,000 )
Total	\$ 138,000	\$ (24,000 )	\$ -	\$ -	\$ 138,000	\$ (24,000 )

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.



There were no impairment valuation adjustments for the three and six months ended June 30, 2018 and 2017.

## **6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

In accordance with ASC Topic 820, the Company measures cash and cash equivalents and 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 as of June 30, 2018 and December 31, 2017, 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 where significant unobservable inputs were used (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 June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Time deposits	\$ 50,000	-	\$ 50,000	\$ -
Money market mutual funds	1,747,000	1,747,000	-	-
US T-Bills	16,884,000	16,884,000		
Marketable securities:				
Corporate debt securities	534,000	-	534,000	-
Marketable equity securities	4,657,000	4,657,000	-	-
Total assets	\$ 23,872,000	\$ 23,288,000	\$ 584,000	\$ -

Description	Fair value measurement at reporting date using			
	Total December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents:				
Time deposits	\$ 352,000	\$ -	\$ 352,000	\$ -
Money market mutual funds	1,633,000	1,633,000	-	-
US T-Bills	2,935,000	2,935,000	-	
Marketable securities:				
Corporate debt securities	517,000	-	517,000	-
Marketable equity securities	4,033,000	4,033,000	-	-
Total assets	\$ 9,470,000	\$ 8,601,000	\$ 869,000	\$ -

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.

**7. INCOME TAXES**

The Company as a qualifying real estate investment trust (“REIT”) 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 taxable REIT subsidiary, CII, files a separate income tax return and its operations are not included in the REIT's income tax return.

Distributed capital gains on sales of real estate as they relate to REIT activities are not subject to taxes; however, undistributed capital gains may be subject to corporate tax.

In March 2018, the Company paid a cash dividend of approximately \$2.5 million (or \$2.50 per share) to shareholders of record as of March 21, 2018. The dividend was a capital gain distribution to shareholders. No dividends were declared for the year ended December 31, 2017.

In January 2017, the Company paid a cash dividend of approximately \$501,000 (or \$.50 per share) to shareholders of record as of December 29, 2016. The dividend was a return of capital to shareholders. No dividends were declared for the year ended December 31, 2017.

The 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 basis 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 June 30, 2018, and December 31, 2017, the Company has recorded a net deferred tax liability of approximately \$118,000 and \$84,000, respectively, primarily 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 2018 is estimated at \$989,000, the estimated tax benefits of which have 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:

Six months ended June 30,	2018	2017
Current:		
Federal	\$-	\$-
State	-	-
	-	-
Deferred:		
Federal	\$39,000	\$59,000
State	6,000	7,000
	45,000	66,000
Decreased valuation allowance	(11,000)	(66,000)
Total	\$34,000	\$-

## **8. STOCK OPTIONS**

In January and March 2018 three directors and one officer exercised options to purchase a total of 10,900 shares at \$9.31 per share (options to purchase 1,600 shares by one director were exchanged for new options via Stock Option Agreement re-load provision). Stock based compensation expense is recognized using the fair-value method for all awards. During the six months ended June 30, 2018 there were no options granted, expired or forfeited.

The following table summarizes stock option activity during the six months ended June 30, 2018:

Options Outstanding	Weighted Average Exercise Price
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Outstanding at January 1, 2018	12,500	\$ 9.31
Exercised (including 1,600 shares exchanged via re-load option)	12,500	9.31
Forfeited	-	-
Expired unexercised	-	-
Granted (via re-load option)	1,600	15.30
Outstanding at June 30, 2018	1,600	\$ 15.30

The following table summarizes information concerning outstanding and exercisable options as of June 30, 2018:

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plan approved by shareholders	1,600	\$ 15.30	47,608
Equity compensation plan not approved by shareholders	—	—	—
Total	1,600	\$ 15.30	47,608

As of June 30, 2018, the stock 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 \$74,000 (\$0.07 per share) for the three months ended June 30, 2018, and net income of approximately \$5.1 million (\$5.06 per share) for the six months ended June 30, 2018. For the three months ended June 30, 2017, we reported a net loss of \$21,000 (\$0.02 per share) and for the six months ended June 30, 2017 we reported net income of \$31,000 (\$0.03 per share).

**REVENUES**

Rentals and related revenues for the three and six months ended June 30, 2018 were approximately \$18,000 and \$36,000, respectively and primarily consists of rent from the Advisor to CII for its corporate office. For the three and six months ended June 30, 2017 rental and related revenues were \$19,000 and \$36,000, respectively.

**Net realized and unrealized gain from investments in marketable securities:**

Net realized (loss) gain from investments in marketable securities for the three and six months ended June 30, 2018 was approximately (\$4,000) and \$4,000, respectively. Net realized (loss) from investments in marketable securities for the three and six months ended June 30, 2017 was approximately (\$71,000) and (\$89,000), respectively. Unrealized net gain from investments in marketable securities for the three and six months ended June 30, 2018 was approximately \$41,000 and \$28,000, respectively. Unrealized net gain from investments in marketable securities for the three and six months ended June 30, 2017 was approximately \$175,000 and \$320,000, respectively. For further details refer to Note 3 to Condensed Consolidated Financial Statements (unaudited).

**Equity loss in residential real estate partnership:**

Equity loss from operations in residential real estate partnership for the six months ended June 30, 2018 was approximately \$144,000. Equity loss from operations in residential real estate partnership for the six months ended June 30, 2017 was approximately \$35,000 and \$152,000, respectively. For further details, refer to Note 4 to Condensed Consolidated Financial Statements (unaudited).

**Net income from other investments:**

Net income from other investments for the three and six months ended June 30, 2018 was approximately \$73,000 and \$291,000, respectively. Net income from other investments for the three and six months ended June 30, 2017 was approximately \$69,000 and \$348,000, respectively. For further details refer to Note 5 to Condensed Consolidated Financial Statements (unaudited).

Interest, dividend and other income:

Interest, dividend and other income for the three and six months ended June 30, 2018 was approximately \$98,000 and \$188,000, respectively. Interest, dividend and other income for the three and six months ended June 30, 2017 was approximately \$123,000 and \$264,000, respectively. The decreases in the three and six-month comparable periods was primarily due to decreased dividend income.

**EXPENSES**

Interest expense for the three and six months ended June 30, 2018 as compared with the same periods in 2017 increased by approximately \$12,000 (74%) and \$18,000 (56%), respectively. The increases in the three and six-month comparable periods were primarily due to increase margin borrowings and increased interest rates.

**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 \$1.34 million due on demand and contributions committed to other investments of approximately \$2.0 million due upon demand. The \$9.9 million in margin is related to the purchase of US T-bills at quarter end. The T-bills were sold in July 2018 and the margin was repaid. The purchase of T-bills at quarter end is for the purposes of qualifying for the REIT asset test. The funds necessary to meet the other obligations are expected from the proceeds from the sales of investments, distributions from investments and available cash.

### **MATERIAL COMPONENTS OF CASH FLOWS**

For the six months ended June 30, 2018, net cash used in operating activities was approximately \$1.0 million, primarily consisting of operating expenses and \$500,000 partial payment of the incentive fee due to the Advisor.

For the six months ended June 30, 2018, net cash provided by investing activities was approximately \$8.55 million. This consisted primarily of distributions from investment in residential real estate partnership of \$7.525 million (mainly from the sales proceeds of the Orlando, Florida property), net proceeds from redemptions of marketable securities of \$1.03 million, distributions from other investments of \$1.34 million, proceeds from collection of mortgage loan receivable of \$500,000 and distribution from affiliate of \$193,000. These sources of funds were partially offset by uses of cash consisting primarily of \$1.35 million in purchases of marketable securities and \$668,000 of contributions to other investments.

For the six months ended June 30, 2018, net cash provided by financing activities was approximately \$6.99 million, consisting of margin borrowings of \$9.643 million and \$92,000 of proceeds from stock options exercised. These sources of funds were partially offset by a dividend payment of \$2.53 million and repayment of note payable to affiliate of \$210,000.

### **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:**

As previously reported, we have one current program to repurchase up to \$600,000 of outstanding shares of our common stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. This program was approved by our Board of Directors on June 30, 2016 and expires on June 29, 2021. As of June 30, 2018, the maximum dollar value of shares that may yet be purchased under the program is \$259,719. During the six months ended June 30, 2018 there were no shares purchased as part of this publicly announced program.

**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: August 14, 2018 /s/ Maurice Wiener  
CEO and President

Dated: August 14, 2018 /s/ Carlos Camarotti  
CFO and Vice President