

HMG COURTLAND PROPERTIES INC
Form 10-K
March 31, 2011

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ Annual Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

For the fiscal year ended December 31, 2010

☐ Transition Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

Commission file number: 1-7865

HMG/COURTLAND PROPERTIES, INC.
(Name of Registrant in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

59-1914299
(I.R.S. Employer
Identification Number)

1870 S. Bayshore Drive, Coconut Grove,
Florida

(Address of principal executive offices)

33133

(Zip Code)

Issuer's telephone number, including area code: (305) 854-6803

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered:
Common Stock - Par value \$1.00 per share	NYSE Amex

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 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 (Section

232.05) 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 or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company filer" in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer____ Accelerated filer____

Non-accelerated filer ____ Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the exchange Act).
Yes [] No [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant (excludes shares of voting stock held by directors, executive officers and beneficial owners of more than 10% of the Registrant's voting stock; however, this does not constitute an admission that any such holder is an "affiliate" for any purpose) based on the closing price of the stock as traded on the NYSE Amex Exchange on the last business day of the Registrant's most recently completed second fiscal quarter (June 30, 2010) was \$2,041,082. The number of shares outstanding of the issuer's common stock, \$1 par value as of the latest practicable date: 1,010,426 shares of common stock, \$1 par value, as of March 31, 2011.

TABLE OF CONTENTS

	PAGE
PART I	
Item 1. Description of Business	<u>3</u>
Item 2. Description of Property	<u>6</u>
Item 3. Legal Proceedings	<u>8</u>
Item 4. Item 4. [Removed and Reserved]	
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>8</u>
Item 6. Selected Financial Data	<u>9</u>
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>9</u>
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	<u>19</u>
Item 8. Financial Statements and Supplementary Data	<u>19</u>
Item 9. Changes in and Disagreements with Accountants On Accounting and Financial Disclosure	<u>60</u>
Item 9A. Controls and Procedures	<u>60</u>
Item 9B. Other Information	<u>61</u>
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	<u>62</u>
Item 11. Executive Compensation	<u>63</u>
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>64</u>
Item 13. Certain Relationships and Related Transactions, and Director Independence	<u>66</u>
Item 14. Principal Accountant Fees and Services	<u>68</u>
PART IV	
Item 15. Exhibits and Financial Statement Schedules	<u>68</u>
<u>Signatures</u>	
<u>Certifications</u>	

Part I.

Cautionary Statement.

An investment in our common stock involves a high degree of risk. These risks should be considered carefully with the uncertainties described below, and all other information included in this Annual Report on Form 10-K, before deciding whether to purchase our common stock. Additional risks and uncertainties not currently known to management or that management currently deems immaterial may also become important factors that may harm our business, financial condition or results or operations. The occurrence of any of these risks could harm our business, financial condition and results of operations. The trading price of our common stock could decline due to any of these risks and uncertainties and you may lose part or all of your investment.

This Annual Report 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 Annual Report 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.

Item 1. Description of Business.

HMG/Courtland Properties, Inc. and subsidiaries ("HMG", or the "Company"), is a Delaware corporation organized in 1972. The Company's business is the ownership and management of income-producing commercial properties and will consider other investments if they offer growth or profit potential.

HMG (excluding its 95% owned subsidiary Courtland Investments, Inc. ("CII"), which files a separate tax return) qualifies for taxation as a real estate investment trust ("REIT") under the U.S. Internal Revenue Code. In order for a company to qualify as a REIT, it must comply with certain rules specified in the Internal Revenue Code. These include: investing at least 75 percent of total assets in real estate; deriving at least 75 percent of gross income as rents from real property or interest from mortgages on real property; and distributing annually at least 90 percent of taxable income to shareholders in the form of dividends.

The Company's commercial properties are located in the Coconut Grove section of Miami, Florida and consist of a luxury resort on a private island known as "Grove Isle" with a 50-room hotel, restaurant/banquet facilities, spa, tennis courts and marina with 85 dockage slips and a 50% leasehold interest in "Monty's", a facility consisting of a 16,000 square foot indoor/outdoor seafood restaurant adjacent to a marina with 132 dockage slips and a 40,000 square foot office/retail mall building with approximately 24,000 net rentable square feet. The Monty's facility is subject to a ground lease with the City of Miami, Florida which expires in 2035. The Company's corporate office is also located in Coconut Grove in a 5,000 square foot building.

The Company's rental and related revenue for each of the years ended December 31, 2010 and 2009 generated approximately 64% and 66%, respectively, from the Grove Isle property 32% and 31%, respectively, from the Monty's property. Marina and related revenues for 2010 and 2009 generated approximately 70% from the marina at the Monty's facility and 30% coming from the marina at the Grove Isle facility. The Company's food and beverage revenue is entirely from the restaurant at the Monty's facility. Spa revenue is from the Company's 50% owned spa at Grove Isle. The other 50% of the Spa is owned by the tenant operator of Grove Isle.

The Company also owns two properties held for development. A 70% interest in a 13,000 square foot commercially zoned building located on 5 acres in Montpelier, Vermont, and approximately 50 acres of vacant land held in Hopkinton, Rhode Island.

The Company's other investments consist primarily of nominal equity interests in various privately-held entities, including limited partnerships whose purpose is to invest venture capital funds in growth-oriented enterprises. The Company does not have significant influence over any investee and the Company's investment represents less than 3% of the investee's ownership. Some of these investments give rise to exposure resulting from the volatility in capital markets. The Company mitigates its risks by diversifying its investment portfolio. Information with respect to the amounts and types of other investments including the nature of the declines in value is set forth in Note 5 of the Notes to Consolidated Financial Statements.

The Company's investments in marketable securities include equity and debt securities issued primarily by large capital companies or government agencies with readily determinable fair values in varying industries. This includes real estate investment trusts and mutual funds focusing in commercial real estate activities. Substantially all of the Company's marketable securities investments are in companies listed on major national stock markets, however the overall investment portfolio and some of the Company's investment strategies could be viewed as risky and the market values of the portfolio may be subject to fluctuations. Consistent with the Company's overall investment objectives and activities, management classifies all marketable securities as being held in a trading portfolio. Accordingly, all unrealized gains and losses on the Company's investments in marketable securities are recorded in the consolidated statements of comprehensive income. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. Information regarding the amounts and types of investments in marketable securities is set forth in Note 4 of the Notes to Consolidated Financial Statements.

The Company acquires its real estate and other investments utilizing available cash, trading securities or borrowing funds.

The Company may realize gains and losses in its overall investment portfolio from time to time to take advantage of market conditions and/or manage the portfolio's resources and the Company's tax liability. The Company may utilize margin for its marketable securities purchases through the use of standard margin agreements with national brokerage firms. The use of available leverage is guided by the business judgment of management. The Company may also use options and futures to hedge concentrated stock positions and index futures to hedge against market risk and enhance the performance of the Company's portfolio while reducing the overall portfolio's risk and volatility.

Reference is made to Item 13. Certain Relationships and Related Transactions and Director Independence for discussion of the Company's organizational structure and related party transactions.

Investment in Affiliate.

The Company's investment in affiliate consists of a 49% equity interest in T.G.I.F. Texas, Inc. (TGIF). TGIF was incorporated in Texas and operates solely from the Company's corporate office in Miami, Florida. The Company's CEO, Maurice Wiener, is also the CEO of TGIF. Its assets consist primarily of promissory notes receivable from its shareholders including CII and Mr. Wiener and other investments including marketable debt and equity securities. This investment's carrying value as of December 31, 2010 and 2009 was approximately \$2.8 and \$2.9 million, respectively. CII's note payable to TGIF which is due on demand was approximately \$3.4 million and \$3.6 million as of December 31, 2010 and 2009. Reference is made to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Insurance, Environmental Matters and Other:

In the opinion of management, all significant assets of the Company are adequately covered by insurance and the cost and effects of complying with environmental laws do not have a material impact on the Company's operations.

We are not aware of any federal, state or local environmental laws or regulations that will materially affect our earnings or competitive position or result in material capital expenditures. However, we cannot predict the effect of possible future environmental legislation or regulations on our operations.

Competition and the Company's Market

The Company competes for suitable opportunities for real estate investments with other real estate investment trusts, foreign investors, pension funds, insurance companies and other investors. The Company also competes with other real estate investors and borrowers for available sources of financing.

In addition, to the extent the Company leases properties it must compete for tenants with other lessors offering similar facilities. Tenants are sought by providing modern, well-maintained facilities at competitive rentals. The Company has attempted to facilitate successful leasing of its properties by investing in facilities that have been developed according to the specifications of tenants and special local needs.

The food and beverage industry is highly competitive and is often affected by changes in taste and entertainment trends among the public, by local, national and economic conditions affecting spending habits, and by population and traffic patterns. The Company's Monty's restaurant is primarily outdoors and subject to climate and seasonal conditions.

The Company has the right to certain trademarks and service marks commonly known as "Monty Trainer's", "Monty's Stone Crab", "Monty's Conch", "Monty's" and "Monty's Marina", together with certain other trademarks, trade secrets, unique features, concepts, designs, operating procedures, recipes and materials used in connection with the operation of the restaurant. The Company regards its trademarks and other proprietary rights as valuable assets which are essential to the related operations. The Company will vigorously monitor and protect its trademarks against infringement and dilution where legally feasible and appropriate.

Employees.

The Company's management is provided in accordance with its Advisory Agreement (the "Agreement") with the HMG Advisory Corp. ("the Adviser"), as described below under "Terms of the Agreement". Reference is also made to Item 13. Certain Relationships and Related Transactions, and Director Independence. There is one employee at an 80%-owned subsidiary of CII which performs financial consulting services for which the Company receives consulting fees.

As of December 31, 2010 the Company's subsidiaries that operate the Monty's facility have approximately 95 hourly restaurant employees, two salaried restaurant managers and two marina hourly employees. Reference is made to discussion of Monty's facility in Item 2. Description of Property.

The restaurant operation is subject to federal and state laws governing such matters as wages, working conditions, citizenship requirements and overtime. Some states, including Florida, have set minimum wage requirements higher than the federal level. Significant numbers of hourly personnel at our restaurants are paid at rates related to the Florida minimum wage and, accordingly, increases in the minimum wage will increase labor costs. We are also subject to the Americans With Disability Act of 1990 (ADA), which, among other things, may require certain renovations to our restaurants to meet federally mandated requirements. The cost of any such renovations is not expected to materially affect us.

We are not aware of any statute, ordinance, rule or regulation under present consideration which would significantly limit or restrict our business as now conducted. None of our employees are represented by collective bargaining organizations. We consider our labor relations to be favorable.

Terms of the Advisory Agreement. Under the terms of the Agreement, the Adviser serves as the Company's investment adviser and, under the supervision of the directors of the Company, administers the day-to-day operations of the Company. All officers of the Company who are officers of the Adviser are compensated solely by the Adviser for their services. The Agreement is renewable annually upon the approval of a majority of the directors of the Company who are not affiliated with the Adviser and a majority of the Company's shareholders. The contract may be terminated at any time on 120 days written notice by the Adviser or upon 60 days written notice by a majority of the unaffiliated directors of the Company or the holders of a majority of the Company's outstanding shares.

On August 5, 2010, the shareholders approved the renewal of the Advisory Agreement between the Company and the Adviser for a term commencing January 1, 2011, and expiring December 31, 2011.

The Adviser is majority owned by Mr. Wiener with the remaining shares owned by certain individuals, including Mr. Rothstein. The officers and directors of the Adviser are as follows: Maurice Wiener, Chairman of the Board and Chief Executive officer; Larry Rothstein, President, Treasurer, Secretary and Director; and Carlos Camarotti, Vice President - Finance and Assistant Secretary.

Advisory Fees. For the years ended December 31, 2010 and 2009, the Company and its subsidiaries incurred Adviser fees of approximately \$1,020,000. There was no incentive compensation for 2010 and 2009.

Item 2. Description of Property.

Grove Isle Hotel, Club and Marina ("Grove Isle") (Coconut Grove, Florida). The Company has owned Grove Isle since 1993 and leases the property to a qualified luxury resort manager to operate the resort. The Grove Isle resort includes a 50 room hotel, renowned restaurant and banquet facilities, a first class spa, tennis courts and an 85-boat slip marina. It is located on 7 acres of a private island in Coconut Grove, Florida, known as "Grove Isle".

Presently, the lessee of Grove Isle is Grove Hotel Partners, LLC, an affiliate of Grand Heritage Hotel Group, LLC ("GH"). GH operates over a dozen independent hotels and resorts across North America and Mexico. The lease termination date is November 30, 2016, if not extended as provided in the lease. Base rent was \$1,184,000 for the year ended December 31, 2010 and will increase to \$1,204,000 in 2011 after annual inflation adjustment provided in the lease. The lease also calls for participation rent consisting of a portion of operating surplus, as defined. Participation rent, when and if due, is payable at end of each lease year. There has been no participation rent since the inception of the lease.

GH also manages the day to day operations of Grove Isle Spa, LLC ("GS"), which is owned 50% by GH and 50% by the Company. GS began operations in 2005 and operates under the name "Spa Terre at the Grove" offering a variety of body treatments, salon services, facial care and massage therapies.

The Grove Isle property is encumbered by a mortgage note payable with an outstanding balance of approximately \$3.6 million and \$3.7 million as of December 31, 2010 and 2009, respectively. This loan calls for monthly principal payments of \$10,000 with interest on outstanding principal is due monthly at an annual rate of 2.5% plus the one-month LIBOR Rate with all outstanding principal and interest due at maturity on March 28, 2011. The lender is presently considering our request for further extension.

As of December 31, 2010, 6 of the 85 yacht slips at the facility are owned by the Company and the other 79 are owned by unrelated individuals or their entities. The Company operates and maintains all aspects of the Grove Isle marina for an annual management fee from the slip owners to cover operational expenses. In addition the Company rents the unsold slips to boat owners on a short term basis.

Restaurant, marina and mall (“Monty’s”) (Coconut Grove, Florida).

In August 2004, the Company, through two 50%-owned entities, Bayshore Landing, LLC (“Landing”) and Bayshore Rawbar, LLC (“BSRB”), (collectively, “Bayshore”) purchased a restaurant, office/retail and marina property located in Coconut Grove (Miami), Florida known as Monty’s. The other 50% owner of Bayshore is The Christoph Family Trust (the “Trust” or “CFT”). Members of the Trust are experienced real estate and marina operators.

The Monty’s property consists of a two story building with approximately 40,000 rentable square feet and approximately 3.7 acres of land and submerged land with a 132-boat slip marina. It includes a 16,000 square foot indoor-outdoor raw bar restaurant known as Monty’s Raw Bar and 24,000 net rentable square footage of office/retail space leased to tenants operating boating and marina related businesses. Monty’s Raw Bar has operated in the same location since 1969 and is an established culinary landmark in South Florida. It is a casual restaurant and bar located next to the picturesque Monty’s marina.

The Monty’s property is subject to a ground lease with the City of Miami, Florida expiring in 2035. Under the lease, Landing pays percentage rent ranging from 8% to 15% of gross revenues from various components of the property.

The Monty’s property is encumbered by a loan mortgage payable to a bank with an outstanding principal balance of \$10.5 million as of December 31, 2010. In March 2011 the Monty’s loan was modified and the principal balance was paid down by \$1.6 million to \$8.8 million. The modified loan calls for substantially equal monthly installments of principal and interest in the amount required to repay the loan in full amortized over a hypothetical 15-year term, at the same interest rate as the original loan. All remaining principal and interest shall be due on the maturity date of August 19, 2020. As a result of the loan modification total Bayshore debt service will decrease by approximately \$40,000 per month. In conjunction with this loan Bayshore entered into an interest rate swap agreement to manage their exposure to interest rate fluctuation through the entire term of the mortgage. The effect of the swap agreement is to provide a fixed interest rate of 7.57%. The loan modification also called for the swap contract liability at the date of modification to be paid down by \$198,000 in the same proportion as the loan principal paid down.

The operations of the Monty’s restaurant are managed by BSRB personnel with the exception of its accounting related functions which are performed by RMI, an unrelated third party and former operator of the restaurant. Under an amended management agreement BSRB retained RMI to perform accounting related administrative functions only. For the year ended December 31, 2010, BSRB paid RMI \$114,000 (or \$9,500 per month) for accounting and related service. The amended management agreement is renewable on an annual basis. In December 2010 the agreement with RMI was renewed and extended through the year ended December 31, 2011 under the same terms of the prior agreement.

Land held for development (Vermont and Rhode Island).

The Company owns approximately 50 acres of vacant land held for development located in Hopkinton, Rhode Island. There are no current plans for development of this land.

The Company also owns a 70% interest in a commercially zoned 5 acre property located in Montpelier, Vermont. Further development of this property is being considered.

Executive offices (Coconut Grove, Florida). The principal executive offices of the Company and the Adviser are located at 1870 South Bayshore Drive, Coconut Grove, Florida, 33133, in premises owned by the Company’s subsidiary CII and leased to the Adviser pursuant to a lease agreement originally dated December 1, 1999, and as renewed in 2009. The lease provides for base rent of \$48,000 per year payable in equal monthly installments during the five year term of the lease which expires on December 1, 2014. The Adviser, as tenant, pays utilities, certain maintenance and security expenses relating to the leased premises.

The Company regularly evaluates potential real estate acquisitions for future investment or development and would utilize funds currently available or from other resources to implement its strategy.

Item 3. Legal Proceedings

The Company was a co-defendant in two lawsuits in the circuit court in Miami Dade County Florida. These cases arose from claims by a condominium association and resident seeking a declaratory judgment regarding certain provisions of the declaration of condominium relating to the Grove Isle Club and the developer. The claim by the association has been dismissed as to all counts related to the Company however the association has filed an appeal. The Company believes that the claims are without merit and intends to vigorously defend its position. The ultimate outcome of this litigation cannot presently be determined. However, in management's opinion the likelihood of a material adverse outcome is remote. Accordingly, adjustments, if any that might result from the resolution of this matter have not been reflected in the financial statements.

In connection with the operation of the Monty's property from time to time, we are a defendant in litigation arising in the ordinary course of our business, including claims resulting from "slip and fall" accidents, claims under federal and state laws governing access to public accommodations, employment-related claims and claims from guests alleging illness, injury or other food quality, health or operational concerns. To date, none of this litigation, some of which is covered by insurance, has had a material effect on us.

Item 4. [Removed and Reserved]

Part II.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities.

The high and low per share closing sales prices of the Company's stock on the NYSE Amex Exchange (ticker symbol: HMG) for each quarter during the past two years were as follows:

	High	Low
March 31, 2010	\$5.66	\$3.50
June 30, 2010	\$5.97	\$4.10
September 30, 2010	\$5.68	\$2.80
December 31, 2010	\$5.99	\$2.80
March 31, 2009	\$3.40	\$2.16
June 30, 2009	\$3.76	\$2.88
September 30, 2009	\$4.35	\$3.06
December 31, 2009	\$4.67	\$3.25

No dividends were declared or paid during 2010 and 2009. The Company's policy has been to pay dividends as are necessary for it to qualify for taxation as a REIT under the Internal Revenue Code.

As of March 30, 2011, there were 380 holders of record of the Company's common stock.

The following table presents information regarding the shares of our common stock we purchased during each of the three calendar months ended December 31, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plan (1)
October 1 - 31 2010	3,884	\$4.62	\$ 17,946	\$272,270
November 1 - 30 2010	6,773	\$4.82	\$32,658	\$239,612
December 1 - 31 2010	-	-	-	\$239,612

(1) We have one program, which was announced in November 2008 after approval by our Board of Directors, to purchase up to \$300,000 of outstanding shares of our common stock from time to time in the open market at prevailing market prices or in privately negotiated transactions. All of the shares we purchased during these periods were purchased on the open market pursuant to this program. The repurchased shares of common stock will be held in treasury and used for general corporate purposes. This program has no expiration date.

The following table illustrates securities authorized for issuance under the Company's equity compensation plan:

	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	102,100	\$8.83	16,000
Equity compensation plan not approved by shareholders	--	--	--
Total	102,100	\$8.83	16,000

On March 23, 2011 the board of directors approved a new plan subject to shareholder approval which would replace this plan and issuing options replacing the existing options at the current market price.

Item 6. Selected Financial Data:

Not applicable to the Company.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Critical Accounting Policies and Estimates.

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions in applying our critical accounting policies that affect the reported amounts of assets and liabilities and the disclosure (if any) of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Our estimates and assumptions concern, among other things, goodwill impairment, impairment of our other investments and other long-lived assets, uncertainties for Federal and state income tax and allowance for doubtful accounts. We evaluate those estimates and assumptions on an ongoing basis based on historical experience

and on various other factors which we believe are reasonable under the circumstances. Note 1 of the consolidated financial statements, included elsewhere on this Form 10-K, includes a summary of the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. The Company believes the following critical accounting policies affect the significant judgments and estimates used in the preparation of the Company's financial statements:

Goodwill.

The Company's goodwill balance as of December 31, 2010 relates entirely to its 2004 acquisition of 50% of the Monty's restaurant, marina and office rental facility located in Miami, Florida.

Goodwill is recorded at its carrying value and is tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of goodwill might not be recoverable. The goodwill impairment analysis is a two-step process. The first step used to identify potential impairment involves comparing each reporting unit's estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered to not be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment. The second step of the process involves the calculation of an implied fair value of goodwill for each reporting unit for which step one indicated a potential impairment. The implied fair value of goodwill is determined by measuring the excess of the estimated fair value of the reporting unit as calculated in step one, over the estimated fair values of the individual assets, liabilities and identified intangibles.

We estimate fair value for the reporting unit using an income approach. The income approach is based on projected debt-free cash flow which is discounted to the present value using discount factors that consider the timing and risk of cash flows. The Company believes that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating cash flow performance. This approach also mitigates the impact of cyclical trends that occur in the industry. Fair value is estimated using prior actual results of operations, internally-developed forecasts, inflation, and discount rate assumptions. The discount rate used is the value-weighted average of the Company's estimated cost of equity and of debt ("cost of capital") derived using, both known and estimated, customary market metrics. Other significant assumptions include terminal value growth rates, terminal value margin rates, future capital expenditures and changes in future working capital requirements; which uses a discounted cash flow model that considers assumptions that marketplace participants would use in their estimates of fair value, current period actual results, and forecasted results for future periods that have been reviewed by senior management.

During the last three years total revenues from the Monty's operations have declined by approximately 11% (from 2008 through 2010). This was primarily related to the general slowdown in the U.S. economy. Consumer spending overall is significantly down as compared with historical trends. The South Florida region has been particularly impacted by a decrease in tourism-related and other discretionary consumer spending. The restaurant and marina industries in our market have experienced steep declines, which has resulted in our estimates being significantly below prior forecasts.

In preparing our current forecasts, we have moderated our estimates to more closely approximate recent actual results. We have also increased the discount rate used in valuing the Monty's real estate operations to reflect increased risk relating to tenant attrition and other factors. We have kept our long term growth rate at a conservative 3% while lowering our long term inflation rate estimate from 3% to 2%. Management and other administrative costs were forecast to further decline in 2011 due to a more cost effect management structure. While there are inherent uncertainties related to the assumptions used and to management's application of these assumptions to this analysis, the Company believes that the income approach provides a reasonable estimate of the fair value of its reporting units.

The Company elected an annual goodwill impairment testing date of December 31. Our 2010 annual goodwill impairment test indicated a significant decline in the fair value of the Monty's reporting unit. As discussed above, the decline in fair value resulted from unfavorable operating results which required changes in prior estimates used to value the real estate operations.

As of the filing of this report we have not completed the second step of the impairment test, however we believe that the impairment is probable and can be reasonably estimated and accordingly have recognized a goodwill impairment loss of \$2.1 million as of December 31, 2010. The measurement of the impairment loss is based on best estimates. Any adjustment to that estimated loss based on the completion of the measurement of the impairment loss shall be recognized in the subsequent reporting period.

There is a high degree of uncertainty associated with the following key assumptions. Management believes the most significant assumption which would have an effect on the estimated fair value of goodwill is the long-term projected revenue growth rate, discount rates and cost of debt that were used to arrive at the fair value.

The Company estimates that a one percentage point increase (decrease) in these long-term projected assumptions would impact the fair value of the reporting unit as follows (000's):

	Increase in assumptions		Decrease in assumptions	
	1%	2%	-1%	-2%
Growth rate	\$ 1,795	\$ 4,113	\$ (1,434)	\$ (2,604)
Cost of debt	\$ (566)	\$ (1,094)	\$ 608	\$ 1,261
Discount rate	\$ (1,626)	\$ (2,962)	\$ 2,023	\$ 4,614

Our estimates of fair value are subject to change as a result of many factors including, among others, any changes in our business plans, changing economic conditions and the competitive environment. Should actual cash flows and our future estimates vary adversely from those estimates we use, we may be required to recognize goodwill impairment charges in future years.

Marketable Securities. Consistent with the Company's overall investment objectives and activities, management has classified its entire marketable securities portfolio as trading. As a result, all unrealized gains and losses on the Company's investment portfolio are included in the Consolidated Statements of Comprehensive Income. Our investments in trading equity and debt marketable securities are carried at fair value and based on quoted market prices or other observable inputs. Marketable securities are subject to fluctuations in value in accordance with market conditions.

Other Investments. The Company's other investments consist primarily of nominal equity interests in various privately-held entities, including limited partnerships whose purpose is to invest venture capital funds in growth-oriented enterprises. The Company does not have significant influence over any investee and the Company's investment represents less than 3% of the investee's ownership. None of these investments meet the criteria of accounting under the equity method and are carried at cost less distributions and other than temporary unrealized losses. These investments do not have available quoted market prices, so we must rely on valuations and related reports and information provided to us by those entities. These valuations are by their nature subject to estimates which could change significantly from period to period. The Company regularly reviews the underlying assets in its other investment portfolio for events, including but not limited to bankruptcies, closures and declines in estimated fair value, that may indicate the investment has suffered an other-than-temporary decline in value. When a decline is deemed other-than-temporary, we permanently reduce the cost basis component of the investments to its estimated fair value, and the loss is recorded as a component of net income from other investments. As such, any recoveries in the value of the investments will not be recognized until the investments are sold.

Our estimates of each of these items historically have been adequate. However, due to uncertainties inherent in the estimation process, it is reasonably possible that the actual resolution of any of these items could vary significantly from the estimate and, accordingly, there can be no assurance that the estimates may not materially change in the near term.

Real Estate. Land, buildings and improvements, furniture, fixtures and equipment are recorded at cost. Tenant improvements, which are included in buildings and improvements, are also stated at cost. Expenditures for ordinary maintenance and repairs are expensed to operations as they are incurred. Renovations and/or replacements, which improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives.

Depreciation is computed utilizing the straight-line method over the estimated useful lives of ten to forty years for buildings and improvements and five to ten years for furniture, fixtures and equipment. Tenant improvements are amortized on a straight-line basis over the term of the related leases.

The Company is required to make subjective assessments as to the useful lives of its properties for purposes of determining the amount of depreciation to reflect on an annual basis with respect to those properties. These assessments have a direct impact on the Company's net income. Should the Company lengthen the expected useful life of a particular asset, it would be depreciated over more years, and result in less depreciation expense and higher annual net income.

Assessment by the Company of certain other lease related costs must be made when the Company has a reason to believe that the tenant will not be able to execute under the term of the lease as originally expected.

The Company periodically reviews the carrying value of certain of its properties and long-lived assets in relation to historical results, current business conditions and trends to identify potential situations in which the carrying value of assets may not be recoverable. If such reviews indicate that the carrying value of such assets may not be recoverable, the Company would estimate the undiscounted sum of the expected future cash flows of such assets or analyze the fair value of the asset, to determine if such sum or fair value is less than the carrying value of such assets to ascertain if a permanent impairment exists. If a permanent impairment exists, the Company would determine the fair value by using quoted market prices, if available, for such assets, or if quoted market prices are not available, the Company would discount the expected future cash flows of such assets and would adjust the carrying value of the asset to fair value. Judgments as to impairments and assumptions used in projecting future cash flow are inherently imprecise.

Results of Operations:

For the years ended December 31, 2010 and 2009, the Company reported net loss attributable to the Company of approximately \$1.3 million (or \$1.31 per share) and \$85,000 (or \$.08 per share), respectively.

Revenues:

Total revenues for the year ended December 31, 2010 as compared with that of 2009 decreased by approximately \$625,000 (or 6%). This decrease was primarily due to the decrease in restaurant and spa revenues, as discussed below.

Real estate and related revenue:

Real estate rentals and related revenue increased by approximately \$46,000 (or 2%) for the year ended December 31, 2010 as compared with 2009. This increase was the result of increased rental income from the Monty's office/retail space.

Monty's restaurant operations:

Summarized statement of income of the Monty's restaurant operations for the years ended December 31, 2010 and 2009 is presented below (Note: for comparative purposes the information below represents 100% of the restaurant operations. The Company's ownership percentage in these operations is 50%):

Summarized statements of income of Monty's restaurant	Year ended December 31, 2010	Percentage of sales		Year ended December 31, 2009	Percentage of sales	
Revenues:						
Food and Beverage Sales	\$5,616,000	100	%	\$6,271,000	100	%
Expenses:						
Cost of food and beverage sold	1,549,000	27.5	%	1,616,000	25.8	%
Labor, entertainment and related costs	1,400,000	24.9	%	1,495,000	23.8	%
Other food and beverage related costs	239,000	4.3	%	274,000	4.4	%
Other operating costs	531,000	9.5	%	569,000	9.1	%
Insurance	302,000	5.4	%	295,000	4.7	%
Management and accounting fees	18,000	.3	%	115,000	1.8	%
Utilities	245,000	4.4	%	247,000	3.9	%
Rent (as allocated)	574,000	10.2	%	644,000	10.3	%
Total Expenses	4,858,000	86.5	%	5,255,000	83.8	%
Income before depreciation and minority interest	\$758,000	13.5	%	\$1,016,000	16.2	%

The Monty's restaurant is subject to seasonal fluctuations in sales. January through May sales typically account for over 50% of annual sales. Restaurant sales in 2010 as compared with 2009 decreased by approximately 10% we believe primarily due to the general decline in economic activity and a below average 2010 season due to unusually colder weather in January and February 2010 as compared with 2009.

Total restaurant expenses in 2010 as compared with 2009 decreased by approximately 8% due to lower sales volume. However as a percentage of sales we experienced increases in cost of food and beverage (27.6% in 2010 versus 25.8% in 2009) and increases in labor costs (24.9% in 2010 versus 23.8% in 2009). These increases were primarily due to higher food costs and increased restaurant wages and other employee related costs.

The decrease in management fees of \$97,000 from 2010 as compared with 2009 was primarily the result of the reduction of management fees due to the Adviser in 2010.

All other restaurant related expenses in 2010 were generally consistent, as a percentage of sales, with that of 2009.

Grove Isle and Monty's marina operations:

The Grove Isle marina operates for the benefit of the slip owners and maintains all aspects of the marina in exchange for an annual maintenance fee from the slip owners to cover operational expenses. There are 85 boat slips at Grove Isle, of which 79 are privately owned by unrelated individuals or entities, the remaining 6 slips are owned by the Company. The Company rents the unsold slips to boat owners on a short term basis. The Monty's marina has approximately 4,400 total square feet available for rent to the public.

Summarized and combined statements of income from marina operations:
(The Company owns 50% of the Monty's marina and 95% of the Grove Isle marina)

	Year ended December 31, 2010		Combined marina operations Year ended December 31, 2010	Combined marina operations Year ended December 31, 2009
Summarized statements of income of marina operations	Grove Isle Marina	Monty's Marina		
Revenues:				
Dockage fees and related income	\$52,000	\$1,209,000	\$1,261,000	\$1,250,000
Grove Isle marina slip owners dues	448,000	-	448,000	448,000
Total marina revenues	500,000	1,209,000	1,709,000	1,698,000
Expenses:				
Labor and related costs	274,000	-	274,000	259,000
Insurance	62,000	79,000	141,000	200,000
Management fees	40,000	-	40,000	44,000
Utilities (net of reimbursements)	24,000	(39,000)	(15,000)	28,000
Bay bottom lease	40,000	194,000	234,000	229,000
Repairs and maintenance	67,000	47,000	114,000	84,000
Other	22,000	179,000	201,000	145,000
Total Expenses	529,000	460,000	989,000	989,000
(Loss) income before interest, depreciation and minority interest	\$(29,000)	\$749,000	\$720,000	\$709,000

Total marina revenues and expenses for the year ended December 31, 2010 remained consistent with 2009.

For the years ended December 31, 2010 and 2009 other expenses includes a provision for bad debt of \$100,000 and \$50,000, respectively, from one broker tenant at the Monty's marina, and was partially offset by decreased insurance and net cost of utilities at the Monty's marina.

Grove Isle spa operations:

Spa revenues for 2010 were generally consistent with that of 2009, decreasing by \$27,000 (or 5%) for the year ended December 31, 2010 as compared with 2009.

Spa expenses decreased by \$108,000 (or 20%) for the year ended December 31, 2010 as compared with 2009, primarily due decreased labor and related costs and lower general and administrative expenses.

Below is a summarized income statement for these operations for the year ended December 31, 2010 and 2009. The Company owns 50% of the Grove Isle Spa with the other 50% owned by an affiliate of the Grand Heritage Hotel Group, the tenant operator of the Grove Isle Resort.

	For the year ended December 31, 2010	For the year ended December 31, 2009
Grove Isle Spa		
Summarized statement of income		
Revenues:		
Services provided	\$403,000	\$432,000
Membership and other	74,000	72,000
Total spa revenues	477,000	504,000
Expenses:		
Cost of sales (commissions and other)	68,000	119,000
Salaries, wages and related	113,000	180,000
Other operating costs	217,000	204,000
Management and administrative fees	30,000	33,000
Other	3,000	3,000
Total Expenses	431,000	539,000
Income (loss) before interest, depreciation, minority interest and income taxes	\$46,000	\$(35,000)

For the year ended December 31, 2010 spa revenues decreased by 5% from 2009. This was due to decreased non-massage services such as facials manicures and pedicures. Massage services in 2010 remained consistent with that of 2009. In 2010 the spa offered a promotional program which offered two for one massage treatments. For the year ended December 31, 2010 other spa expenses includes approximately \$55,000 in expenses relating to the aforementioned promotions.

Expenses:

Total expenses for the year ended December 31, 2010 as compared to that of 2009 increased by approximately \$1.2 million (or 10%).

Food and beverage costs are solely from the Monty's restaurant operations. Spa expenses are solely from the Grove Isle spa operations. Marina expenses are from both the Monty's and Grove Isle marinas. Summarized income statements and discussion of significant changes in expenses for each of these operations are presented above.

Operating expenses of rental and other properties for the year ended December 31, 2010 as compared with 2009 decreased by \$64,000 (or 10%). This was primarily due to \$25,000 in non-recurring 2009 repairs and maintenance relating to our previous Grove Isle tenant and \$20,000 non-recurring consulting and professional costs relating to our property located in Montpelier, Vermont.

Depreciation and amortization expense decreased by approximately \$306,000 (or 23%) primarily due to certain fixed assets at Grove Isle, Grove Spa and Monty's restaurant becoming fully depreciated in 2010.

General and administrative expenses decreased by approximately \$43,000 (or 10%) for year ended December 31, 2010 as compared to 2009. This was primarily due to 2009 non-recurring provision for bad debt expense of \$150,000, which was partially offset by \$58,000 in increased meals and entertainment.

Professional fees increased by approximately \$22,000 (or 6%) for the year ended December 31, 2010 as compared to 2009. This was primarily due to increased legal and related costs associated with Grove Isle legal proceedings discussed in Item 3. Legal Proceedings.

Interest expense decreased by approximately \$54,000 (or 5%) for year ended December 31, 2010 as compared to 2009. This was primarily due to Monty's loan principal reductions of approximately \$663,000 during the year ended December 31, 2010.

As discussed in Item 7. Critical Accounting Policies and Estimates, for the year ended December 31, 2010 we have recognized a goodwill impairment loss of \$2.1 million.

Other Income:

Net realized and unrealized gain (loss) from investments in marketable securities:

Net gain (loss) from investments in marketable securities, including marketable securities distributed by partnerships in which the Company owns minority positions, for the years ended December 31, 2010 and 2009, is as follows:

Description	2010	2009
Net realized gain (loss) from sales of marketable securities	\$ 405,000	\$ (4,000)
Net unrealized (loss) gain from marketable securities	(86,000)	1,129,000
Total net gain from investments in marketable securities	\$ 319,000	\$ 1,125,000

Net realized gain from sales of marketable securities consisted of approximately \$662,000 of gains net of \$257,000 of losses for the year ended December 31, 2010. The comparable amounts in fiscal year 2009 were gross gains of approximately \$261,000 net of \$265,000 of gross losses.

Consistent with the Company's overall current investment objectives and activities, the entire marketable securities portfolio is classified as trading (as defined by U.S generally accepted accounting principles). Unrealized gains or losses from marketable securities are recorded as other income in the consolidated statements of comprehensive income.

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.

Investments in marketable securities give rise to exposure resulting from the volatility of capital markets. The Company attempts to mitigate its risk by diversifying its marketable securities portfolio.

Net income from other investments is summarized below (excluding other than temporary impairment losses):

	2010	2009
Partnerships owning stocks and bonds	\$ 14,000	\$ 22,000
Venture capital funds – diversified businesses (a)	227,000	31,000
Venture capital funds – technology & communications	6,000	12,000
Income from investment in 49% owned affiliate (b)	72,000	74,000
Other	5,000	15,000
Total net income from other investments	\$ 324,000	\$ 154,000

(a) The gain in 2010 primarily consists of \$209,000 from investment in one partnership owning diversified businesses which made cash distributions from the sale of operating companies in 2010.

(b) This gain represents income from the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF"). The increase in income is due to increase net income of TGIF as a result of reduced operating expenses. In December 2010 and 2009 TGIF declared and paid a cash dividend of the Company's portion of which was approximately \$140,000. These dividends were recorded as reduction in the investment carrying value as required under the equity method of accounting for investments.

Other than temporary impairment losses from other investments

	2010	2009
Venture capital funds – diversified businesses (a)	\$ (40,000)	\$ (130,000)
Real estate and related (b)	(50,000)	(138,000)
Venture capital funds – technology & communications (c)	(50,000)	(150,000)
Other	-	(5,000)
Total other than temporary impairment loss from other investments	\$ (140,000)	\$ (423,000)

(a) In 2010 the amount consists of a write down of one investment in a private limited partnership owning diversified businesses. These investments experienced other than temporary impairment in value of approximately \$40,000. In 2009 write downs of two investments in private limited partnerships owning diversified businesses. These investments experienced other than temporary impairment in value of approximately \$130,000.

(b) In 2010 the amount consists of a write down of one investment in private limited partnership owning real estate interests. These investments experienced other than temporary impairment in value of approximately \$50,000. In 2009 amount consist of write downs of three investments in private limited partnerships owning real estate interests. These investments experienced other than temporary impairment in value of approximately \$138,000.

(c)

In 2010 the amount consists of a write down of one investment in private limited partnerships owning technology related entities. These investments experienced other than temporary impairment in value of approximately \$50,000. In 2009 amount primarily consists of write downs of two investments in private limited partnerships owning technology related entities. These investments experienced other than temporary impairment in value of approximately \$150,000.

Net income or loss from other investments 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 gain or loss from other investments for any given period has no predictive value and variations in amount from period to period have no practical analytical value.

Interest, dividend and other income

Interest, dividend and other income for years ended December 31, 2010 and 2009 was approximately \$330,000 and \$415,000, respectively. The decrease of approximately \$85,000 (or 20%) was primarily due to decreased interest and dividend income from debt and equity marketable securities of approximately \$130,000, offset by increased consulting revenue of approximately \$50,000 from the Company's 80% owned subsidiary, Courtland Houston, Inc.

Benefit from income taxes:

Benefit from income taxes for the years ended December 31, 2010 and 2009 was \$22,000 and \$92,000, respectively.

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between the carrying amount and the tax basis of assets and liabilities at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. As a result of timing differences associated with the carrying value of other investments, unrealized gains and losses of marketable securities, depreciable assets and the future benefit of a net operating loss, as of December 31, 2010 and 2009, the Company has recorded a net deferred tax asset of \$480,000 and \$458,000, respectively. A valuation allowance against deferred tax asset has not been established as management believes it is more likely than not, based on the Company's previous history and expectation of future taxable income before expiration, that these assets will be realized.

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 primarily consist of maturities of debt obligations of approximately \$8.7 million in 2011 and contributions committed to other investments of approximately \$665,000 due upon demand. The funds necessary to meet these obligations are expected from the proceeds from the sales of properties or investments, bank construction loan, refinancing of existing bank loans, distributions from investments and available cash.

Included in the maturing debt obligations for 2011 is the \$3.6 million bank mortgage note payable on the Grove Isle property which matured March 28, 2011. We have requested from the bank an extension of the maturity date of this loan.

Included in the maturing debt obligations for 2011 is a note payable to the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF") of approximately \$3.3 million due on demand.(see Item 13. Certain Relationships and Related Transactions and Director Independence.) The obligation due to TGIF will be paid with funds available from distributions from its investment in TGIF and from available cash.

Also included in debt obligations for 2011 is a \$1.6 million principal payment on Monty's bank loan which was modified on March 15, 2011. The source of the funds used for this loan repayment was the restricted cash which had been held as collateral by the bank prior to the modification. The Monty's loan modification, among other things, reduces monthly debt service by approximately \$40,000 beginning in March 2011.

A summary of the Company's contractual cash obligations at December 31, 2010 is as follows:

Contractual Obligations	Total	Payments Due by Period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Mortgages and notes payable	\$ 17,509,000	\$ 8,734,000	\$ 551,000	\$ 641,000	\$ 7,583,000
Other investments commitments (a)	665,000	665,000	--	--	--
Total	\$ 18,174,000	\$ 9,399,000	\$ 551,000	\$ 641,000	\$ 7,583,000

The timing of amounts due under commitments for other investments is determined by the managing partners of the individual investments.

Material Changes in Operating, Investing and Financing Cash Flows.

The Company's cash flows are generated primarily from its real estate net rental and related activities, sales of marketable securities, distributions from other investments and borrowings.

For the year ended December 31, 2010 the Company's net cash used in operating activities was approximately \$359,000. This was primarily from real estate net rental and related activities. The Company believes that there will be sufficient cash flows in the next year to meet its operating requirements.

For the year ended December 31, 2010, the net cash provided by investing activities was approximately \$2.9 million. This included sources of cash consisting of proceeds from the sales and redemptions of marketable securities of \$3.8 million, cash distributions from other investments of \$324,000, collections of notes receivable of \$264,000 and distribution from affiliate of \$140,000. These sources of cash were offset by purchases of marketable securities of \$1.1 million, contributions to other investments of \$374,000 and purchases and improvements of fixed assets of \$167,000.

For the year ended December 31, 2010, net cash used in financing activities was approximately \$855,000. This primarily consisted of repayments of mortgages and notes payable of \$961,000.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks.

Not Applicable to the Company.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm	<u>21.</u>
Consolidated balance sheets as of December 31, 2010 and 2009	<u>23.</u>
Consolidated statements of comprehensive income for the years ended December 31, 2010 and 2009	<u>24.</u>
Consolidated statements of changes in stockholders' equity for the years ended December 31, 2010 and 2009	<u>25.</u>
Consolidated statements of cash flows for the years ended December 31, 2010 and 2009	<u>26.</u>
Notes to consolidated financial statements	<u>27.</u>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of HMG/Courtland Properties, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of HMG/Courtland Properties, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2010, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of HMG/Courtland Properties, Inc. and Subsidiaries as of and for the year ended December 31, 2009 were audited by other auditors who have ceased operations, and who expressed an unqualified opinion on those financial statements in their report dated March 31, 2010.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HMG/Courtland Properties, Inc. and Subsidiaries as of December 31, 2010, and the results of its operations and its cash flows for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/

Cherry, Bekaert & Holland, L.L.P.
Ft. Lauderdale, Florida
March 31, 2011

Provided below is a copy of the accountant's report issued by Berenfeld Spritzer Schechter & Sheer LLP ("Berenfeld"), our former independent public accountants, in connection with the filing of our Annual Report of Form 10-K for the year ended December 31, 2009. This audit report has not been reissued by Berenfeld in connection with the filing of this Annual Report on Form 10-K for the year ended December 31, 2010. We are unable to obtain a reissued accountant's report from Berenfeld, and we will be unable to obtain future accountant's reports from Berenfeld because Berenfeld has discontinued its auditing practice and ceased operations. This means that we will also be unable to obtain consents to incorporate any financial statements audited by Berenfeld into registration statements that we may file or amend in the future. Accordingly, investors may not be able to bring an action against Berenfeld pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934 with respect to any such registration statements or with respect to this Annual Report and, therefore, any recover from Berenfeld may be limited. The ability of investors to recover from Berenfeld may also be limited as a result of Berenfeld's financial condition.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of HMG/Courtland Properties, Inc. and Subsidiaries

We have audited the accompanying consolidated balances sheets of HMG/Courtland Properties, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the years in the two year period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HMG/Courtland Properties, Inc. and Subsidiaries at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ Berenfeld Spritzer Shechter & Sheer LLP
Berenfeld Spritzer Shechter & Sheer LLP;
Certified Public Accountants and Advisors
March 31, 2010
Ft. Lauderdale, Florida

HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED

BALANCE SHEETS AS OF DECEMBER 31 2010 AND DECEMBER 31, 2009

	December 31, 2010	December 31, 2009
ASSETS		
Investment properties, net of accumulated depreciation:		
Commercial properties	\$7,259,225	\$7,653,850
Hotel, club and spa facility	3,649,217	3,864,491
Marina properties	2,110,445	2,319,387
Land held for development	27,689	27,689
Total investment properties, net	13,046,576	13,865,417
Cash and cash equivalents	3,618,200	1,909,218
Cash and cash equivalents-restricted	2,379,947	2,401,546
Investments in marketable securities	2,093,109	4,508,433
Other investments	3,769,417	3,524,246
Investment in affiliate	2,813,634	2,881,394
Loans, notes and other receivables	742,411	722,210
Notes and advances due from related parties	698,341	698,341
Deferred taxes	480,000	458,000
Goodwill	5,628,627	7,728,627
Other assets	657,541	679,394
TOTAL ASSETS	\$35,927,803	\$39,376,826
LIABILITIES		
Mortgages and notes payable	\$17,509,155	\$18,470,448
Accounts payable, accrued expenses and other liabilities	894,894	1,056,827
Interest rate swap contract payable	1,462,000	1,144,000
TOTAL LIABILITIES	19,866,049	20,671,275
COMMITMENTS AND CONTINGENCIES		
	-	-
STOCKHOLDERS' EQUITY		
Excess common stock, \$1 par value; 100,000 shares authorized: no shares issued	-	-
Common stock, \$1 par value; 1,200,000 shares authorized and 1,023,955 issued	1,023,955	1,023,955
Additional paid-in capital	24,313,341	24,313,341
Less: Treasury stock at cost (13,529 and 2,572 shares as of December 31, 2010 and 2009, respectively)	(60,388)	(8,881)
Undistributed gains from sales of properties, net of losses	41,572,120	41,572,120
Undistributed losses from operations	(53,443,832)	(52,109,035)
Accumulated other comprehensive loss	(731,000)	(572,000)
Total stockholders' equity	12,674,196	14,219,500
Non controlling interest	3,387,558	4,486,051
TOTAL EQUITY	16,061,754	18,705,551
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$35,927,803	\$39,376,826

See notes to the consolidated financial statements

HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

REVENUES		2010	2009
Real estate rentals and related revenue		\$1,840,699	\$1,795,119
Food & beverage sales		5,616,030	6,270,728
Marina revenues		1,709,238	1,697,950
Spa revenues		477,059	503,963
Total revenues		9,643,026	10,267,760
EXPENSES			
Operating expenses:			
Rental and other properties		572,171	636,198
Food and beverage cost of sales		1,549,328	1,616,172
Food and beverage labor and related costs		1,399,514	1,495,471
Food and beverage other operating costs		1,909,047	2,142,587
Marina expenses		989,265	988,580
Spa expenses		431,319	539,160
Depreciation and amortization		1,012,347	1,318,329
Adviser's base fee		1,020,000	1,020,000
General and administrative		387,696	431,093
Professional fees and expenses		364,716	342,410
Directors' fees and expenses		116,278	110,844
Goodwill impairment loss		2,100,000	-
Total operating expenses		11,851,681	10,640,844
Interest expense		1,057,990	1,111,944
Total expenses		12,909,671	11,752,788
Loss before other income and income taxes		(3,266,645)	(1,485,028)
Net realized and unrealized gains from investments in marketable securities		319,426	1,125,428
Net income from other investments		324,372	153,817
Other than temporary impairment losses from other investments		(140,000)	(422,800)
Interest, dividend and other income		330,105	415,417
Total other income		833,903	1,271,862
Loss before income taxes		(2,432,742)	(213,166)
Benefit from income taxes		(22,000)	(92,000)
Net loss		(2,410,742)	(121,166)
Less: Net loss attributable to noncontrolling interest in consolidated entities		1,075,945	35,907
Net loss attributable to the Company		\$(1,334,797)	\$(85,259)
Other comprehensive (loss) income:			
Unrealized (loss) gain on interest rate swap agreement		\$(159,000)	\$506,000
Total other comprehensive (loss) income		(159,000)	506,000

Comprehensive (loss) income	\$(1,493,797)	\$420,741
-----------------------------	----------------	-----------

Net Income (loss) Per Common Share:

	Basic and diluted	\$(1.31)	\$(0.08)
Weighted average common shares outstanding-Basic and diluted	1,019,571	1,021,408	

See notes to the consolidated financial statements

