HMG COURTLAND PROPERTIES INC
Form 10-K
March 30, 2012

U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

o 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	59-1914299
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1870 S. Bayshore Drive, Coconut Grove, Florida	33133
(Address of principal executive offices)	(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 o   No x

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 o   No x

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 x   No o

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 x   No o

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 o   Accelerated filer o

Non-accelerated filer o   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 o 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, 2011) was $1,504,137. 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 30, 2012.

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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 condominium 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 from the Grove Isle property was approximately 64% of the total rental and related revenue for each of the years ended December 31, 2011 and 2010, and 33% and 32%, respectively, from the Monty’s property. Marina and related revenues for 2011 and 2010 were generated 66% and 70%, respectively, from the marina at the Monty’s facility and 34% and 30%, respectively, 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'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, 2011 and 2010 was approximately $2.7 and $2.8 million, respectively. CII's note payable to TGIF which is due on demand was approximately $3.2 million and $3.4 million as of December 31, 2011 and 2010. 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 HMGA, Inc. ("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, 2011 the Company's subsidiaries that operate the Monty's facility have approximately 95 hourly restaurant employees, one 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 25, 2011, the shareholders approved the renewal of the Advisory Agreement between the Company and the Adviser for a term commencing January 1, 2012, and expiring December 31, 2012.

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, 2011 and 2010, the Company and its subsidiaries incurred Adviser fees of approximately $1,020,000. There was no incentive compensation for 2011 and 2010.

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 manager to operate the resort. The Grove Isle resort includes a 50 room hotel, restaurant and banquet facilities, a spa, tennis courts and an 85-boat slip condominium 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 independent hotels and resorts. The lease termination date is November 30, 2016, if not extended as provided in the lease. Base rent was $1,204,000 for the year ended December 31, 2011 and will increase to $1,242,000 in 2012 after an 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 the 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 "The Spa at Grove Isle".

The Grove Isle property is encumbered by a mortgage note payable with an outstanding balance of approximately $2.8 million and $3.6 million as of December 31, 2011 and 2010, respectively. This loan calls for monthly principal payments of $10,000 plus interest on outstanding principal due monthly at an annual rate of 2.5% plus the one-month LIBOR Rate or 4.5%, whichever is greater. All outstanding principal and interest is due at maturity on December 31, 2012. The lender is presently considering a request for a further extension.

As of December 31, 2011, 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 its 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”). An affiliate of this group is an experienced marina operator.

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 mortgage payable to a bank with an outstanding principal balance of $8.5 million as of December 31, 2011. On March, 11 2011 this loan was amended and restated to $8.8 million including a principal payment of approximately $1.6 million. The amended and restated loan balance is to be repaid in monthly installments of approximately $82,000 including principal and interest. Interest remains at the same terms calculated at one-month LIBOR rate (.27% at December 31, 2011) plus 2.45%. In conjunction with the amended and restated mortgage, Bayshore also amended and restated its interest rate swap agreement to manage their exposure to interest rate fluctuation through the entire term of the mortgage. Bayshore paid a fixed fee of $198,000 per the terms of the amended swap agreement to pay down the balance to that of the amended note. The effect of the swap agreement remains the same which is to provide a fixed interest rate of 7.57%. The note is due, with a balloon payment on August 19, 2020. The agreement with the bank contains certain covenants with which the Company is in compliance as of December 31, 2011.

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, 2011, BSRB paid RMI $114,000 (or $9,500 per month) for accounting and related services. The amended management agreement is renewable on an annual basis. In December 2011 the agreement with RMI was renewed and extended through the year ended December 31, 2012 under the same terms of the prior agreement.

Land held for development (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.

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. Mine Safety Disclosures

Not applicable to Company.

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, 2011	$6.31	$4.65
June 30, 2011	$5.15	$4.37
September 30, 2011	$4.37	$3.25
December 31, 2011	$4.47	$3.14
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

No dividends were declared or paid during 2011 and 2010. 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, 2012, there were 382 holders of record of the Company's common stock.

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	$ 4.99	17,900
Equity compensation plan not approved by shareholders	—	—	—
Total	102,100	$ 4.99	17,900

In March 2011, the Company's Board of Directors authorized the 2011 Stock Option Plan (the "Plan"), which was approved by the shareholders on August 25, 2011. The 2011 Stock Option Plan replaces the 2000 Stock Option Plan and all outstanding options under the 2001 Plan have expired. The Plan provides for the grant of options to purchase up to 120,000 shares of the Company's common stock to the officers and directors of the Company. On March 23, 2011 options were granted to all officers and directors to purchase an aggregate of 102,100 common shares at no less than 100% of the fair market value at the date of grant. These options were issued after approval of the Plan by shareholders on August 25, 2011. These options are vested when issued, except for some of the stock options granted to the President and CEO which vest in 2012 and 2013. Options are not transferable and expire upon termination of employment, except to a limited extent in the event of retirement, disability or death of the grantee. Stock options issued to the CEO have an exercise price of 110% of the fair market value at the date of grant. The average exercise price of the options granted in 2011 was $4.99 per share. The Company's stock price on the date of grant was $4.80 per share.

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, 2011 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.

Our 2010 annual goodwill impairment test indicated a significant decline in the fair value of the Monty's reporting unit. Accordingly we estimated and recognized a goodwill impairment loss of $2.1 million as of December 31, 2010. The measurement of the impairment loss was based on best estimates at the time. During 2011 we performed the second step of the goodwill impairment analysis and based on the completion of the measurement of the impairment loss we concluded that no further loss shall be recognized in this reporting period, and that the impairment loss was wholly attributable to reported goodwill.

The Company elected an annual goodwill impairment testing date of December 31.

In preparing our current forecasts, we have continued using discount rates established in the prior year and have continued to moderate our estimates to more closely approximate recent actual results. 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 2012 due to a more cost effective 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.

Based on our 2011 annual goodwill impairment test we concluded that the fair value of the reporting units of Monty's exceeded their carrying amounts, and therefore no impairment was recognized in 2011.

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	$2,597	$6,127	$(1,994)	$(3,579)
Cost of debt	$(623)	$(1,201)	$676	$1,409
Discount rate	$(559)	$(1,053)	$638	$1,373

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.

We believe 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 the shorter of their estimated useful lives, or the remaining lease term (if leased).

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 shorter of the term of the related leases or the assets useful life.

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, 2011 and 2010, the Company reported net loss attributable to the Company of approximately $940,000 (or $.93 per share) and $1.3 million (or $1.31 per share), respectively.

Revenues:

Total revenues for the year ended December 31, 2011 as compared with that of 2010 increased by approximately $251,000 (or 3%).

Real estate and related revenue:

Real estate rentals and related revenue increased by approximately $40,000 (or 2%) for the year ended December 31, 2011 as compared with 2010. This increase was primarily from Grove Isle's annual inflation adjustment increase to base rent.

Monty's restaurant operations:

Summarized statement of income of the Monty's restaurant operations for the years ended December 31, 2011 and 2010 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, 2011	Percentage of sales		Year ended December 31, 2010	Percentage of sales	
Revenues:						
Food and Beverage Sales	$5,857,000	100	%	$5,616,000	100	%
Expenses:						
Cost of food and beverage sold	1,682,000	28.7	%	1,549,000	27.5	%
Labor, entertainment and related costs	1,317,000	22.4	%	1,400,000	24.9	%
Other food and beverage related costs	250,000	4.3	%	239,000	4.3	%
Other operating costs	478,000	8.2	%	531,000	9.5	%
Insurance	343,000	5.9	%	302,000	5.4	%
Management and accounting fees	148,000	2.5	%	18,000	.3	%
Utilities	245,000	4.2	%	245,000	4.4	%
Rent (as allocated)	599,000	10.2	%	574,000	10.2	%
Total Expenses	5,062,000	86.4	%	4,858,000	86.5	%
Income before depreciation and minority interest	$795,000	13.6	%	$758,000	13.5	%

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 2011 as compared with 2010 increased by approximately 4% primarily due to a rebound from a below average 2010 season due to unusually colder weather in January and February 2010 as compared with 2011.

The increase in cost of food as a percentage of sales in 2011 as compared to 2010 was primarily due to higher food costs for substantially all categories. The increase in food costs was partially offset by the decrease in labor costs due to more efficient management structure. The increase in management and accounting fees in 2011 over 2010 was a result of the one-time forgiveness of prior years' management fees payable in 2010.

All other 2011 restaurant related expenses, as a percentage of sales were consistent with that of 2010.

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 Grove Isle 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)

Summarized statements of income of marina operations	Year ended December 31, 2011		Combined marina operations	Combined marina operations
	Grove Isle Marina	Monty's Marina	Year ended December 31, 2011	Year ended December 31, 2010
Revenues:				
Dockage fees and related income	$80,000	$1,065,000	$1,145,000	$1,261,000
Grove Isle marina slip owners dues	476,000	—	476,000	448,000
Total marina revenues	556,000	1,065,000	1,621,000	1,709,000
Expenses:				
Labor and related costs	277,000	—	277,000	274,000
Insurance	65,000	27,000	92,000	141,000
Management fees	40,000	32,000	72,000	40,000
Utilities (net of reimbursements)	20,000	(37,000)	(17,000)	(15,000)
Bay bottom lease	41,000	171,000	212,000	234,000
Repairs and maintenance	59,000	75,000	135,000	114,000
Other	17,000	70,000	87,000	201,000
Total Expenses	519,000	338,000	857,000	989,000
Income before interest, depreciation and minority interest	$37,000	$727,000	$764,000	$720,000

Total combined marina revenues for the year ended December 31, 2011 as compared with 2010 decreased by $88,000 (or 5%). This was primarily the result of decreased short term marina rentals at the Monty's marina, primarily due to less demand from recreational boaters.

Total combined marina expenses for the year ended December 31, 2011 as compared with 2010 decreased by $132,000 (or 13%). This was primarily the result of a non-recurring $100,000 bad debt expense reported in 2010 related to one tenant at the Monty's marina.

Grove Isle spa operations:

Below is a summarized income statement for these operations for the year ended December 31, 2011 and 2010. 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.

Grove Isle Spa Summarized statement of income	For the year ended December 31, 2011	For the year ended December 31, 2010
Revenues:		
Services provided	$ 469,000	$ 403,000
Membership and other	66,000	74,000
Total spa revenues	535,000	477,000
Expenses:		
Cost of sales (commissions and other)	88,000	68,000
Salaries, wages and related	139,000	113,000
Other operating costs	276,000	217,000
Management and administrative fees	31,000	30,000
Other	4,000	3,000
Total Expenses	538,000	431,000
(Loss) Income before interest, depreciation, minority interest and income taxes	$ (3,000)	$ 46,000

Spa revenues for 2011 increased by approximately $58,000 (or 12%) from that of 2010, this was primarily due to promotional programs offering discounted services to guests.

Spa expenses for 2011 increased by approximately $107,000 (or 25%) from that of 2010. This was primarily due to increased promotional costs and increased energy costs.

Expenses:

Total expenses for the year ended December 31, 2011 as compared to that of 2010 decreased by approximately $1.7 million (or 14%). This was primarily due to the 2010 non-recurring goodwill impairment loss of $2.1 million.

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, 2011 as compared with 2010 increased by $153,000 (or 27%). This was primarily due to increased management fees in 2011 as a result of the non-recurring reduction of prior year's management fees in 2010.

Depreciation and amortization expense increased by approximately $135,000 (or 13%) as comparable with 2010, primarily due to increased amortization expense of approximately $169,000 relating to loan costs associated with the Monty's and Grove Isle loan modifications completed in March and April 2011, respectively.

Professional fees and expenses increased by approximately $60,000 (or 16%) for the year ended December 31, 2011 as compared to 2010. This was primarily due to increased legal and related costs associated with the Monty's property.

Interest expense decreased by approximately $156,000 (or 15%) for the year ended December 31, 2011 as compared to 2010. This was primarily due to Monty's loan principal reductions as a result of the amended and restated mortgage loan agreement in March 2011.

As discussed in Item 7. Critical Accounting Policies and Estimates, for the year ended December 31, 2010 we had recognized a goodwill impairment loss of $2.1 million. There was no such impairment loss in 2011.

Other Income:

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

Net (loss) gain from investments in marketable securities, including marketable securities distributed by partnerships in which the Company owns minority positions, for the years ended December 31, 2011 and 2010, is as follows:

Description	2011	2010
Net realized gain from sales of marketable securities	$130,000	$405,000
Net unrealized loss from marketable securities	(189,000)	(86,000)
Total net (loss) gain from investments in marketable securities	$(59,000)	$319,000

Net realized gain from sales of marketable securities consisted of approximately $212,000 of gains net of $82,000 of losses for the year ended December 31, 2011. The comparable amounts in fiscal year 2010 were gross gains of approximately $662,000 net of $257,000 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):

	2011	2010
Income from investment in 49% owned affiliate (a)	$41,000	$72,000
Venture capital funds – diversified businesses (b)	27,000	227,000
Other	1,000	25,000
Total net income from other investments	$69,000	$324,000

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(a) This gain represents income from the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF"). The decrease in income is due to decrease net income of TGIF as a result of lower investment income. In December 2011 and 2010 TGIF declared and paid a cash dividend of which the Company's portion of was approximately $168,000 and $140,000. These dividends were recorded as reduction in the investment carrying value as required under the equity method of accounting for investments.

(b) The gain in 2011 consists of cash distributions from an investment in one partnership owning diversified businesses which made cash distributions from the sale or refinancing of operating companies in 2011. The gain in 2010 primarily consists of $209,000 from an investment in one partnership owning diversified businesses which made cash distributions from the sale of operating companies in 2010.

Other than temporary impairment ("OTTI") losses from other investments

	2011	2010
Real estate and related (a)	$(84,000)	$(50,000)
Venture capital funds – technology & communications (b)	—	(50,000)
Venture capital funds – diversified businesses (c)	—	(40,000)
Other	(3,000)	—
Total other than temporary impairment loss from other investments	$(87,000)	$(140,000)

(a) The OTTI loss for the year ended December 31, 2011 primarily consists of a recognized impairment loss of approximately $84,000 in an investment in a partnership which operates and leases executive suites in Miami, Florida. The Company has funded $120,000 to date in this investment and the losses incurred were primarily associated with the initial start up of the venture in 2010.

(b) 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.

(c) 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.

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 the years ended December 31, 2011 and 2010 was approximately $233,000 and $330,000, respectively. The decrease of approximately $97,000 (or 29%) was primarily due to decreased interest and dividend income from debt and equity marketable securities of approximately $48,000 and decreased service fee

income from Courtland Houston, Inc. of $50,000.

In conjunction with the amendment of the Bayshore bank loan in March 2011, the interest rate swap contract liability was paid down by $198,400 (in the same proportion as the amount of the loan principal paid down). This amount represents a previously unrealized loss which upon pay down of the swap was reclassified from accumulated other comprehensive income and recorded as a realized loss on interest rate swap contract within the consolidated statements of comprehensive income for the year ended December 31, 2011.

Benefit from income taxes:

Benefit from income taxes for the years ended December 31, 2011 and 2010 was $152,000 and $22,000, 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, 2011 and 2010, the Company has recorded a net deferred tax asset of $632,000 and $480,000, 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 $6.3 million in 2012 and contributions committed to other investments of approximately $988,000 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.

In April 2011 the Company renewed and modified the existing bank mortgage note payable on the Grove Isle property with the same lender. In conjunction with the renewal and modification the principal balance of the loan was paid down by $650,000. As of December 31, 2011 the principal amount outstanding is $2.8 million. The loan matures on December 31, 2012 and calls for the same monthly principal payments of $10,000 plus interest calculated at the one-month LIBOR rate plus 3%, with a minimum ("floor") interest rate of 4.5%. The interest rate swap contract liability was paid down by $198,400 (in the same proportion as the amount of the loan principal paid down).

Included in the maturing debt obligations for 2012 is a note payable to the Company's 49% owned affiliate, T.G.I.F. Texas, Inc. ("TGIF") of approximately $3.2 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.

A summary of the Company's contractual cash obligations at December 31, 2011 is as follows:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Mortgages and notes payable	$14,532,000	$6,342,000	$772,000	$859,000	$6,559,000
Other investments commitments	988,000	988,000	—	—	—
Total	$15,520,000	$7,330,000	$772,000	$859,000	$6,559,000

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, 2011 the Company's net cash used in operating activities was approximately $168,000. 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, 2011, the net cash used in investing activities was approximately $186,000. This included purchases of marketable securities of $1.6 million, purchases and improvements of fixed assets of $262,000 and, contributions to other investments of $244,000. These uses of cash were partially offset by sources of cash consisting of proceeds from the sales and redemptions of marketable securities of $1.6 million, cash distributions from other investments of $211,000 and distribution from affiliate of $168,000.

For the year ended December 31, 2011, net cash used in financing activities was approximately $898,000. This primarily consisted of loan principal repayments of $3.0 million, interest rate swap contract partial settlement of $198,000, and distributions to non controlling interests in consolidated entities of $102,000. These uses of funds were partially offset by sources of funds consisting of withdrawals from restricted cash accounts of $2.4 million in conjunction with Monty's loan modification completed in March 2011 and after which no restricted cash balance remains.

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	20.
Consolidated balance sheets as of December 31, 2011 and 2010	21.
Consolidated statements of comprehensive income for the years ended December 31, 2011 and 2010	22.
Consolidated statements of changes in stockholders' equity for the years ended December 31, 2011 and 2010	23.
Consolidated statements of cash flows for the years ended December 31, 2011 and 2010	24.
Notes to consolidated financial statements	25.

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 sheets of HMG/Courtland Properties, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audits 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 audits 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 consolidated financial position of HMG/Courtland Properties, Inc. and Subsidiaries at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Cherry, Bekaert & Holland, L.L.P.
Ft. Lauderdale, Florida
March 30, 2012

HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES CONSOLIDATED

BALANCE SHEETS AS OF DECEMBER 31 2011 AND DECEMBER 31, 2010

	December 31, 2011	December 31, 2010
ASSETS		
Investment properties, net of accumulated depreciation:		
Commercial properties	$7,057,005	$7,259,225
Hotel, club and spa facility	3,447,870	3,649,217
Marina properties	1,893,452	2,110,445
Land held for development	27,689	27,689
Total investment properties, net	12,426,016	13,046,576
Cash and cash equivalents	2,366,363	3,618,200
Cash and cash equivalents-restricted	—	2,379,947
Investments in marketable securities	2,019,476	2,093,109
Other investments	3,745,327	3,769,417
Investment in affiliate	2,686,887	2,813,634
Loans, notes and other receivables	683,998	742,411
Notes and advances due from related parties	696,909	698,341
Deferred taxes	632,000	480,000
Goodwill	5,628,627	5,628,627
Other assets	710,227	657,541
TOTAL ASSETS	$31,595,830	$35,927,803
LIABILITIES		
Mortgages and notes payable	$14,531,833	$17,509,155
Accounts payable, accrued expenses and other liabilities	740,618	894,894
Interest rate swap contract payable	1,975,000	1,462,000
TOTAL LIABILITIES	17,247,451	19,866,049
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	24,366,099	24,313,341
Less: Treasury stock at cost (13,529 shares as of December 31, 2011 and 2010)	(60,388)	(60,388)
Undistributed gains from sales of properties, net of losses	41,572,120	41,572,120
Undistributed losses from operations	(54,383,928)	(53,443,832)
Accumulated other comprehensive loss	(987,500)	(731,000)
Total stockholders' equity	11,530,358	12,674,196
Non controlling interest	2,818,021	3,387,558

TOTAL EQUITY	14,348,379	16,061,754
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$31,595,830	$35,927,803

See notes to the consolidated financial statements

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HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

REVENUES	2011			2010		
Real estate rentals and related revenue	$	1,880,626		$	1,840,699	
Food & beverage sales		5,857,135			5,616,030	
Marina revenues		1,621,066			1,709,238	
Spa revenues		535,237			477,059	
Total revenues		9,894,064			9,643,026	
EXPENSES						
Operating expenses:						
Rental and other properties		725,555			572,171	
Food and beverage cost of sales		1,682,388			1,549,328	
Food and beverage labor and related costs		1,316,283			1,399,514	
Food and beverage other operating costs		2,063,408			1,909,047	
Marina expenses		856,863			989,265	
Spa expenses		537,901			431,319	
Depreciation and amortization		1,147,525			1,012,347	
Adviser's base fee		1,020,000			1,020,000	
General and administrative		376,850			387,696	
Professional fees and expenses		424,915			364,716	
Directors' fees and expenses		100,744			116,278	
Goodwill impairment loss		—			2,100,000	
Total operating expenses		10,252,432			11,851,681	
Interest expense		901,992			1,057,990	
Total expenses		11,154,424			12,909,671	
Loss before other (loss) income and income taxes		(1,260,360	)		(3,266,645	)
		(59,431	)		319,426	

Net realized and unrealized (loss) gains from investments in marketable securities						
Net income from other investments		68,639			324,372	
Other than temporary impairment losses from other investments		(86,707	)		(140,000	)
Realized loss on partial settlement of interest rate swap agreement		(198,400	)		—	
Interest, dividend and other income		233,071			330,105	
Total other (loss) income		(42,828	)		833,903	
Loss before income taxes		(1,303,188	)		(2,432,742	)
Benefit from income taxes		(152,000	)		(22,000	)
Net loss		(1,151,188	)		(2,410,742	)
Less: Net loss attributable to noncontrolling interest in consolidated entities		211,092			1,075,945	
Net loss attributable to the Company	$	(940,096	)	$	(1,334,797	)
<u>Other comprehensive loss:</u>						
Unrealized loss on interest rate swap agreement	$	(256,500	)	$	(159,000	)
Total other comprehensive loss		(256,500	)		(159,000	)
Comprehensive loss	$	(1,196,596	)	$	(1,493,797	)
<u>Net Loss Per Common Share:</u>						
Basic and diluted	$	(0.93	)	$	(1.31	)
Weighted average common shares outstanding-Basic and diluted		1,010,426			1,019,571	

See notes to the consolidated financial statements

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HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Common Stock		**Additional** Paid-In	Undistributed Gains from Sales of Properties	Undistributed Losses from	Comprehensive	**Accumulated** Other Comprehensive	T
	Shares	Amount	Capital	Net of Losses	Operations	Loss	Loss	S
Balance as of January 1, 2010	1,023,955	$ 1,023,955	$24,313,341	$41,572,120	$ (52,109,035)		$(572,000)	2
Net loss					(1,334,797)	(1,334,797)		
Other comprehensive loss:								
Unrealized loss on interest rate swap contract						(159,000)	(159,000)	
Comprehensive loss						(1,493,797)		
Purchase of treasury stock								1
Balance as of December 31, 2010	1,023,955	1,023,955	24,313,341	41,572,120	(53,443,832)		(731,000)	1
Net loss					(940,096)	(940,096)		
Other comprehensive loss:								
Unrealized loss on interest rate swap contract						(256,500)	(256,500)	
Comprehensive loss						(1,196,596)		
Non-employee stock option			52,758					

compensation							
Balance as of December 31, 2011	1,023,955	$1,023,955	$24,366,099	$41,572,120	$ (54,383,928)	$(987,500)	1

See notes to the consolidated financial statements

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HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss attributable to the Company	$(940,096)	$(1,334,797)
Adjustments to reconcile net loss attributable to the Company to net cash used in operating activities:		
Depreciation and amortization	1,147,525	1,012,347
Non-employee stock compensation	52,758	—
Net income from other investments, excluding impairment losses	(68,639)	(324,372)
Other than temporary impairment loss from other investments	86,707	140,000
Goodwill impairment loss	—	2,100,000
Realized loss on interest rate swap agreement	198,400	—
Net loss (gain) from investments in marketable securities	59,431	(319,426)
Net loss attributable to non controlling interest	(211,092)	(1,075,945)
Deferred income tax benefit	(152,000)	(22,000)
Provision for bad debts	—	100,000
Changes in assets and liabilities:		
Other assets and other receivables	(184,119)	(498,657)
Accounts payable, accrued expenses and other liabilities	(156,607)	(135,682)
Total adjustments	772,364	976,265
Net cash used in operating activities	(167,732)	(358,532)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases and improvements of properties	(262,119)	(167,174)
Decrease in notes and advances from related parties	1,432	—
Additions in mortgage loans and notes receivables	(75,000)	—
Collections of mortgage loans and notes receivables	—	263,975
Distributions from other investments	211,277	324,541
Contributions to other investments	(244,187)	(373,838)
Net proceeds from sales and redemptions of securities	1,637,551	3,858,978
Increased investments in marketable securities	(1,623,349)	(1,124,228)
Distribution from affiliate	168,014	140,012
Net cash (used in) provided by investing activities	(186,381)	2,922,266
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of mortgages and notes payables	(2,977,322)	(961,293)
Partial settlement of interest rate swap contract	(198,400)	
Withdrawals from restricted cash	2,379,947	21,599
(Distributions to) contributions from minority partners	(101,949)	136,449
Purchase of treasury stock	—	(51,507)

Net cash used in financing activities	(897,724)	(854,752)
Net (decrease) increase in cash and cash equivalents	(1,251,837)	1,708,982
Cash and cash equivalents at beginning of the year	3,618,200	1,909,218
Cash and cash equivalents at end of the year	$2,366,363	$3,618,200
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$902,000	$1,058,000
Cash paid during the year for income taxes	$—	$—

See notes to the consolidated financial statements

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HMG/COURTLAND PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 and 2010

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Consolidation. The consolidated financial statements include the accounts of HMG/Courtland Properties, Inc. ("we" or the "Company") and entities in which the Company owns a majority voting interest or controlling financial interest. The Company was organized in 1972 and (excluding its 95% owned subsidiary Courtland Investments, Inc., which files a separate tax return) qualifies for taxation as a real estate investment trust ("REIT") under the Internal Revenue Code. The Company's business is the ownership and management of income-producing commercial properties and its management considers other investments if such investments offer growth or profit potential. The Company's recurring operating revenue comes from food and beverage operations, marina dockage operations, commercial property rental operations and spa operations.

All material transactions and balances with consolidated and unconsolidated entities have been eliminated in consolidation or as required under the equity method.

The Company's consolidated subsidiaries are described below:

Courtland Investments, Inc. ("CII"). A 95% owned corporation in which the Company holds a 95% non-voting interest and Masscap Investments Company, Inc. ("Masscap") which holds a 5% voting interest in CII. The Company and Masscap have had a continuing arrangement with regard to the ongoing operations of CII, which provides the Company with complete authority over all decision making relating to the business, operations and financing of CII consistent with the Company's status as a real estate investment trust. Masscap is a wholly-owned subsidiary of Transco Realty Trust which is a 47% shareholder of the Company. CII files a separate tax return and its operations are not part of the REIT tax return.

Courtland Bayshore Rawbar, LLC ("CBSRB"). This limited liability company is wholly owned by CII. CBSRB owns a 50% interest in Bayshore Rawbar, LLC ("BSRB") which operates the Monty's restaurant in Coconut Grove, Florida. The other 50% owner of BSRB is The Christoph Family Trust ("CFT"), an unrelated entity.

HMG Bayshore, LLC ("HMGBS"). This limited liability company owns a 50% interest in the real property and marina operations of Bayshore Landing, LLC ("BSL"). HMGBS and the CFT formed BSL for the purposes of acquiring and

operating the Monty's property in Coconut Grove, Florida.

Grove Isle Associates, Ltd. ("GIA"). This limited partnership (owned 85% by the Company and 15% by CII) owns and leases the Grove Isle Resort to a tenant-operator. The Grove Isle resort includes a 50 room hotel, restaurant and banquet facilities, spa, tennis courts and an 85-boat slip marina. It is located on 7 acres of a private island in the Coconut Grove section of Miami, Florida.

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The tenant-operator of Grove Isle is Grove Hotel Partners LLC, an affiliate of Grand Heritage Hotel Group, LLC ("GH"). GH operates other independent hotels and resorts across North America and Mexico.

CII Spa, LLC ("CIISPA"). This wholly owned subsidiary of CII owns a 50% interest in Grove Spa, LLC ("GS") and the other 50% is owned by GH.

GH manages the day to day operations of the spa. The spa, which operates under the name "Spa Terre at the Grove", offers a variety of body treatments, salon services, facial care and massage therapies.

Grove Isle Yacht Club Associates ("GIYCA"). This wholly owned subsidiary of

CII was the developer of the 85 boat slips located at Grove Isle of which the Company owns six as of December 31, 2011. All other slips are privately owned. Grove Isle Marina, Inc. a wholly-owned subsidiary of GIYCA, operates all aspects of the Grove Isle marina.

260 River Corp ("260"). This wholly owned corporation of the Company owns an approximate 70% interest in a vacant commercially zoned building located on 5.4 acres in Montpelier, Vermont. Development of this property is being considered.

Courtland Houston, Inc. ("CHI"). This corporation is 80% owned by CII and 20% owned by its sole employee. CHI engages in consulting services and commercial leasing activities in Texas.

South Bayshore Associates ("SBA"). This is a 75% company owned joint venture with its sole asset being a receivable from the Company's 47% shareholder, Transco Realty Trust.

Baleen Associates, Inc. ("Baleen"). This corporation is wholly owned by CII and its sole asset is a 50% interest in a partnership which operates an executive suite rental business in Coconut Grove, Florida.

Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results

could differ from those estimates.

Income Taxes. The Company's 95%-owned subsidiary, CII, files a separate income tax return and its operations are not included in the REIT's income tax return. The Company accounts for income taxes in accordance with "ASC Topic 740, "Accounting for Income Taxes" ("ASC Topic 740"). This requires a Company to use the asset and liability method of accounting for income taxes. Under this method, 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 bases 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. The Company (excluding CII) qualifies as a real estate investment trust and 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. Distributed capital gains on sales of real estate as they relate to REIT activities are not subject to taxes; however, undistributed capital gains are taxed as capital gains. State income taxes are not significant.

The Company follows the provisions of ASC Topic 740-10, "Accounting for Uncertainty in Income Taxes" which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with ASC Topic 740, and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This topic also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our consolidated financial statements. Our evaluation was performed for the tax years ended December 31, 2008, 2009, 2010 and 2011, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2011.

We may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. In the event we have received an assessment for interest and/or penalties, it has been classified in the consolidated financial statements as selling, general and administrative expense.

Depreciation and Amortization. Depreciation of properties held for investment is computed using the straight-line method over the estimated useful lives of the properties, which range up to 39.5 years. Deferred mortgage and leasing costs are amortized over the shorter of the respective term of the related indebtedness or life of the asset. Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was approximately $1,147,000 and $1,012,000, respectively. The Grove Isle yacht slips were being depreciated on a straight-line basis over their estimated useful life of 20 years and are fully depreciated. The Monty's marina is being depreciated on a straight-line basis over its estimated useful life of 15 years.

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<u>Fair Value of Financial Instruments.</u> The Company records its financial assets and liabilities at fair value, which is defined under the applicable accounting standards as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measure date. The Company uses valuation techniques to measure fair value, maximizing the use of observable outputs and minimizing the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Inputs include management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument’s valuation.

An investment’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of financial instruments including other receivables, notes and advances due from related parties, accounts payable and accrued expenses and mortgages and notes payable approximate their fair values at December 31, 2011 and 2010, due to their relatively short terms or variable interest rates.

Cash equivalents are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of transparency. Other investments which are measured by investees at net asset value per share or its equivalent are also classified within Level 2. The fair value of the interest rate swap contract payable is based on the value provided by the issuing bank on a monthly basis (Level 2).

The valuation of other investments not included above requires significant judgment by the Company’s management due to the absence of quoted market values, inherent lack of liquidity and long-term nature of such assets and have been classified within Level 3. Such investments are valued initially based upon transaction price. Valuations are reviewed periodically utilizing available market data and additional factors to determine if the carrying value of these investments should be adjusted. In determining valuation adjustments, emphasis is placed on market participants’ assumptions and market-based information over entity-specific information.

Marketable Securities. The entire marketable securities portfolio is classified as trading consistent with the Company's overall investment objectives and activities. Accordingly, all unrealized gains and losses on the Company's marketable securities investment portfolio are included in the consolidated statements of comprehensive income.

Gross gains and losses on the sale of marketable securities are based on the first-in first-out method of determining cost.

Marketable securities from time to time are pledged as collateral pursuant to broker margin requirements. At December 31, 2011 and 2010 there were no margin balances outstanding.

Notes and other receivables. Management periodically performs a review of amounts due on its notes and other receivable balances to determine if they are impaired based on factors affecting the collectability of those balances. Management's estimates of collectability of these receivables requires management to exercise significant judgment about the timing, frequency and severity of collection losses, if any, and the underlying value of collateral, which may affect recoverability of such receivables. As of December 31, 2011 and 2010 the Company had an allowance for bad debt of $150,000. This is related to one tenant at the Monty's property.

Equity investments. Investments in which the Company does not have a majority voting or financial controlling interest but has the ability to exercise influence are accounted for under the equity method of accounting, even though the Company may have a majority interest in profits and losses. The Company follows ASC Topic 323-30 in accounting for its investments in limited partnerships. This guidance requires the use of the equity method for limited partnership investments of more than 3 to 5 percent.

The Company has no voting or financial controlling interests in its other investments which include entities that invest venture capital funds in growth oriented enterprises. These other investments are carried at cost less adjustments for other than temporary declines in value.

Comprehensive Income (Loss). The Company reports comprehensive income (loss) in both its consolidated statements of comprehensive income and the consolidated statements of changes in stockholders' equity. Comprehensive income (loss) is the change in equity from transactions and other events from nonowner sources. Comprehensive income (loss) includes net income (loss) and other comprehensive income (loss). For the years ended December 31, 2011 and 2010 comprehensive loss consisted of unrealized loss from interest rate swap contract of $257,000 and $159,000, respectively.

Loss per common share. Net loss per common share (basic and diluted) is based on the net loss divided by the weighted average number of common shares outstanding during each year. Diluted net loss per share includes the dilutive effect of options to acquire common stock. Common shares outstanding include issued shares less shares held in treasury. There were 102,100 stock options outstanding in 2011 and 2010, which were not included in the diluted earnings per share computation as their effect would have been anti-dilutive.

Gain on Sales of Properties. Gain on sales of properties is recognized when the minimum investment requirements have been met by the purchaser and title passes to the purchaser. There were no sales of property in 2011 and 2010.

Cash and Cash Equivalents. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Concentration of Credit Risk. Financial instruments that potentially subject the Company to concentration of credit risk are cash and cash equivalent deposits in excess of federally insured limits, marketable securities, other receivables and notes and mortgages receivable. From time to time the Company may have bank deposits in excess of federally insured limits. The Company evaluates these excess deposits and transfers amounts to brokerage accounts and other banks to mitigate this exposure.

The Company maintains cash and equivalents in bank accounts which at times, may exceed federally-insured limits. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash. The federally insured limit for time deposits is presently $250,000, and unlimited for demand deposits.

Interest Rate Swap Contract.

The Company may or may not use interest rate swap contracts to reduce interest rate risk.

Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The gain or loss on the effective portion of the hedge initially is included as a component of other comprehensive income and is subsequently reclassified into earnings when interest on the related debt is paid, or upon partial or full settlement of the contract.

Inventories. Inventories consist primarily of food and beverage and are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Goodwill.

The Company's goodwill balance as of December 31, 2011 and 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.

Our 2010 annual goodwill impairment test indicated a significant decline in the fair value of the Monty's reporting unit. Accordingly we estimated and recognized a goodwill impairment loss of $2.1 million as of December 31, 2010. The measurement of the impairment loss was based on best estimates at the time. During 2011 we performed the second step of the goodwill impairment analysis and based on the completion of the measurement of the impairment loss we concluded that no further loss shall be recognized in this reporting period, and that the impairment loss was wholly attributable to reported goodwill.

The Company elected an annual goodwill impairment testing date of December 31.

In preparing our current forecasts, we have continued using discount rates established in the prior year and have continued to moderate our estimates to more closely approximate recent actual results. 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 2012 due to a more cost effective 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.

Based on our 2011 annual goodwill impairment test we concluded that the fair value of the reporting units of Monty's exceeded their carrying amounts, and therefore no impairment was recognized in 2011.

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	$2,597	$6,127	$(1,994)	$(3,579)
Cost of debt	$(623)	$(1,201)	$676	$1,409
Discount rate	$(559)	$(1,053)	$638	$1,373

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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.

Other intangible assets:

Deferred loan costs are amortized on a straight line basis over the life of the loan. This method approximates the effective interest rate method.

Reclassifications. Certain amounts in the prior year's consolidated financial statements have beenreclassified to conform to the current year's presentation.

Non controlling Interest. Non controlling interest represents the non controlling or minority partners' proportionate share of the equity of the Company's majority owned subsidiaries. A summary for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Non controlling interest balance at beginning of year	$3,387,000	$4,486,000
Non controlling partners' interest in operating losses of consolidated subsidiaries	(211,000)	(1,076,000)
Net (distributions to) contributions from non controlling partners	(102,000)	136,000
Unrealized loss on interest rate swap agreement	(256,000)	(159,000)
Non controlling interest balance at end of year	$2,818,000	$3,387,000

Revenue Recognition. The Company is the lessor of various real estate properties. All of the lease agreements are classified as operating leases and accordingly all rental revenue is recognized as earned based upon total fixed cash flow over the initial term of the lease, using the straight line method. Percentage rents, if applicable, are based upon tenant sales levels for a specified period and are recognized on the accrual basis, based on the lessee's sales. Reimbursed expenses for real estate taxes, common area maintenance, utilities and insurance are recognized in the period in which the expenses are incurred, based upon the provisions of the tenant's lease. In addition to base rent, the Company may receive participation rent consisting of a portion of the tenant's operating surplus, as defined in the lease agreement. Participation rent is due at the end of each lease year and recognized if and when earned.

Revenues earned from restaurant and spa operations are realized in cash or cash equivalents with an insignificant amount of customer receivables. We record revenues from recurring food and beverage sales upon sale and record revenues from recurring spa related sales upon performance of spa service or sale of spa product. Marina revenues are earned in accordance with dockage rental agreements. We report our sales net of sales tax and service charges.

Impairment of Long-Lived Assets. The Company periodically reviews the carrying value 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. There were no impairment of long-lived assets in 2011 and 2010.

Share-Based Compensation.

The Company accounts for share-based compensation in accordance with ASC Topic 718 “Share-Based Payments”. The Company has used the Black-Scholes option pricing model to estimate the fair value of stock options on the dates of grant.

Recent Accounting Pronouncements.

In September 2011, the FASB issued ASU 2011-08, Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. The amended guidance will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

In June 2011, the FASB issued new guidance that gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total for comprehensive income. The entity is also required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements(s) where the components of net income

and the components of other comprehensive income are presented. The guidance is to be applied retrospectively, for fiscal periods and interim periods within those years, beginning after December 15, 2011 and early adoption is permitted. In December 2011, the FASB issued new guidance deferring the changes in the June 2011 relating to presentation of classification adjustments. The Company's adoption of the new guidance, other than that related to presentation of reclassification adjustments, as of January 1, 2012 is not expected to have a material impact on its consolidated financial position, results of operations and cash flows.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). This ASU was issued to provide largely identical guidance about fair value measurement and disclosure requirements for entities that disclose the fair value of an asset, a liability, or an instrument classified in shareholders' equity in their consolidated financial statements as that provided in the International Accounting Standards Board's new IFRS 13, Fair Value Measurement. This ASU does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under GAAP. This guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. In the period of adoption, a reporting entity will be required to disclose a change, if any, in valuation technique and related inputs that results from applying the ASU to quantify the total effect, if practicable. The Company believes the adoption of this guidance will not have a material impact on its financial statement disclosures.

2. INVESTMENT PROPERTIES

The components of the Company's investment properties and the related accumulated depreciation information follow:

	December 31, 2011		
	Cost	Accumulated Depreciation	Net
Commercial Properties:			
Monty's restaurant and retail mall (Coconut Grove, FL) - Building & Improvements (1)	$7,052,051	$1,476,559	$5,575,492
Monty's restaurant and retail mall (Coconut Grove, FL) - furniture, fixtures and equipment (F,F &E) (1)	1,998,216	1,427,889	570,327
Monty's retail mall (Coconut Grove, FL) - construction in progress (1)	75,804		75,804
Corporate Office - (Coconut Grove, FL) – Building	645,362	246,669	398,693
Corporate Office – (Coconut Grove, FL) – Land	325,000	—	325,000
Other (Montpelier, Vermont) – Buildings	52,000	52,000	—
Other (Montpelier, Vermont) - Land and improvements (5.4 acres)	111,689	—	111,689
	10,260,122	3,203,117	7,057,005
Grove Isle Hotel, club and spa facility (Coconut Grove, FL):			
Land	1,338,518	—	1,338,518
Hotel and club building and improvements	6,846,503	6,314,706	531,797
Spa building and improvements	2,332,303	807,996	1,524,307
Spa furniture, fixtures and equipment	436,107	382,859	53,248
	10,953,431	7,505,561	3,447,870
Marina Properties (Coconut Grove, FL):			
Monty's marina - 132 slips and improvements (1)	3,500,962	1,611,370	1,889,592
Grove Isle marina furniture, fixtures and equipment (6 slips company owned, 79 privately owned)	333,334	329,474	3,860
	3,834,296	1,940,844	1,893,452

<u>Land Held for Development:</u>			
Hopkinton, Rhode Island (approximately 50 acres)	27,689	—	27,689
	27,689	—	27,689
Totals	$25,075,538	$12,649,522	$12,426,016

(1) The Monty's property is subject to a ground lease with the City of Miami, Florida expiring in 2035. Lease payments due under the lease consist of percentage rent ranging from 8% to 15% of gross revenues from various components of the property.

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	December 31, 2010		
	Cost	Accumulated Depreciation	Net
Commercial Properties:			
Monty's restaurant and retail mall (Coconut Grove, FL) - Building & Improvements (1)	$7,011,747	$ 1,213,284	$5,798,463
Monty's restaurant and retail mall (Coconut Grove, FL) - furniture, fixtures and equipment (F,F &E) (1)	1,876,377	1,267,012	