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INTERGROUP CORP
Form 10QSB
November 14, 2006

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

FORM 10-QSB

Quarterly Report Under Section 13 Or 15 (d) of the
Securities Exchange Act of 1934

For the quarterly period ended September 30, 2006

Transition Report Under Section 13 Or 15 (d) of the
Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1-10324

THE INTERGROUP CORPORATION

(Exact Name of Small Business Issuer as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

13-3293645

(IRS Employer
Identification No.)

820 Moraga Drive Los Angeles, CA 90049

(Address of Principal Executive Offices)

(310) 889-2500

(Issuer's Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The number of shares outstanding of the issuer's Common Stock, \$.01 par value, as of November 10, 2006 were 2,356,358 shares.

Transitional Small Business Disclosure Format: YES NO

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PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

THE INTERGROUP CORPORATION CONSOLIDATED BALANCE SHEET (UNAUDITED)

As of September 30,

2006

ASSETS

Investment in hotel, at cost:	
Land	\$ 1,124,000
Furniture and equipment	15,095,000
Building and improvements	42,204,000
Accumulated depreciation	(15,827,000)

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	42,586,000
Investment in real estate, at cost:	
Land	23,626,000
Buildings, improvements and equipment	61,318,000
Accumulated depreciation	(20,275,000)

	64,669,000
Property held for sale	14,021,000

	78,690,000
Cash and cash equivalents	3,104,000
Restricted cash	2,852,000
Investment in marketable securities	19,787,000
Other investments	5,394,000
Prepaid expenses and other assets	13,234,000

Total assets	\$165,647,000
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities	
Due to securities broker	8,965,000
Obligation for securities sold	2,671,000
Line of credit	4,258,000
Accounts payable and other liabilities	11,070,000
Mortgage note payable - hotel	45,617,000
Mortgage note payable - real estate	67,019,000
Mortgage note payable - property held for sale	11,289,000
Deferred income taxes	3,887,000

Total liabilities	154,776,000
Minority interest	2,729,000

Commitments and contingencies	
Shareholders' equity:	
Preferred stock, \$.01 par value, 2,500,000 shares authorized; none issued	-
Common stock, \$.01 par value, 4,000,000 shares authorized; 3,193,745 issued, 2,356,358 outstanding	21,000
Common stock, Class A \$.01 par value, 2,500,000 shares authorized; none issued	-
Additional paid-in capital	8,686,000
Retained earnings	8,305,000
Treasury stock, at cost, 837,387 shares	(8,870,000)

Total shareholders' equity	8,142,000

Total liabilities and shareholders' equity	\$165,647,000
	=====

The accompanying notes are an integral part of the consolidated financial statements.

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THE INTERGROUP CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

For the Three Months ended September 30,	2006	2005
	-----	-----
Justice Investors operations:		
Hotel and garage revenue	\$ 7,592,000	\$ -
Operating expenses	(6,360,000)	-
Interest expense	(749,000)	-
Real estate taxes	(180,000)	-
Depreciation and amortization	(1,034,000)	-
	-----	-----
Loss from Justice Investors operations	(731,000)	-
	-----	-----
Real estate operations:		
Rental income	3,173,000	3,028,000
Property operating expense	(1,461,000)	(1,430,000)
Mortgage interest expense	(915,000)	(944,000)
Real estate taxes	(443,000)	(439,000)
Depreciation	(595,000)	(620,000)
	-----	-----
Loss from real estate operations	(241,000)	(405,000)
	-----	-----
Equity in net loss of Justice Investors	-	(727,000)
	-----	-----
Investment transactions:		
Net losses on marketable securities	(880,000)	(11,000)
Impairment loss on other investments	-	(58,000)
Dividend and interest income	58,000	302,000
Margin interest and trading expenses	(480,000)	(560,000)
	-----	-----
Loss from investment transactions	(1,302,000)	(327,000)
	-----	-----
Other income (expense):		
General and administrative expense	(394,000)	(338,000)
Amortization of excess purchase price - Justice	(60,000)	(60,000)
Other income	-	13,000
	-----	-----
Other expense	(454,000)	(385,000)
	-----	-----
Loss before provision for income taxes and minority interest	(2,728,000)	(1,844,000)
	-----	-----
Provision for income tax benefit	1,075,000	707,000
	-----	-----
Loss before minority interest	(1,653,000)	(1,137,000)
Minority interest benefit, net of tax	643,000	321,000
	-----	-----
Loss from continuing operations	\$ (1,010,000)	\$ (816,000)
	-----	-----
Discontinued operations:		
Net loss on discontinued operations	\$ (58,000)	\$ (161,000)
Gain(loss) on sale of real estate	-	(24,000)
Provision for income tax benefit	23,000	71,000
	-----	-----
Loss from discontinued operations	\$ (35,000)	\$ (114,000)
	-----	-----
Net loss	\$ (1,045,000)	\$ (930,000)
	=====	=====

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Loss per share from continuing operations		
Basic	\$ (0.43)	\$ (0.34)
Diluted	\$ (0.43)	\$ (0.34)
	=====	=====
Loss per share from discontinued operations		
Basic	\$ (0.01)	\$ (0.05)
Diluted	\$ (0.01)	\$ (0.05)
	=====	=====
Loss per share		
Basic	\$ (0.44)	\$ (0.39)
Diluted	\$ (0.44)	\$ (0.39)
	=====	=====
Weighted average number of shares outstanding	2,357,146	2,403,192
	=====	=====
Diluted weighted average number of shares outstanding	2,726,146	2,770,692
	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

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THE INTEGROU CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the Three Months ended September 30,	2006	2005
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (1,045,000)	\$ (930,000)
Adjustments to reconcile net loss to cash provided by(used in) operating activities:		
Depreciation and amortization	1,628,000	620,000
Depreciation - discontinued operations	-	68,000
Impairment loss on other investments	-	58,000
Loss on sale of real estate	-	24,000
Net unrealized loss(gains) on investments	1,352,000	(170,000)
Equity in net loss from Justice Investors	-	787,000
Minority interest benefit	(643,000)	(321,000)
Changes in assets and liabilities:		
Restricted cash	(140,000)	(2,000)
Investment in marketable securities	8,047,000	847,000
Prepaid expenses and other assets	(2,675,000)	(3,459,000)
Accounts payable and other liabilities	1,018,000	187,000
Due to broker	(2,567,000)	3,479,000
Obligation for securities sold	(3,964,000)	(1,880,000)
	-----	-----
Net cash provided by(used in) operating activities	1,011,000	(692,000)
	-----	-----
Cash flows from financing activities:		
Borrowings from mortgage notes payable	325,000	-
Principal payments on mortgage notes payable	(375,000)	(2,377,000)
Payment on line of credit	-	(255,000)
Purchase of treasury stock	(56,000)	(375,000)

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Net cash used in financing activities	(106,000)	(3,007,000)
Cash flows from investing activities:		
Net proceeds from sale of real estate	-	3,785,000
Additions to buildings, improvements and equipment	(718,000)	(164,000)
Purchase of Santa Fe stock	(18,000)	-
Net cash (used in)provided by investing activities	(736,000)	3,621,000
Net increase(decrease) in cash and cash equivalents	169,000	(78,000)
Cash and cash equivalents at beginning of period	2,935,000	868,000
Cash and cash equivalents at end of period	\$ 3,104,000	\$ 790,000
Supplemental disclosure of non-cash activities:		
Consolidation of Justice Investors		
Gross components:		
Assets (including cash of \$2,352,000)	\$ (42,975,000)	\$ -
Liabilities	52,366,000	-
Investment in Justice	(7,321,000)	-
Minority interest	(2,343,000)	-

The accompanying notes are an integral part of the consolidated financial statements.

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THE INTERGROUP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

The consolidated financial statements included herein are unaudited; however, in the opinion of The InterGroup Corporation ("InterGroup" or the "Company"), the interim financial information contains all adjustments, including normal recurring adjustments, necessary to present fairly the results for the interim period. These consolidated financial statements include the accounts of the Company and its subsidiaries and should be read in conjunction with the Company's June 30, 2006 audited consolidated financial statements and notes thereto.

As of September 30, 2006, the Company had the power to vote 78.1%, of the voting shares of Santa Fe Financial Corporation ("Santa Fe"), a public company (OTCBB: SFEF). Santa Fe's revenue is primarily generated through its 68.8% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), a public company (OTCBB: PRSI). Portsmouth's operations primarily consist of owning and managing a hotel property as a general partner and a 50% limited partner in Justice Investors, a California limited partnership ("Justice" or the "Partnership"). Santa Fe, Portsmouth and Justice are consolidated into the Company's financial statements. See Note 4 regarding the consolidation of Justice.

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Certain prior quarter balances have been reclassified to conform with the current quarter presentation.

The results of operations for the three months ended September 30, 2006 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2007.

Property held for sale

Properties are classified as held for sale when management commits to a plan to sell the asset, the asset is available for immediate sale, an active program to locate a buyer has been initiated, the sale of the asset is probable, the sale of the asset is actively marketed and it is unlikely that significant changes to the sale plan will be made or withdrawn. As of September 30, 2006, the Company had two properties classified as held for sale.

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the weighted-average number of common shares is increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued. The Company's only potentially dilutive common shares are stock options. Stock options are included in diluted earnings per share by application of the treasury stock method. As of September 30, 2006, the Company had 369,000 stock options that were considered potentially dilutive common shares and 36,000 stock options that were considered anti-dilutive. As of September 30, 2005, the Company had 367,500 stock options that were considered potentially dilutive common shares and 37,500 stock options that were considered anti-dilutive. These amounts were included in the calculation for diluted earnings per share.

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Stock-Based Compensation Plans

As of September 30, 2006, the Company has two stock option plans, which are more fully described in Note 1 of the Company's Annual Report on Form 10-KSB for fiscal year ended June 30, 2006. On July 1, 2006, the Company implemented Statement of Financial Accounting Standards 123(R), "Share-Based Payments" ("SFAS No. 123R") which replaced SFAS No. 123 and supercedes Opinion No. 25 and the related implementation guidance. SFAS No. 123R addresses accounting for equity-based compensation arrangements, including employee stock options. The Company adopted the "modified prospective method" where stock-based compensation expense is recorded beginning on the adoption date and prior periods are not restated. Under this method, compensation expense is recognized using the fair-value based method for all new awards granted after July 1, 2006. Additionally, compensation expense for unvested stock options that are outstanding at July 1, 2006 is recognized over the requisite service period based on the fair value of those options as previously calculated at the grant date under the pro-forma disclosures of SFAS 123. The fair value of each grant is estimated using the Black-Scholes option pricing model.

During the quarter ended September 30, 2006, there were no options granted, exercised or vested. Accordingly, no stock-based compensation expense was recognized during the period. Since inception of the two stock options plans, there have been no options exercised. During the fiscal year ended June 30, 2007, it is expected that 2,250 employee options will be vested. However, the

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fair value of the vested options is considered immaterial.

The following table summarizes the stock option activity for the periods indicated:

	Number of Shares	Weighted-average Exercise Price
Unexercised options		
Outstanding at July 1, 2006	405,000	\$9.91
Granted	-	-
Exercised	-	-
Forfeited	-	-
Unexercised options		
Outstanding at September 30, 2006	405,000	\$9.91

As of September 30, 2006, of the total 405,000 unexercised options outstanding, \$9,000 were not yet vested.

Unexercised Options	Range of Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Life
September 30, 2006	\$7.92-\$29.63	\$ 9.91	3.20 years

Prior to the adoption to SFAS No 123R, the Company accounted for stock-based awards using the intrinsic value method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Directors and Employees. The following table illustrates the effect on the three months ended September 30, 2005 net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148:

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	2005
For the three months ended September 30,	
Net loss	\$ (930,000)
Stock based employee Compensation expense	(44,000)

Pro forma net loss	\$ (974,000)
	=====
Loss per share	
Basic as reported	\$ (0.39)
Basic pro forma	\$ (0.41)
Diluted as reported	\$ (0.39)
Diluted pro forma	\$ (0.41)

2. Investment in Real Estate

As of September 30, 2006, the Company has listed for sale its 224-unit and its 30-unit apartment buildings located in Irving, Texas and Los Angeles, California, respectively.

Under the provisions of the Statement of Financial Accounting Standards No.144, Accounting for Impairment or Disposal of Long-Lived Assets, for properties disposed of or listed for sale during the year, the revenues and expenses are accounted for under discontinued operations in the statement of operations.

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The revenues and expenses from the operation of these properties have been reclassified from continuing operations for the three months ended September 30, 2006 and September 30, 2005 and reported as income from discontinued operations in the consolidated statements of operations.

The revenues and expenses from the operation of the properties that were sold or listed for sale during three months ended September 30, 2006 and September 30, 2005, are summarized as follows:

For the three months ended September 30	2006	2005
	-----	-----
Revenues	\$ 448,000	\$ 454,000
Expenses	(506,000)	(615,000)
	-----	-----
Net loss	(58,000)	(161,000)
	=====	=====

Depreciation expense for the three months ended September 30, 2006 and September 30, 2005, was zero and \$68,000, respectively.

3. Investment in Marketable Securities:

The Company's investment portfolio consists primarily of corporate equities. The Company has also invested in corporate bonds and income producing securities, which may include interests in real estate based companies and REITs, where financial benefit could inure to its shareholders through income and/or capital gain.

At September 30, 2006, all of the Company's marketable securities are classified as trading securities. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the change in the unrealized gains and losses on these investments are included earnings. Trading securities are summarized as follows:

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As of September 30, 2006

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Market Value
	-----	-----	-----	-----	-----
Corporate Equities	\$16,173,000	\$4,905,000	(\$1,291,000)	\$3,614,000	\$19,787,000

As of September 30, 2006, the Company had \$822,000 of unrealized losses related to securities held for over one year.

As part of the investment strategies, the Company may assume short positions against its long positions in marketable securities. Short sales are used by the Company to potentially offset normal market risks undertaken in the course of its investing activities or to provide additional return opportunities. The Company has no naked short positions. As of September 30, 2006, the Company had obligations for securities sold (equities short) of \$2,671,000.

Net gains on marketable securities on the statement of operations are comprised of realized and unrealized gains. Below is the composition of the two

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components for the three months ended September 30, 2006 and September 30, 2005, respectively.

For the three months ended September 30,	2006	2005
	-----	-----
Realized gains(losses) on marketable securities	\$ 472,000	\$ (181,000)
Unrealized (losses)gains on marketable securities	(1,352,000)	170,000
	-----	-----
Net losses on marketable securities	(880,000)	\$ (11,000)
	=====	=====

4. Investment in Justice Investors:

Justice Investors owns the land, improvements and leaseholds now known as the Hilton San Francisco Financial District, a 549-room hotel located at 750 Kearny Street, San Francisco, California (the "Hotel").

The Company amortizes on a straight-line basis the step up in the asset values which represents the excess purchase price over the underlying book value and is allocable to the depreciable assets of its investment in Justice Investors over 40 years, which approximates the remaining life of the primary asset, the hotel building.

All significant partnership decisions require the active participation and approval of both general partners. The Company and Evon jointly consult and determine the amount of partnership reserves and the amount of cash to be distributed to the limited partners. Pursuant to the terms of the partnership agreement, voting rights of the partners are determined according to the partners' entitlement to share in the net profit and loss of the partnership. The Company is not entitled to any additional voting rights by virtue of its position as a general partner. The partnership agreement also provides that no portion of the partnership real property can be sold without the written consent of the general and limited partners entitled to more than 72% of the net profit.

On July 14, 2005, the Financial Accounting Standards Board directed Staff Position (FSP) SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5" to amend the guidance in AICPA Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures" (SOP 78-9) to be consistent with the consensus in Emerging Issues Task Force Issue No. 04-5 "Determining Whether a General Partner, or General Partners as a Group,

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Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" (Issue 04-5). FSP SOP 78-9-1 eliminated the concept of "important rights" in paragraph .09 of SOP 78-9 and replaces it with the concepts of "kick out rights" and "substantive participating rights" as defined in Issue 04-5.

Under the amendment to paragraph .09 of SOP 78-9 the general partners of a limited partnership should be deemed to control a limited partnership; however, the rights of the limited partners may overcome that presumption of control. The guidance in EITF Issue No. 04-5 should be used to determine whether the rights of the limited partners overcome the presumption of control by the general partners. The presumption of control is not overcome by the rights of the limited partners and if a single general partner controls the limited

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partnership, that general partner should consolidate the limited partnership and apply the principles of accounting applicable for investments in subsidiaries. For existing partnership agreements such as Justice Investors, the guidance should be applied in financial statements issued for the first reporting period in the fiscal years beginning after December 15, 2005.

During the fiscal quarter ended March 31, 2006, Portsmouth conducted an assessment of its general and limited interest in Justice Investors under the new guidance provided by SOP 78-9-1. The Company determined that, under the limited partnership agreement, the limited partners of Justice do not have either "kick out rights" to remove Portsmouth as a general partner or "substantive participating rights" to direct the business of the Partnership. Significant in that assessment is the fact that the limited partners of Justice do not have the ability to dissolve (liquidate) the Partnership and effectively remove the general partners without the participation and consent of Portsmouth's 50.0% limited partnership interest since any action to sell the Partnership real property and dissolve the Partnership requires the approval of partners entitled to more than 72% of the net profit of the Partnership. Based on its assessment, Portsmouth concluded that rights of the limited partners under the Partnership agreement do not overcome the presumption that Portsmouth, as a general partner and a significant limited partner, controls the Partnership in accordance with guidance set forth in FSP SOP 78-9-1. Thus, effective with the first reporting period of its fiscal year beginning July 1, 2006, Portsmouth has applied the principles of accounting applicable for investments in subsidiaries due to its substantial limited partnership interest and general partnership rights and has consolidated the financial statements of Justice with those of the Company.

For the three months ended September 30, 2006, the results of operations for Justice were consolidated with those of Portsmouth. However, for the three months ended September 30, 2005, Portsmouth's investment in Justice was accounted for under the equity method. For comparative purposes, the statement of operations for Justice for the three months ended September 30, 2006 and September 30, 2005 are disclosed below.

Significant to note is the operations of the Hotel were temporarily closed down effective May 31, 2005, to complete the substantial renovations of the Hotel required by the Hilton Franchise Agreement. Thus, the Hotel did not generate any room or food and beverage revenues during the first quarter of fiscal 2005. The below ground parking garage and Tru Spa located on the lobby level of the Hotel, both of which are lessees of the Partnership, remained open during the renovation work. As of January 12, 2006 the Hotel renovation work was substantially completed, at which time Justice obtained approval from Hilton to open the Hotel as the "Hilton San Francisco Financial District". The Hotel opened with a limited number of rooms available to rent, which increased as the Hotel transitioned into full operations by the end of February 2006.

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JUSTICE INVESTORS STATEMENTS OF OPERATIONS

For the three months ended September 30,	2006	2005
	-----	-----
Revenues:		
Hotel rooms	\$ 5,881,000	\$ -
Food and beverage	1,015,000	-
Rent - hotel garage	430,000	157,000
Other	266,000	121,000
Total revenues	----- 7,592,000	----- 278,000

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Operating expenses:		
Hotel rooms	(1,917,000)	(6,000)
Food and beverage	(1,300,000)	(103,000)
Other operating expenses	(2,334,000)	(320,000)
Interest expense	(749,000)	(141,000)
Real estate taxes	(180,000)	(133,000)
Depreciation and amortization	(1,034,000)	(140,000)
General and administrative	(822,000)	(900,000)
	-----	-----
Total expenses	(8,336,000)	(1,743,000)
	-----	-----
	(744,000)	(1,465,000)
Intercompany eliminations	13,000	11,000
	-----	-----
Net loss	\$ (731,000)	\$ (1,454,000)
	=====	=====

During the three months ended September 30, 2006, Portsmouth received monthly general partner management fees in the amount of \$13,000 from Justice Investors. This amount was eliminated from Justice operating expenses during consolidation.

Below are the comparative standalone statements of operations for the Hotel for the indicated periods.

For the three months ended September 30,	2006	2005
	-----	-----
Operating revenue:		
Room	\$ 5,881,000	\$ -
Food and beverage	1,015,000	-
Other operating revenue	178,000	-
	-----	-----
Total operating revenue	7,074,000	-
	-----	-----
Operating expenses:		
Rooms	(1,917,000)	(6,000)
Food and beverage	(1,300,000)	(103,000)
Other operating expenses	(3,214,000)	(509,000)
	-----	-----
Total operating expenses	(6,431,000)	(618,000)
	-----	-----
Net income(loss) from Hotel operations	643,000	(618,000)
Net expenses at Justice Investors	(1,374,000)	(836,000)
	-----	-----
Net loss from Justice Investors	\$ (731,000)	\$ (1,454,000)
	=====	=====

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5. Related Parties

John V. Winfield serves as Chief Executive Officer and Chairman of the Company, Portsmouth, and Santa Fe. Depending on certain market conditions and various risk factors, the Chief Executive Officer, his family, Portsmouth and Santa Fe may, at times, invest in the same companies in which the Company invests. The Company encourages such investments because it places personal resources of the Chief Executive Officer and his family members, and the resources of Portsmouth and Santa Fe, at risk in connection with investment decisions made on behalf of the Company.

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6. Segment Information

The Company operates in three reportable segments, the operations of its multi-family residential properties, the operation of Justice Investors, and the investment of its cash and securities assets. These three operating segments, as presented in the financial statements, reflect how management internally reviews each segment's performance. Management also makes operational and strategic decisions based on this information.

Information below represents reported segments for the three months ended September 30, 2006 and September 30, 2005. Operating income for rental properties consists of rental income. Operating income from Justice Investors consists of the operations of the hotel and garage. Operating income(loss) for investment transactions consist of net investment gains(losses)and dividend and interest income.

Three months ended September 30, 2006	Real Estate				Subtotal
	Rental Properties	Justice Investors	Investment Transactions	Other	
Operating income(loss)	\$ 3,173,000	\$ 7,592,000	\$ (822,000)	\$ -	\$ 9,942,000
Operating expenses	(1,461,000)	(6,360,000)	(480,000)	-	(8,301,000)
Real estate taxes	(443,000)	(180,000)	-	-	(623,000)
Net operating income(loss)	1,269,000	1,052,000	(1,302,000)	-	1,018,000
Mortgage interest expense	(915,000)	(749,000)	-	-	(1,664,000)
Depreciation and amort.	(595,000)	(1,034,000)	-	-	(1,628,000)
General and administrative Expense	-	-	-	(394,000)	(394,000)
Amortization of purchase price - Justice	-	(60,000)	-	-	(60,000)
Income tax benefit	-	-	-	1,075,000	1,075,000
Minority interest	-	373,000	-	270,000	643,000
Net income(loss)	\$ (241,000)	(418,000)	\$ (1,302,000)	\$ 951,000	\$ (1,010,000)
Total Assets	\$64,669,000	\$42,586,000	\$25,181,000	\$19,190,000	\$ 151,626,000

Three months ended September 30, 2005	Real Estate				Subtotal
	Rental Properties	Justice Investors	Investment Transactions	Other	
Operating income(loss)	\$ 3,028,000	\$ (727,000)	\$ 291,000	\$ -	\$ 2,592,000
Operating expenses	(1,430,000)	-	(618,000)	-	(2,048,000)
Real estate taxes	(439,000)	-	-	-	(439,000)
Net operating income(loss)	1,119,000	(727,000)	(327,000)	-	105,000
Mortgage interest expense	(944,000)	-	-	-	(944,000)
Depreciation	(620,000)	-	-	-	(620,000)
Loss on sale of real estate	-	-	-	-	-
General and administrative	-	-	-	-	-

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Expense	-	-	-	(338,000)	(338,000)
Amortization of purchase price - Justice	-	(60,000)	-	-	(60,000)
Other income	-	-	-	13,000	13,000
Income tax benefit	-	-	-	707,000	707,000
Minority interest benefit	-	-	-	321,000	321,000
	-----	-----	-----	-----	-----
Net income (loss)	\$ (405,000)	\$ (787,000)	\$ (327,000)	\$ 703,000	\$ (816,000)
	=====	=====	=====	=====	=====
Total Assets	\$66,811,000	\$ 8,778,000	\$28,100,000	\$ 6,288,000	\$ 109,977,000
	=====	=====	=====	=====	=====

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7. Subsequent event

On November 2, 2006, the Company entered into a lease of its commercial office building located at 600 North Sepulveda, Blvd., Los Angeles, California. The lease is for an initial term of five (5) years commencing on November 15, 2006 at a base rent of \$14,250 per month.

Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

The discussion below and elsewhere in the Report includes forward-looking statements about the future business results and activities of the Company, which, by their very nature, involve a number of risks and uncertainties. When used in this discussion, the words "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "may," "could," "might" and similar expressions, are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties, such as the impact of terrorism and war on the national and international economies, including tourism and securities markets, natural disasters, general economic conditions and competition in the hotel industry in the San Francisco area, labor relations and labor disruptions, partnership distributions, the ability to obtain financing at favorable interest rates and terms, securities markets, regulatory factors, litigation and other factors, including those discussed below and in the Company's Form 10-KSB for the fiscal year ended June 30, 2006 that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

The Company's principal business is the ownership and operation of real estate. Properties include nineteen apartment complexes, the Hotel operations of Justice Investors (Justice" or the "Partnership"), two commercial real estate properties, and two single-family houses as strategic investments. The properties are located throughout the United States, but are concentrated in Texas and Southern California. The Company also has investments in unimproved real property. All of the Company's residential rental properties with exception of its Austin, Texas and Irving, Texas properties, are managed by professional third party property management companies.

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The Company acquires its investments in real estate and other investments utilizing cash, securities or debt, subject to approval or guidelines of the Board of Directors. The Company also invests in income-producing instruments, equity and debt securities and will consider other investments if such investments offer growth or profit potential.

The Company's subsidiary, Portsmouth, has a 50.0% interest in the Justice and serves as one of the general partners. Justice owns the land, improvements and leaseholds at 750 Kearny Street, San Francisco, California, now known as the Hilton San Francisco Financial District hotel (the "Hotel"). The financial statements of Justice have been consolidated with those of the Company, effective as of July 1, 2006. See Note 4 to the Consolidated Financial Statements.

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The Hotel is operated by the Partnership, with the assistance of a Management Agreement with Dow Hotel Company, LLC. ("Dow") to perform the day-to-day management functions. The Partnership also derives income from the lease of the garage portion of the property to Evon Corporation ("Evon"), the managing general partner of Justice, and from a lease with Tru Spa for a portion of the lobby level of the Hotel. The Company also receives management fees as a general partner of Justice for its services in overseeing and managing the Partnership's assets.

On December 10, 2004, Justice entered into a Franchise License Agreement for the right to operate the Hotel property as a Hilton brand hotel. Prior to operating the hotel as a Hilton, the Partnership was required to make substantial renovations to the hotel to meet Hilton standards in accordance with a product improvement plan agreed upon by Hilton and the Partnership, as well as complying with other brand standards. The term of the Agreement is for a period of 15 years commencing on the opening date, with an option to extend the license term for another five years, subject to certain conditions.

Effective May 31, 2005, the Partnership temporarily closed down its Hotel operations to complete the renovations of the Hotel as required by the Hilton Agreement. The below ground parking garage and Tru Spa located on the lobby remained open during the renovation work, although the operations of both were impacted during that period of time.

As of January 12, 2006 the Hotel renovation work was substantially completed, at which time the Partnership obtained approval from Hilton to open the Hotel as the "Hilton San Francisco Financial District". The Hotel opened with a limited number of rooms available to rent, which increased as the Hotel transitioned into full operations by the end of February 2006.

For the Three Months Ended September 30, 2006 Compared to the Three Months Ended September 30, 2005

The Company had a net loss of \$1,045,000 for the three months ended September 30, 2006 compared to a net loss of \$930,000 for the three months ended September 30, 2005. As discussed below, the change was primarily due the significant increase in the net loss from marketable securities and the reduction of dividend and interest income, partially offset by the smaller loss related to the operations of Justice Investors and the smaller loss from its real estate operations.

The net loss from the operations of Justice Investors decreased to \$744,000 for the three months ended September 30, 2006 from a net loss of \$1,465,000 (before

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minority interest of \$727,000) for the three months ended September 30, 2005. That decrease was primarily attributable to net income generated from the operations of the Hotel during the current quarter compared to the prior quarter when the Hotel was temporarily closed for major renovations and from higher garage rental income in the current quarter. Those results were partially offset by higher interest costs, insurance costs, property taxes and greater depreciation and amortization expenses resulting from the renovation of the Hotel.

For the three months ended September 30, 2006, the Hotel operations generated net income of \$643,000 on total operating revenues of approximately \$7,074,000, while there were no revenues from the operations of the Hotel during the three months ended September 30, 2005. Garage rent increased to \$430,000 from \$157,000 primarily due to the Hotel being open during the current quarter. The average daily room rate for the Hotel was approximately \$151 and the average occupancy rate was approximately 77% for the three months ended September 30, 2006.

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Occupancy and average daily room rates have continued to improve since the Hotel's reopening in January 2006 as the Hotel ramped up its operations and new programs were implemented to increase revenues. However, the Hotel's food and beverage operations remain problematic as they continue to generate losses, primarily attributable to brand requirements of maintaining a three-meal, full service restaurant, the associated costs of union labor, and the intense competition in the San Francisco market for restaurants. Management will continue to work closely with Dow and Hilton to address these issues and to improve the operations of the Hotel.

The loss from real estate operations decreased to \$241,000 for the three months ended September 30, 2006 from \$405,000 for the three months September 30, 2005 primarily as the result the increase in rental income to \$3,173,000 from \$3,028,000. The increase in the rental income is as the result of the improving rental housing market, thereby increasing the occupancy of the Company's apartments. As of September 30, 2006, the Company has listed for sale its 224-unit and its 30-unit apartment buildings located in Irving, Texas and Los Angeles, California, respectively. The revenues and expenses related to these properties are classified under discontinued operations.

The Company had net losses on marketable securities of \$880,000 for the three months ended September 30, 2006 compared to net losses on marketable securities of \$11,000 for the three months ended September 30, 2005. For the three months ended September 30, 2006, the Company had net unrealized losses of \$1,352,000 and net realized gains of \$472,000. For the three months ended September 30, 2005, the Company had net unrealized gains of \$170,000 and net realized losses of \$181,000. 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 income. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities please see the Marketable Securities section below.

Dividend and interest income decreased to \$58,000 for the three months ended September 30, 2006 from \$302,000 for the three months ended September 30, 2005 as a result of the decreased investment in income yielding securities during the quarter ended September 30, 2006.

Margin interest and trading expenses decreased to \$480,000 from \$560,000 primarily as the result of the reduction in trading related expenses while

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margin interest expense remained consistent between the comparable quarters.

Corporate general and administrative expenses increased to \$394,000 for the three months ended September 30, 2006 from \$338,000 for the three months ended September 30, 2005 primarily as the result of the increase in audit related fees.

The provision for income tax benefit increased to \$1,075,000 for the three months ended September 30, 2006 from \$707,000 for the three months ended September 30, 2005 as the result of the higher pre-tax loss incurred by the Company during the current quarter.

Minority interest benefit increased to \$643,000 from \$321,000 primarily as the result of the \$373,000 minority interest benefit recognized during the quarter ended September 30, 2006 related to the consolidation of Justice Investors. This was the first quarter Portsmouth consolidated Justice Investors.

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MARKETABLE SECURITIES

The Company's investment portfolio is diversified with 54 different equity positions. The portfolio contains four individual equity securities that are more than 5% of the equity value of the portfolio with the largest security being 6.7% of the value of the portfolio. The amount of the Company's investment in any particular issuer may increase or decrease, and additions or deletions to its securities portfolio may occur, at any time. While it is the internal policy of the Company to limit its initial investment in any single equity to less than 5% of its total portfolio value, that investment could eventually exceed 5% as a result of equity appreciation or reduction of other positions. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date.

As of September 30, 2006, the Company had investments in marketable equity securities of \$19,787,000. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as of September 30, 2006.

Industry Group	Market Value	% of Total Investment Securities
-----	-----	-----
REITs and building materials	\$ 4,057,000	20.5%
Retail and consumer goods	2,400,000	12.1%
Telecommunications and media	2,307,000	11.7%
Technology and internet	2,066,000	10.4%
Dairy products	1,750,000	8.8%
Services	1,623,000	8.2%
Insurance, banks and brokers	1,372,000	6.9%
Newspapers and paper mills	1,103,000	5.6%
Pharmaceuticals and healthcare	852,000	4.3%
Other	2,257,000	11.5%
	-----	-----
	\$19,787,000	100.0%
	=====	=====

The following table shows the investment loss on the Company's marketable securities and the associated margin interest and trading expenses for the indicated periods.

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For the three months ended September 30,	2006	2005
Net losses on marketable securities	\$ (880,000)	\$ (11,000)
Impairment loss on other investments	-	(58,000)
Dividend & interest income	58,000	302,000
Margin interest expense	(174,000)	(173,000)
Trading and management expenses	(306,000)	(387,000)
	-----	-----
	\$ (1,302,000)	\$ (327,000)
	=====	=====

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FINANCIAL CONDITION AND LIQUIDITY

The Company's cash flows are generated primarily from the Hotel operations of Justice, its real estate activities, sales of investment securities and borrowings related to both. During the three months ended September 30, 2006, operating activities provided cash of \$1,011,000, financing activities used cash of \$106,000 and investing activities used cash of \$736,000.

During the three months ended September 30, 2006, the Company made property improvements in the aggregate amount of \$718,000. Management believes the improvements to its properties will enhance market values, maintain the competitiveness of the Company's properties and potentially enable the Company to obtain a higher yield through higher rents.

Prior to operating the Hotel as a Hilton, Justice was required to make substantial renovations to the hotel to meet Hilton standards in accordance with a product improvement plan agreed upon by Hilton and the Partnership, as well as complying with other brand standards. The total cost of the construction-renovation project of the Hotel was approximately \$36.4 million, which excludes approximately \$630,000 in interest costs incurred during for the construction phase that were capitalized.

To meet its substantial financial commitments for the renovation project and transition of the Hotel to a Hilton, Justice had to rely on borrowings to meet its obligations. On July 27, 2005, Justice entered into a first mortgage loan (the "Prudential Loan") with The Prudential Insurance Company of America in a principal amount of \$30,000,000. The term of the Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Loan calls for monthly installments of principal and interest in the amount of approximately \$165,000, calculated on a 360 month amortization schedule. The Loan is collateralized by a first deed of trust on the Partnership's Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Loan is without recourse to the limited and general partners of Justice.

On July 27, 2005, Justice also obtained a \$10,000,000 Revolving Line of Credit ("LOC") from United Commercial Bank ("UCB"). The term of the LOC is for 60 months at an annual interest rate, based on an index selected by Justice at the time of the advance, equal to the Wall Street Journal Prime Rate or the Libor Rate plus 2%, fixed for the period selected by the Partnership. The LOC is collateralized by a second deed of trust on the Hotel property. Interest only is payable monthly with principal and accrued interest due a maturity. On January 20, 2006, the Partnership obtained a \$4,500,000 increase in its LOC, raising the total amount available to the Partnership pursuant to \$14,500,000.

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The increase in the credit line is on the same terms as the existing line of credit with additional loan and documentation fees of \$4,000. On May 23, 2006, Justice obtained a short term increase of its LOC of an additional \$2,000,000, raising the total amount available to the Partnership to \$16,500,000. If the short term increase of is not paid off by December 31, 2006, UCB has the right to record a lien on the Hotel property for the additional \$2,000,000. That increase is also on the same terms as the existing LOC, with additional documentation fees of \$1,000. As of September 30, 2006, approximately \$16,079,000 of the LOC was utilized.

The Prudential Loan and the LOC have provided Justice with sufficient financial resources for the Partnership to complete the substantial renovations to the Hotel required by its Franchise License Agreement with Hilton and to meet its debt service requirements and operating capital needs through the reopening of the Hotel and the period of time necessary to ramp up operations. The Hotel

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started to generate net operating income from its operations in June 2006, which have continued to improve in the first quarter of the Company's current fiscal year. Management believes that the revenues expected to be generated from the Hotel operations and the garage lease will be sufficient to meet all of its current and future obligations and financial requirements. Management also believes that there is sufficient equity in the Hotel assets to support future borrowings if necessary.

The additional amount of leverage related to the Prudential Loan and the utilization of the LOC and the associated debt service will create additional risk for the Company and its ability to generate cash flows in the future since the Hotel asset has been virtually debt free for many years. Justice also does not anticipate paying any partnership distributions until net income from the operations of the Hotel and capital requirements warrant such distributions. As a result, the Company may have to continue to rely on revenues generated from its real estate operations and the investment of its cash and securities assets during that transition period.

The Company has invested in short-term, income-producing instruments and in equity and debt securities when deemed appropriate. The Company's marketable securities are classified as trading with unrealized gains and losses recorded through the statement of operations.

Management believes that the net cash flow generated from future operating activities and its capital resources will be adequate to meet its current and future obligations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

MATERIAL CONTRACTUAL OBLIGATIONS

The Company also does not have any material contractual obligations or commercial commitments other than the mortgages of its rental properties and Justice Investors' first mortgage loan with Prudential and its LOC with United Commercial Bank.

IMPACT OF INFLATION

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The Company's residential and commercial rental properties provide income from short-term operating leases and no lease extends beyond one year. Rental increases are expected to offset anticipated increased property operating expenses.

Hotel room rates are typically impacted by supply and demand factors, not inflation, since rental of a hotel room is usually for a limited number of nights. Room rates can be, and usually are, adjusted to account for inflationary cost increases. To the extent that Dow is able to adjust room rates, there should be minimal impact on partnership revenues due to inflation. Partnership revenues are also subject to interest rate risks, which may be influenced by inflation. For the two most recent fiscal years, the impact of inflation on the Company's income is not viewed by management as material.

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CRITICAL ACCOUNTING POLICIES

The Company reviews its long-lived assets and other investments for impairment when circumstances indicate that a potential loss in carrying value may have occurred. To the extent that projected future undiscounted cash flows from the operation of the Company's hotel property, owned through the Company's investment in Justice Investors, and rental properties are less than the carrying value of the asset, the carrying value of the asset is reduced to its fair value. For other investments, the Company reviews the investment's operating results, financial position and other relevant factors to determine whether the estimated fair value of the asset is less than the carrying value of the asset.

Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. Marketable securities are classified as trading with net unrealized gains or losses included in earnings.

Item 3. Controls and Procedures

(a) Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal period covered by this Quarterly Report on Form 10-QSB. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported in a timely manner and in accordance with Securities and Exchange Commission rules and regulations.

(b) Internal Control Over Financial Reporting.

There have been no changes in the Company's internal control over financial reporting during the last quarterly period covered by this Quarterly Report on Form 10-QSB that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) None.
- (b) Not applicable.
- (c) Purchases of equity securities by the small business issuer and affiliated purchasers.

SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Fiscal 2007 Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (Jul. 1- Jul. 31)	3,302	\$15.80	3,302	32,815
Month #2 (Aug. 1- Aug. 31)	-	-	-	32,815
Month #3 (Sep. 1- Sep. 30)	202	\$17.51	202	32,613
Total	3,504	\$15.90	3,504	32,613

The Company currently has only one stock repurchase program. The program was initially announced on January 13, 1998 and was first amended on February 10, 2003. The total number of shares authorized to be repurchased was 720,000, adjusted for stock splits. On October 12, 2004, the Board of Directors authorized the Company to purchase up to an additional 150,000 shares of Company's common stock, increasing the total remaining number of shares authorized for repurchase to 152,941. The program has no expiration date and can be amended from time to time in the discretion of the Board of Directors. No plan or program expired during the period covered by the table.

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Item 5. Other Information.

On October 2, 2006, InterGroup received a Nasdaq Staff Deficiency Letter indicating that the Company fails to comply with the minimum \$10,000,000 Stockholders' Equity requirement for continued listing of its common stock on The Nasdaq Global Market set forth in Marketplace Rule 4450(a)(3). The Company had until October 17, 2006 to submit a specific plan to achieve and sustain compliance with all NASDAQ Global Market listing requirements.

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On October 17, 2006, the Company submitted an application to The NASDAQ Stock Market for the transfer of the listing of its common stock from the Global Market tier to the Capital Market tier of The NASDAQ Stock Market. The Company's application was approved by The NASDAQ Stock Market and the Company's common stock commenced trading on the Capital Market tier on November 8, 2006. The Company's trading symbol of "INTG" remains the same. The Company's common stock is also listed on NYSE Arca (formerly the Pacific Exchange).

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- 31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the last quarter of the period covered by this Report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE INTERGROUP CORPORATION
(Registrant)

Date: November 14, 2006

by

/s/ John V. Winfield

John V. Winfield, President,
Chairman of the Board and
Chief Executive Officer

Date: November 14, 2006

by

/s/ David T. Nguyen

David T. Nguyen, Treasurer
and Controller
(Principal Accounting Officer)

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