INTERGROUP CORP
Form 10-Q
May 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

or

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

For the transition period from _______ to_________

Commission File Number 1-10324

THE INTERGROUP CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	13-3293645
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

10940 Wilshire Blvd., Suite 2150, Los Angeles, California 90024

(Address of principal executive offices) (Zip Code)

(310) 889-2500

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

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

¨ Yes x No

The number of shares outstanding of registrant’s Common Stock, as of April 24, 2015 was 2,382,905.

TABLE OF CONTENTS

		Page
	PART I – FINANCIAL INFORMATION	
Item 1.	Financial Statements.	
	Condensed Consolidated Balance Sheets as of March 31, 2015 (Unaudited) and June 30, 2014	3
	Condensed Consolidated Statements of Operations (Unaudited) for the Three Months ended March 31, 2015 and 2014	4
	Condensed Consolidated Statements of Operations (Unaudited) for the Nine months ended March 31, 2015 and 2014	5
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine months ended March 31, 2015 and 2014	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	16
Item 4.	Controls and Procedures.	24
	PART II – OTHER INFORMATION	
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 6.	Exhibits.	25
Signatures		26

PART I

FINANCIAL INFORMATION

Item 1 - Condensed Consolidated Financial Statements

THE INTERGROUP CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

As of	**March 31, 2015 (Unaudited)**	**June 30, 2014**
ASSETS		
Investment in hotel, net	$43,635,000	$41,897,000
Investment in real estate, net	56,123,000	63,697,000
Investment in marketable securities	8,843,000	11,420,000
Other investments, net	15,489,000	15,837,000
Cash and cash equivalents	10,111,000	4,705,000
Restricted cash - redemption	-	16,163,000
Restricted cash - mortgage impounds	2,832,000	3,982,000
Other assets, net	7,871,000	7,759,000
Total assets	$144,904,000	$165,460,000
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Liabilities:		
Accounts payable and other liabilities	$3,189,000	$4,083,000
Accounts payable and other liabilities - hotel	13,506,000	15,161,000
Redemption payable	-	16,163,000
Due to securities broker	4,132,000	2,925,000
Obligations for securities sold	-	175,000
Other notes payable	541,000	282,000
Mortgage notes payable - hotel	117,000,000	117,000,000
Mortgage notes payable - real estate	66,559,000	75,360,000
Deferred income taxes	3,615,000	943,000
Total liabilities	208,542,000	232,092,000
Commitments and contingencies		
Shareholders' deficit:		
Preferred stock, $.01 par value, 100,000 shares		

authorized; none issued	-	-
Common stock, $.01 par value, 4,000,000 shares authorized; 3,387,972 and 3,383,364 issued; 2,382,905 and 2,381,638 outstanding, respectively	33,000	33,000
Additional paid-in capital	10,386,000	10,092,000
Accumulated deficit	(36,100,000)	(39,401,000)
Treasury stock, at cost, 1,005,067 and 1,001,726 shares	(11,878,000)	(11,818,000)
Total InterGroup shareholders' deficit	(37,559,000)	(41,094,000)
Noncontrolling interest	(26,079,000)	(25,538,000)
Total shareholders' deficit	(63,638,000)	(66,632,000)
Total liabilities and shareholders' equity	$ 144,904,000	$ 165,460,000

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

THE INTERGROUP CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

For the three months ended March 31,	**2015**	**2014**
Revenues:		
Hotel	$13,983,000	$11,849,000
Real estate	4,149,000	4,024,000
Total revenues	18,132,000	15,873,000
Costs and operating expenses:		
Hotel operating expenses	(11,997,000)	(10,620,000)
Hotel restructuring costs	-	300,000
Real estate operating expenses	(1,947,000)	(2,194,000)
Depreciation and amortization expense	(1,258,000)	(1,030,000)
General and administrative expense	(616,000)	(581,000)
Total costs and operating expenses	(15,818,000)	(14,125,000)
Income from operations	2,314,000	1,748,000
Other income (expense):		
Interest expense - mortgages	(2,539,000)	(2,511,000)
Gain on sale of real estate	9,358,000	-
Net (loss) gain on marketable securities	(1,319,000)	342,000
Impairment loss on other investments	(400,000)	-
Net unrealized (loss) gain on other investments	(72,000)	136,000
Dividend and interest income	5,000	9,000
Trading and margin interest expense	(415,000)	(465,000)
Other expense, net	4,618,000	(2,489,000)
Income (loss) before income taxes	6,932,000	(741,000)
Income tax (expense) benefit	(2,930,000)	177,000
Net income (loss)	4,002,000	(564,000)
Less: Net loss attributable to the noncontrolling interest	339,000	229,000
Net income (loss) attributable to InterGroup	$4,341,000	$(335,000)
Net income (loss) per share		
Basic	$1.68	$(0.24)
Diluted	$1.65	$(0.24)
Net income (loss) per share attributable to InterGroup		
Basic	$1.83	$(0.14)
Diluted	$1.80	$(0.14)
Weighted average number of basic common shares outstanding	2,383,029	2,369,927

Weighted average number of diluted common shares outstanding	2,424,151	2,369,927

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

THE INTERGROUP CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

For the nine months ended March 31,	**2015**	**2014**
Revenues:		
Hotel	$42,857,000	$37,428,000
Real estate	12,376,000	12,260,000
Total revenues	55,233,000	49,688,000
Costs and operating expenses:		
Hotel operating expenses	(35,868,000)	(29,645,000)
Hotel restructuring costs	-	(6,995,000)
Hotel occupancy tax - penalty fees	-	(1,084,000)
Real estate operating expenses	(6,279,000)	(6,738,000)
Depreciation and amortization expense	(3,716,000)	(3,498,000)
General and administrative expense	(2,357,000)	(1,592,000)
Total costs and operating expenses	(48,220,000)	(49,552,000)
Income from operations	7,013,000	136,000
Other income (expense):		
Interest expense - mortgages	(7,714,000)	(5,447,000)
Interest expense - occupancy tax	-	(328,000)
Loss on extinguishment of debt	-	(3,910,000)
Loss on disposal of assets	(51,000)	(1,092,000)
Gain on sale of real estate	11,100,000	-
Other real estate income	458,000	-
Net (loss) gain on marketable securities	(4,353,000)	1,110,000
Impairment loss on other investments	(400,000)	-
Net unrealized (loss) gain on other investments	(98,000)	130,000
Dividend and interest income	522,000	524,000
Trading and margin interest expense	(1,315,000)	(1,357,000)
Other expense, net	(1,851,000)	(10,370,000)
Income (loss) before income taxes	5,162,000	(10,234,000)
Income tax (expense) benefit	(2,672,000)	2,194,000
Net income (loss)	2,490,000	(8,040,000)
Less: Net loss attributable to the noncontrolling interest	799,000	2,516,000
Net income (loss) attributable to InterGroup	$3,289,000	$(5,524,000)
Net income (loss) per share		
Basic	$1.04	$(3.39)
Diluted	$1.03	$(3.39)
Net income (loss) per share attributable to InterGroup		

Basic	$1.38	$(2.33)
Diluted	$1.36	$(2.33)
Weighted average number of basic common shares outstanding	2,385,058	2,368,507
Weighted average number of diluted common shares outstanding	2,422,791	2,368,507

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

THE INTERGROUP CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

For the nine months ended March 31,	**2015**	**2014**
Cash flows from operating activities:		
Net income (loss)	$2,490,000	$(8,040,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,716,000	3,498,000
Loss on extinguishment of debt	-	3,910,000
Loss on disposal of assets	51,000	1,092,000
Gain on sale of real estate	(11,100,000)	-
Gain on insurance recovery	-	(249,000)
Net unrealized loss (gain) on marketable securities	3,980,000	(1,110,000)
Impairment loss on other investments	400,000	-
Unrealized loss (gain) on other investments	98,000	(130,000)
Stock compensation expense	688,000	326,000
Changes in assets and liabilities:		
Investment in marketable securities	(1,403,000)	3,111,000
Other assets	31,000	(2,472,000)
Accounts payable and other liabilities	(2,549,000)	5,864,000
Due to securities broker	1,207,000	(347,000)
Obligations for securities sold	(175,000)	(2,565,000)
Deferred taxes	2,672,000	(2,194,000)
Net cash provided by operating activities	106,000	694,000
Cash flows from investing activities:		
Net proceeds from sale of real estate	17,592,000	-
Investment in hotel	(4,081,000)	(2,255,000)
Investment in real estate	(485,000)	(235,000)
Payments for other investments	(150,000)	(300,000)
Investment in Santa Fe	(92,000)	(30,000)
Investment in Portsmouth	(32,000)	(2,000)
Net cash provided by (used in) investing activities	12,752,000	(2,822,000)
Cash flows from financing activities:		
Restricted cash - withdrawal of (payments to) mortgage impounds	259,000	(1,140,000)
Redemption payments, net	-	(64,152,000)
Net (payments on) borrowings from mortgage notes payable	(7,651,000)	67,517,000
Purchase of treasury stock	(60,000)	(5,000)
Net cash (used in) provided by financing activities	(7,452,000)	2,220,000
Net increase in cash and cash equivalents	5,406,000	92,000

Cash and cash equivalents at the beginning of the period	4,705,000	1,453,000
Cash and cash equivalents at the end of the period	$10,111,000	$1,545,000
Supplemental information:		
Interest paid	$8,160,000	$6,271,000

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

THE INTERGROUP CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements included herein have been prepared by The InterGroup Corporation ("InterGroup" or the "Company"), without audit, according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the condensed consolidated financial statements prepared in accordance with generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures that are made are adequate to make the information presented not misleading. Further, the condensed consolidated financial statements reflect, in the opinion of management, all adjustments (which included only normal recurring adjustments) necessary for a fair statement of the financial position, cash flows and results of operations as of and for the periods indicated. It is suggested that these financial statements be read in conjunction with the audited financial statements of InterGroup and the notes therein included in the Company's Annual Report on Form 10-K for the year ended June 30, 2014. The June 30, 2014 Condensed Consolidated Balance Sheet was derived from the Company's Form 10-K for the year ended June 30, 2014.

The results of operations for the three and nine months ended March 31, 2015 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2015.

For the three and nine months ended March 31, 2015 and 2014, the Company had no components of comprehensive income other than net income itself.

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted income 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. For the three and nine months ended March 31, 2014, the Company did not have diluted earnings per share as the Company had a net loss for the respective periods.

Certain reclassifications have been made to the 2014 consolidated financial statement presentation to correspond to the current year's format. Total equity, net assets, and revenues over expenses are unchanged due to these reclassifications.

As of March 31, 2015, the Company had the power to vote 85.3% of the voting shares of Santa Fe Financial Corporation (“Santa Fe”), a public company (OTCBB: SFEF). This percentage includes the power to vote an approximately 4% interest in the common stock in Santa Fe owned by the Company’s Chairman and President pursuant to a voting trust agreement entered into on June 30, 1998.

Santa Fe’s primary business is conducted through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. (“Portsmouth”), a public company (OTCBB: PRSI). Portsmouth’s primary business is conducted through its general and limited partnership interest in Justice Investors, a California limited partnership (“Justice” or the “Partnership”). Portsmouth controls approximately 93% of the voting interest in Justice and is the sole general partner. InterGroup also directly owns approximately 13.1% of the common stock of Portsmouth. The financial statements of Justice are consolidated with those of the Company.

Justice, through its subsidiaries Justice Holdings Company, LLC (“Holdings”), a Delaware Limited Liability Company, Justice Operating Company, LLC (“Operating”) and Justice Mezzanine Company, LLC (“Mezzanine”), owns a 543-room hotel property located at 750 Kearny Street, San Francisco California, known as the Hilton San Francisco Financial District (the Hotel) and related facilities including a five level underground parking garage. Holdings and Mezzanine are both a wholly-owned subsidiaries of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the Mezzanine borrower under certain indebtedness of Justice, and in December 2013, the Partnership conveyed ownership of the Hotel to Operating, The Hotel is operated by the partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. Justice also has a Management Agreement with Prism Hospitality L.P. (“Prism”) to perform management functions for the Hotel. The management agreement with Prism had an original term of ten years and can be terminated at any time with or without cause by the Partnership owner. Effective January 2014, the management agreement with Prism was amended by the Partnership. Effective December 1, 2013, GMP Management, Inc., a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement, which is for a term of 3 years, but which can be terminated earlier by the Partnership for cause.

Management believes that the revenues expected to be generated from the operations of the hotel, garage and leases will be sufficient to meet all of the Partnership's current and future obligations and financial requirements. Management also believes that there is significant value in the Hotel to support additional borrowings, if necessary.

In addition to the operations of the Hotel, the Company also generates income from the ownership of real estate. Properties include apartment complexes, commercial real estate, 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.

Recently Issued Accounting Pronouncements

Accounting Standards Update No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this ASU are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU reduces the number of consolidation models from four to two, thereby simplifying the criteria for consolidation by: (a) Placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met; (b) Reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE) and changing consolidation conclusions in several industries that typically make use of limited partnerships or VIEs. The ASU will be effective for periods beginning after December 15, 2015, with early adoption permitted. The Company plans to adopt these provisions in the third quarter of 2016 and currently does not expect the adoption to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early adoption is not permitted. The Company is in the process of evaluating the impact of this standard on its financial statements.

In June 2014, the FASB issued Update No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (Topic 718). The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it

relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This update is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, and early adoption is permitted. The implementation of the amended guidance is not expected to have a material impact on our consolidated financial position or results of operations.

NOTE 2 – INVESTMENT IN HOTEL, NET

Investment in hotel consisted of the following as of:

March 31, 2015	Cost	Accumulated Depreciation	Net Book Value
Land	$2,738,000	$-	$2,738,000
Furniture and equipment	25,578,000	(21,219,000)	4,359,000
Building and improvements	62,291,000	(25,753,000)	36,538,000
	$90,607,000	$(46,972,000)	$43,635,000

June 30, 2014	Cost	Accumulated Depreciation	Net Book Value
Land	$2,738,000	$-	$2,738,000
Furniture and equipment	23,306,000	(20,072,000)	3,234,000
Building and improvements	59,828,000	(23,903,000)	35,925,000
	$85,872,000	$(43,975,000)	$41,897,000

NOTE 3 – INVESTMENT IN REAL ESTATE AND MORTGAGE AND OTHER NOTES PAYABLE

Investment in real estate consisted of the following:

As of	March 31, 2015	June 30, 2014
Land	$23,453,000	$25,781,000
Buildings, improvements and equipment	64,709,000	74,039,000
Accumulated depreciation	(32,039,000)	(36,123,000)
Investment in real estate, net	$56,123,000	$63,697,000

In February 2014, the Company entered into a contract to sell its 249 unit apartment complex located in Austin, Texas and the adjacent unimproved land for $15,800,000. The purchase/sale agreement provides that purchaser can terminate the agreement with or without cause, however, the potential purchaser would forfeit the earnest money

($208,000) and additional consideration ($250,000) totaling $458,000. The purchaser also had the option to extend the agreement. During the quarter ended September 30, 2014, the Company received the $458,000 and recognized it as income as the result of the potential buyer not extending the purchase agreement. In December 2014, the Company entered into a new contract with a different buyer to sell the same property for $16,300,000. In March 2015, the Company sold this property for $16,300,000 and realized a gain on the sale of real estate of $9,358,000. The Company received net proceeds of $7,890,000 after selling costs and the repayment of the mortgage of $6,356,000 and the early prepayment of debt penalty of $1,634,000.

In November 2014, the Company sold its 5,900 square foot commercial property for $3,450,000 and realized a gain on the sale of real estate of $1,742,000. The Company received net proceeds of $2,163,000 after selling costs and the repayment of the related mortgage of $1,100,000. Prior to its sale, this property was being leased by the buyer.

In March 2015, the Company refinanced the $3,636,000 mortgage note payable on its 157-unit property located in Florence, Kentucky for a new mortgage in the amount of $3,492,000. The Company paid down approximately $210,000 of the old mortgage as part of the refinancing. The new mortgage has a fixed interest rate of 3.87% for ten years and matures in April 2025.

NOTE 4 – INVESTMENT IN MARKETABLE SECURITIES

The Company's investment in marketable securities 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 transfer to its shareholders through income and/or capital gain.

At March 31, 2015 and June 30, 2014, all of the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments are included in earnings. Trading securities are summarized as follows:

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain (Loss)	Fair Value
As of March 31, 2015					
Corporate Equities	$11,779,000	$875,000	$(3,811,000)	$(2,936,000)	$8,843,000
As of June 30, 2014					
Corporate Equities	$10,369,000	$2,717,000	$(1,666,000)	$1,051,000	$11,420,000

As of March 31, 2015 and June 30, 2014, the Company had unrealized losses of $3,576,000 and $1,615,000, respectively, related to securities held for over one year.

Net (loss) gain on marketable securities on the statement of operations is comprised of realized and unrealized gains (losses). Below is the composition of the two components for the respective periods:

For the three months ended March 31,	2015	2014
Realized (loss) gain on marketable securities	$(445,000)	$769,000
Unrealized loss on marketable securities	(874,000)	(427,000)
Net (loss) gain on marketable securities	$(1,319,000)	$342,000

For the nine months ended March 31,	2015	2014
Realized (loss) gain on marketable securities	$(373,000)	$907,000
Unrealized (loss) gain on marketable securities	(3,980,000)	203,000
Net (loss) gain on marketable securities	$(4,353,000)	$1,110,000

NOTE 5 – OTHER INVESTMENTS, NET

The Company may also invest, with the approval of the Securities Investment Committee and other Company guidelines, in private investment equity funds and other unlisted securities, such as convertible notes through private placements. Those investments in non-marketable securities are carried at cost on the Company’s balance sheet as part of other investments, net of other than temporary impairment losses. Other investments also include non-marketable warrants carried at fair value.

Other investments, net consist of the following:

Type	March 31, 2015	June 30, 2014
Preferred stock - Comstock, at cost	$13,231,000	$13,231,000
Private equity hedge fund, at cost	1,250,000	1,650,000
Corporate debt and equity instruments, at cost	269,000	269,000
Other preferred stock, at cost	630,000	480,000
Warrants - at fair value	109,000	207,000
	$15,489,000	$15,837,000

During the three months ended March 31, 2015, the Company performed an impairment analysis of its other investments and determined that one of its investments had an other than temporary impairment and recorded impairment losses of $400,000.

NOTE 6 - FAIR VALUE MEASUREMENTS

The carrying values of the Company's financial instruments not required to be carried at fair value on a recurring basis approximate fair value due to their short maturities (i.e., accounts receivable, other assets, accounts payable and other liabilities, due to securities broker and obligations for securities sold) or the nature and terms of the obligation (i.e., other notes payable and mortgage notes payable).

The assets measured at fair value on a recurring basis are as follows:

As of March 31, 2015

Assets:	Level 1	Level 2	Level 3	Total
Other investments - warrants	$-	$ -	$109,000	$109,000
Investment in marketable securities:				
Basic materials	2,294,000	-	-	2,294,000
Industrial goods	1,788,000	-	-	1,788,000
Financial services	1,680,000	-	-	1,680,000
Energy	1,473,000	-	-	1,473,000
REITs and real estate companies	863,000	-	-	863,000
Other	745,000	-	-	745,000
	8,843,000	-	-	8,843,000

	$8,843,000	$ -	$109,000	$8,952,000

As of June 30, 2014

Assets:	Level 1	Level 2	Level 3	Total
Other investments - warrants	$-	$ -	$207,000	$207,000
Investment in marketable securities:				
Basic materials	5,081,000	-	-	5,081,000
Technology	1,395,000	-	-	1,395,000
REITs and real estate companies	1,001,000	-	-	1,001,000
Financial services	820,000	-	-	820,000
Other	3,123,000	-	-	3,123,000
	11,420,000	-	-	11,420,000
	$11,420,000	$ -	$207,000	$11,627,000

The fair values of investments in marketable securities are determined by the most recently traded price of each security at the balance sheet date. The fair value of the warrants was determined based upon a Black-Scholes option valuation model.

Financial assets that are measured at fair value on a non-recurring basis and are not included in the tables above include “Other investments in non-marketable securities,” that were initially measured at cost and have been written down to fair value as a result of impairment or adjusted to record the fair value of new instruments received (i.e., preferred shares) in exchange for old instruments (i.e., debt instruments). The following table shows the fair value hierarchy for these assets measured at fair value on a non-recurring basis as follows:

Assets	Level 1	Level 2	Level 3	March 31, 2015	Net loss for the nine months ended March 31, 2015
Other non-marketable investments	$ -	$ -	$15,380,000	$15,380,000	$400,000

Assets	Level 1	Level 2	Level 3	June 30, 2014	Net loss for the nine months ended March 31, 2014
Other non-marketable investments	$ -	$ -	$15,630,000	$15,630,000	$-

Other investments in non-marketable securities are carried at cost net of any impairment loss. The Company has no significant influence or control over the entities that issue these investments and holds less than 20% ownership in each of the investments. These investments are reviewed on a periodic basis for other-than-temporary impairment. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (i) the length of time an investment is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near term prospects of the issuer and (iv) our ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 7 – STOCK BASED COMPENSATION PLANS

The Company follows Accounting Standard Codification (ASC) Topic 718 “Compensation – Stock Compensation”, which addresses accounting for equity-based compensation arrangements, including employee stock options and restricted stock units.

Please refer to Note 16 – Stock Based Compensation Plans in the Company's Form 10-K for the year ended June 30, 2014 for more detail information on the Company’s stock-based compensation plans.

During the three months ended March 31, 2015 and 2014, the Company recorded stock option compensation cost of $136,000 and $135,000, respectively, related to stock options that were previously issued. During the nine months ended March 31, 2015 and 2014, the Company recorded stock option compensation cost of $600,000 and $239,000, respectively, related to stock options that were previously issued. As of March 31, 2015, there was a total of $877,000 of unamortized compensation related to stock options which is expected to be recognized over the weighted-average period of 3.75 years.

Option-pricing models require the input of various subjective assumptions, including the option’s expected life and the price volatility of the underlying stock. The expected stock price volatility is based on analysis of the Company’s stock price history. The Company has selected to use the simplified method for estimating the expected term. The risk-free interest rate is based on the U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. No dividend yield is included as the Company has not issued any dividends and does not anticipate issuing any dividends in the future.

The following table summarizes the stock options activity from June 30, 2014 through March 31, 2015:

		Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Oustanding at	July 1, 2013	222,000	$ 14.98	6.89 years	$ 1,353,000
Granted		160,000	18.96		
Exercised		(15,000)	11.75		
Forfeited		-	-		
Exchanged		-	-		
Oustanding at	June 30, 2014	367,000	$ 16.85	7.71 years	$ 953,000
Exercisable at	June 30, 2014	92,000	$ 11.30	5.10 years	$ 717,000
Vested and Expected to vest at	June 30, 2014	367,000	$ 16.85	7.71 years	$ 953,000
Oustanding at	July 1, 2014	367,000	$ 16.85	7.71 years	$ 731,000
Granted		-	-		
Exercised		-	-		
Forfeited		-	-		
Exchanged		-	-		
Oustanding at	March 31, 2015	367,000	$ 16.85	6.96 years	$ 1,006,000
Exercisable at	March 31, 2015	118,639	$ 12.95	5.34 years	$ 812,000
Vested and Expected to vest at	March 31, 2015	367,000	$ 16.85	6.96 years	$ 1,006,000

On July 1 of every year, as part of the Stock Compensation Plan for Non-employee Directors, each non-employee director received an automatic grant of a number of shares of Company's Common Stock equal in value to $22,000 ($88,000 total recorded as stock compensation expense for the nine months ended March 31, 2015 and 2014) based on 100% of the fair market value of the Company's stock on the day of grant. During the nine months ended March 31, 2015 and 2014, the four non-employee directors of the Company received a total grant of 4,608 and 4,192 shares of common stock.

As of March 31, 2015, there were no restricted stock units (RSUs) outstanding.

NOTE 8 – SEGMENT INFORMATION

The Company operates in three reportable segments, the operation of the hotel ("Hotel Operations"), the operation of its multi-family residential properties ("Real Estate Operations") and the investment of its cash in marketable securities and

other investments ("Investment Transactions"). 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 and nine months ended March 31, 2015 and 2014. Operating income (loss) from hotel operations consist of the operation of the hotel and operation of the garage. Operating income for rental properties consist of rental income. Operating income (loss) for investment transactions consist of net investment gain (loss), impairment loss on other investments, net unrealized gain (loss) on other investments, dividend and interest income and trading and margin interest expense.

As of and for the three months ended March 31, 2015	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Total
Revenues	$13,983,000	$4,149,000	$-	$-	$18,132,000
Segment operating expenses	(11,997,000)	(1,947,000)	-	(616,000)	(14,560,000)
Segment income (loss) from operations	1,986,000	2,202,000	-	(616,000)	3,572,000
Interest expense - mortgage	(1,785,000)	(754,000)	-	-	(2,539,000)
Gain on sale of real estate	-	9,358,000	-	-	9,358,000
Depreciation and amortization expense	(744,000)	(514,000)	-	-	(1,258,000)
Loss from investments	-	-	(2,201,000)	-	(2,201,000)
Income tax expense	-	-	-	(2,930,000)	(2,930,000)
Net income (loss)	$(543,000)	$10,292,000	$(2,201,000)	$(3,546,000)	$4,002,000
Total assets	$49,819,000	$56,123,000	$24,332,000	$14,630,000	$144,904,000

As of and for the three months ended March 31, 2014	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Total
Revenues	$11,849,000	$4,024,000	$-	$-	$15,873,000
Segment operating expenses	(10,320,000)	(2,194,000)	-	(581,000)	(13,095,000)
Segment income (loss) from operations	1,529,000	1,830,000	-	(581,000)	2,778,000
Interest expense - mortgage	(1,766,000)	(745,000)	-	-	(2,511,000)
Depreciation and amortization expense	(491,000)	(539,000)	-	-	(1,030,000)
Gain from investments	-	-	22,000	-	22,000
Income tax benefit	-	-	-	177,000	177,000
Net income (loss)	$(728,000)	$546,000	$22,000	$(404,000)	$(564,000)
Total assets	$48,042,000	$64,135,000	$26,333,000	$23,563,000	$162,073,000

As of and for the nine months ended March 31, 2015	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Total
Revenues	$42,857,000	$12,376,000	$-	$-	$55,233,000
Segment operating expenses	(35,868,000)	(6,279,000)	-	(2,357,000)	(44,504,000)
Segment income (loss) from operations	6,989,000	6,097,000	-	(2,357,000)	10,729,000
Interest expense - mortgage	(5,450,000)	(2,264,000)	-	-	(7,714,000)
Loss on disposal of assets	(51,000)	-	-	-	(51,000)
Gain on sale of real estate	-	11,100,000	-	-	11,100,000
Other real estate income	-	458,000	-	-	458,000
Depreciation and amortization expense	(2,149,000)	(1,567,000)	-	-	(3,716,000)
Loss from investments	-	-	(5,644,000)	-	(5,644,000)
Income tax expense	-	-	-	(2,672,000)	(2,672,000)
Net income (loss)	$(661,000)	$13,824,000	$(5,644,000)	$(5,029,000)	$2,490,000
Total assets	$49,819,000	$56,123,000	$24,332,000	$14,630,000	$144,904,000

As of and for the nine months ended March 31, 2014	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Total

Revenues	$37,428,000	$12,260,000	$-	$-	$49,688,000
Segment operating expenses	(37,724,000)	(6,738,000)	-	(1,592,000)	(46,054,000)
Segment income (loss) from operations	(296,000)	5,522,000	-	(1,592,000)	3,634,000
Interest expense - mortgage	(3,168,000)	(2,279,000)	-	-	(5,447,000)
Interest expense - occupancy tax	(328,000)	-	-	-	(328,000)
Loss on extinguishment of debt	(3,910,000)	-	-	-	(3,910,000)
Loss on disposal of assets	(1,092,000)	-	-	-	(1,092,000)
Depreciation and amortization expense	(1,887,000)	(1,611,000)	-	-	(3,498,000)
Gain from investments	-	-	407,000	-	407,000
Income tax benefit	-	-	-	2,194,000	2,194,000
Net income (loss)	$(10,681,000)	$1,632,000	$407,000	$602,000	$(8,040,000)
Total assets	$48,042,000	$64,135,000	$26,333,000	$23,563,000	$162,073,000

NOTE 9 – RELATED PARTY TRANSACTIONS

On July 2, 2014, the Partnership obtained from the InterGroup Corporation (parent company of Portsmouth) an unsecured loan in the principal amount of $4,250,000 at 12% per year fixed interest, with a term of 2 years, payable interest only each month. InterGroup received a 3% loan fee. The loan may be prepaid at any time without penalty. The proceeds of the loan were applied to the July 2014 payments to Holdings described in Note 20 of the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014. The loan was eliminated in consolidation.

During the three months ended March 31, 2015 and 2014, the Company received management fees from Justice Investors totaling $138,000 and $113,000, respectively. During the nine months ended March 31, 2015 and 2014, the Company received management fees from Justice Investors totaling $419,000 and $333,000, respectively.

These fees are eliminated in consolidation.

In connection with the redemption of limited partnership interests of Justice Investors, Limited Partnership (which took place during fiscal year ended June 30, 2014), Justice Operating Company, LLC agreed to pay a total of $1,550,000 in fees to certain officers and directors of the Company for services rendered in connection with the redemption of partnership interests, refinancing of Justice's properties and reorganization of Justice Investors. This agreement was superseded by a letter dated December 11, 2013 from Justice Investors, Limited Partnership, in which Justice Investors Limited Partnership assumed the payment obligations of Justice Operating Company, LLC. The first payment under this agreement was made concurrently with the closing of the loan agreements, with the remaining payments due upon Justice Investor's having adequate available cash as described in the letter. As of March 31, 2015, $1,250,000 of these fees remains payable.

Four of the Portsmouth directors serve as directors of InterGroup. Three of those directors also serve as directors of Santa Fe. The three Santa Fe directors also serve as directors of InterGroup.

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.

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

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

The Company may from time to time make forward-looking statements and projections concerning future expectations. When used in this discussion, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “could,” “might” and similar expressions, are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties, such as national and worldwide economic conditions, including the impact of recessionary conditions on tourism, travel and the lodging industry, the impact of terrorism and war on the national and international economies, including tourism and securities markets, energy and fuel costs, natural disasters, general economic conditions and competition in the hotel industry in the San Francisco area, seasonality, labor relations and labor disruptions, actual and threatened pandemics such as swine flu, partnership distributions, the ability to obtain financing at favorable interest rates and terms, securities markets, regulatory factors, litigation and other factors discussed below in this Report and in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2014, that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as to the date hereof. 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

As of March 31, 2015, the Company owned approximately 81.3% of the common shares of its subsidiary, Santa Fe and Santa Fe owned approximately 68.8% of the common shares of Portsmouth Square, Inc. InterGroup also directly owns approximately 13.1% of the common shares of Portsmouth.

The Company's principal sources of revenue continue to be derived from the general and limited partnership interests of its subsidiary, Portsmouth, in the Justice Investors limited partnership (“Justice” or the “Partnership”), rental income from its investments in multi-family real estate properties and income received from investment of its cash and securities assets. Justice owns a 543 room hotel property located at 750 Kearny Street, San Francisco, California 94108, known as the “Hilton San Francisco Financial District” (the “Hotel”) and related facilities, including a five-level underground parking garage. The financial statements of Justice have been consolidated with those of the Company.

The Hotel is operated by the Partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. The term of the Agreement is for a period of 15 years commencing on January 12, 2006, with an option to extend the license term for another five years, subject to certain conditions. Justice

also has a Management Agreement with Prism Hospitality L.P. ("Prism") to perform management functions for the Hotel. The management agreement with Prism had an original term of ten years and can be terminated at any time with or without cause by the Partnership owner. Effective January 2014, the management agreement with Prism was amended by the Partnership. Effective December 1, 2013, GMP Management, Inc., a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement, which is for a term of 3 years, but which can be terminated earlier by the Partnership for cause.

The parking garage that is part of the Hotel property is managed by Ace Parking pursuant to a contract with the Partnership. Portsmouth also receives management fees as a general partner of Justice for its services in overseeing and managing the Partnership's assets. Those fees are eliminated in consolidation.

In addition to the operations of the Hotel, the Company also generates income from the ownership and management of real estate. Properties include sixteen apartment complexes, one commercial real estate property, 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 operating real estate properties with exception of the one commercial property were managed by professional third party property management companies. In July 2014, the Company terminated its property and asset management agreements with the professional third party property management company that managed its properties located outside of California. Beginning July 2014, the Company began managing its five properties located outside of California in-house, while the properties located in California are still being managed by a third party property management company, with exception to the one remaining commercial building which is also managed in-house.

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.

Three Months Ended March 31, 2015 Compared to the Three Months Ended March 31, 2014

The Company had a net income of $4,002,000 for the three months ended March 31, 2015 compared to a net loss of $564,000 for the three months ended March 31, 2014. The significant net income generated in the current quarter was primarily attributable the significant gain on the sale of real estate during the period, partially offset by the loss from investing activities. Hotel revenues increased significantly during the quarter, however, the increase in operating expenses and legal expenses and higher interest expense offset those revenue gains.

The Company had a net loss from hotel operations of $543,000 for the three months ended March 31, 2015, compared to a net loss of $728,000 for the three months ended March 31, 2014. Hotel revenues increased substantially during the current quarter, however, operating expenses also increased.

The following table sets forth a more detailed presentation of Hotel operations for the three months ended March 31, 2015 and 2014.

For the three months ended March 31,	2015	2014
Hotel revenues:		
Hotel rooms	$10,824,000	$9,655,000
Food and beverage	2,164,000	1,372,000
Garage	699,000	679,000
Other operating departments	296,000	143,000
Total hotel revenues	13,983,000	11,849,000
Operating expenses, excluding non-recurring charges, depreciation and amortization	(11,997,000)	(10,620,000)
Operating income before non-recurring charges, interest and depreciation and amortization	1,986,000	1,229,000
Hotel restructuring costs	-	300,000
Income (loss) before loss on disposal of assets , interest and depreciation and amortization	1,986,000	1,529,000
Interest expense - mortgage	(1,785,000)	(1,766,000)
Depreciation and amortization expense	(744,000)	(491,000)
Net loss from Hotel operations	$(543,000)	$(728,000)

For the three months ended March 31, 2015, the Hotel generated operating income of $1,986,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of $13,983,000 compared to operating income of $1,229,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of $11,849,000 for the three months ended March 31, 2014. Room revenues increased by $1,169,000 for the three months ended March 31, 2015 compared to the three months ended March 31, 2014 primarily as the result of higher room rates and increased occupancy from business groups. Food and beverage revenue also increased by $792,000 as result of increase in group stays during the current period.

Operating expenses increased by $1,377,000 compared to the prior period primarily due to higher employee related expenses, room occupancy related expenses and food and beverage related expenses, franchise and credit card fees as the result in the increase in revenues. Legal expenses also increased as the result of the current litigation.

The following table sets forth the average daily room rate, average occupancy percentage and room revenue per available room ("RevPAR") of the Hotel for the three months ended March 31, 2015 and 2014.

Three Months Ended March 31,	**Average Daily Rate**	**Average Occupancy %**	**RevPAR**
2015	$ 242	91 %	$ 221
2014	$ 226	87 %	$ 197

Room revenues remained strong as the San Francisco market continued to have good demand for higher rated business. The Hotel's average daily rate increased by $16 for the three months ended March 31, 2015 compared to the three months ended March 31, 2014, while occupancy percentages increased to 91%. As a result, the Hotel was able to achieve a RevPAR number that was $24 higher than the comparative three month period.

Our highest priority is guest satisfaction. We believe that enhancing the guest experience differentiates the Hotel from our competition by building the most sustainable guest loyalty. In addition to the recent completion of "The Cloud" (technology lounge), three new premium executive meeting rooms and the Karaoke lounge, the hotel has enhanced the arrival experience of the guests by renovating and upgrading the entrance and the lobby. The lobby, the porte cochere and the second floor furniture have been modernized. The carpet flooring in the lobby has been replaced by oak wood creating an open and welcoming environment. The Wellness Center on the fifth floor features a new spa with two treatment rooms and a room for manicure and pedicure. The fitness center has been expanded with state of the art equipment.

In order to further the client experience, the hotel plans to renovate the fourth floor meeting rooms to make a state of the art meeting space. The third floor and the ballroom carpets will be replaced. The bathrooms in the Hotel rooms will be remodeled with modern shower amenities. And finally, the Hotel in conjunction with the Chinese Cultural Center is developing a landscape area on the Pedestrian Bridge that connects the hotel to Portsmouth Square. We continue taking steps that further develop our ties with the local Chinese community and the city of San Francisco, representing good corporate citizenship and promoting important, new business opportunities.

Real estate revenues for the three months ended March 31, 2015 increased to $4,149,000 from $4,024,000 for the three months ended March 31, 2014. Real estate operating expenses decreased to $1,947,000 from $2,194,000 as the result the decrease property management fees and insurance expense. In July 2014, the Company terminated its property and asset management agreements with the professional third party property management company that managed its properties located outside of California and began managing these properties in-house. Management continues to review and analyze the Company's real estate operations to improve occupancy and rental rates and to

reduce expenses and improve efficiencies.

In February 2014, the Company entered into a contract to sell its 249 unit apartment complex located in Austin, Texas and the adjacent unimproved land for $15,800,000. The purchase/sale agreement provides that purchaser can terminate the agreement with or without cause, however, the potential purchaser would forfeit the earnest money ($208,000) and additional consideration ($250,000) totaling $458,000. The purchaser also had the option to extend the agreement. During the quarter ended September 30, 2014, the Company received the $458,000 and recognized it as income as the result of the potential buyer not extending the purchase agreement. In December 2014, the Company entered into a new contract with a different buyer to sell the same property for $16,300,000. In March 2015, the Company sold this property for $16,300,000 and realized a gain on the sale of real estate of $9,358,000. The Company received net proceeds of $7,890,000 after selling costs and the repayment of the mortgage of $6,356,000 and the early prepayment of debt penalty of $1,634,000.

The Company had a net loss on marketable securities of $1,319,000 for the three months ended March 31, 2015 compared to a net gain on marketable securities of $342,000 for the three months ended March 31, 2014. Approximately $583,000 of the $1,319,000 net loss is related to the Company’s investment in the common stock of Comstock. Such investments represent approximately 25% of the Company’s portfolio. For the three months ended March 31, 2015, the Company had a net realized loss of $445,000 and a net unrealized loss of $874,000. For the three months ended March 31, 2014, the Company had a net realized gain of $769,000 and a net unrealized loss of $427,000. 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 results of operations. 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 see the Marketable Securities section below.

During the three months ended March 31, 2015, the Company performed an impairment analysis of its other investments and determined that one of its investments had an other than temporary impairment and recorded impairment losses of $400,000.

The Company and its subsidiaries, Portsmouth and Santa Fe, compute and file income tax returns and prepare discrete income tax provisions for financial reporting. The income tax (expense) benefit during the three months ended March 31, 2015 and 2014 represents primarily the income tax effect of the significant gain on the sale of real estate at InterGroup and Portsmouth's pretax (loss) income which includes its share in net loss of the Hotel. The Company's tax benefit as a percentage of the Portsmouth's income (loss) before income taxes has increased in fiscal 2015 due to the redemption and a larger ownership in Justice.

Nine months Ended March 31, 2015 Compared to the Nine months Ended March 31, 2014

The Company had a net income of $2,490,000 for the nine months ended March 31, 2015 compared to a net loss of $8,040,000 for the nine months ended March 31, 2014. The net income generated during the current period was primarily attributable the significant gain on the sale of real estate during the period, partially offset by the loss from investing activities. The significant loss incurred during the nine months ended March 31, 2014 primarily attributable to all of the costs associated with the redemption of the limited partners of Justice that occurred in the period ended March 31, 2014. Hotel revenues increased significantly during the current period, however, the increase in operating expenses and legal expenses and higher mortgage interest expense offset those revenue gains.

The Company had net loss from hotel operations of $661,000 for the nine months ended March 31, 2015, compared to a net loss of $10,681,000 for the nine months ended March 31, 2014. The change in the net loss as noted above was primarily attributable to all of the costs associated with the redemption of the limited partners of Justice that occurred in the nine months ended March 31, 2014. Although revenues from the Hotel increased during the current period, the increase was offset by higher operating expenses and legal expenses and mortgage interest expense.

The following table sets forth a more detailed presentation of Hotel operations for the nine months ended March 31, 2015 and 2014.

For the nine months ended March 31,	2015	2014
Hotel revenues:		
Hotel rooms	$34,084,000	$30,470,000
Food and beverage	5,810,000	4,268,000
Garage	2,117,000	2,178,000
Other operating departments	846,000	512,000

Total hotel revenues	42,857,000	37,428,000
Operating expenses, excluding non-recurring charges, depreciation and amortization	(35,868,000)	(29,645,000)
Operating income before non-recurring charges, interest and depreciation and amortization	6,989,000	7,783,000
Hotel restructuring costs	-	(6,995,000)
Hotel occupancy tax - penalty fees	-	(1,084,000)
Income (loss) before loss on extinguishment of debt, loss on disposal of assets , interest, depreciation and amortization	6,989,000	(296,000)
Loss on extinguishment of debt	-	(3,910,000)
Loss on disposal of assets	(51,000)	(1,092,000)
Interest expense - mortgage	(5,450,000)	(3,168,000)
Interest expense - occupancy tax	-	(328,000)
Depreciation and amortization expense	(2,149,000)	(1,887,000)
Net loss from Hotel operations	$(661,000)	$(10,681,000)

For the nine months ended March 31, 2015, the Hotel generated operating income of $6,989,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of $42,857,000 compared to operating income of $7,783,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of $37,428,000 for the nine months ended March 31, 2014. Room revenues increased by $3,614,000 for the nine months ended March 31, 2015 compared to the nine months ended March 31, 2014 primarily as the result of higher room rates and increased occupancy from business groups. Food and beverage revenue also increased by $1,542,000 as result of increase in group stays during the current period.

Operating expenses increased by $6,223,000 compared to the prior period primarily due to higher legal fees and higher operating expenses which include employee related expenses, room occupancy related expenses and food and beverage related expenses, franchise and credit card fees as the result in the increase in revenues and higher property taxes as the result of the redemption the limited partners and the refinancing of the Hotel. Legal expenses increased as the result of the current litigation.

Mortgage interest increased as the result of having nine months of interest expense on the new mortgage loans versus only three months.

The following table sets forth the average daily room rate, average occupancy percentage and room revenue per available room ("RevPAR") of the Hotel for the nine months ended March 31, 2015 and 2014.

Nine Months Ended March 31,	**Average Daily Rate**	**Average Occupancy %**	**RevPAR**
2015	$ 248	92 %	$ 229
2014	$ 227	90 %	$ 205

Room revenues remained strong as the San Francisco market continued to have good demand for higher rated business. The Hotel's average daily rate increased by $21 for the nine months ended March 31, 2015 compared to the nine months ended March 31, 2014, while occupancy percentages increase to 92% from 90%. As a result, the Hotel was able to achieve a RevPAR number that was $24 higher than the comparative three month period.

Real estate revenues for the nine months ended March 31, 2015 of $12,376,000 remained consistent with revenues of $12,260,000 for the nine months ended March 31, 2014. Real estate operating expenses decreased to $6,279,000 from $6,738,000 as the result the decrease in property management fees, insurance expense and repairs and maintenance expense. In July 2014, the Company terminated its property and asset management agreements with the professional third party property management company that managed its properties located outside of California and began managing these properties in-house. Management continues to review and analyze the Company's real estate operations to improve occupancy and rental rates and to reduce expenses and improve efficiencies.

In February 2014, the Company entered into a contract to sell its 249 unit apartment complex located in Austin, Texas and the adjacent unimproved land for $15,800,000. The purchase/sale agreement provides that purchaser can terminate the agreement with or without cause, however, the potential purchaser would forfeit the earnest money

($208,000) and additional consideration ($250,000) totaling $458,000. The purchaser also had the option to extend the agreement. During the quarter ended September 30, 2014, the Company received the $458,000 and recognized it as income as the result of the potential buyer not extending the purchase agreement. In December 2014, the Company entered into a new contract with a different buyer to sell the same property for $16,300,000. In March 2015, the Company sold this property for $16,300,000 and realized a gain on the sale of real estate of $9,358,000. The Company received net proceeds of $7,890,000 after selling costs and the repayment of the mortgage of $6,356,000 and the early prepayment of debt penalty of $1,634,000.

In November 2014, the Company sold its 5,900 square foot commercial property for $3,450,000 and realized a gain on the sale of real estate of $1,742,000. The Company received net proceeds of $2,163,000 after selling costs and the repayment of the related mortgage of $1,100,000. Prior to its sale, this property was being leased by the buyer.

The Company had a net loss on marketable securities of $4,353,000 for the nine months ended March 31, 2015 compared to a net gain on marketable securities of $1,110,000 for the nine months ended March 31, 2014. Approximately $2,094,000 of the $4,353,000 net loss is related to the Company’s investment in the common stock of Comstock. Such investments represent approximately 25% of the Company’s portfolio. For the nine months ended March 31, 2015, the Company had a net realized loss of $373,000 and a net unrealized loss of $3,980,000. For the nine months ended March 31, 2014, the Company had a net realized gain of $907,000 and a net unrealized gain of $203,000. 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 results of operations. 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 see the Marketable Securities section below.

During the nine months ended March 31, 2015, the Company performed an impairment analysis of its other investments and determined that one of its investments had an other than temporary impairment and recorded impairment losses of $400,000.

General and administrative expense increased to $2,357,000 for the nine months ended March 31, 2015 from $1,592,000 for the nine months ended March 31, 2014 as the result of the increase in stock compensation expense to $600,000 from $239,000 and the increase in the overall corporate general and administrative expense in the current period.

The Company and its subsidiaries, Portsmouth and Santa Fe, compute and file income tax returns and prepare discrete income tax provisions for financial reporting. The income tax (expense) benefit during the nine months ended March 31, 2015 and 2014 represents primarily the income tax effect of the significant gain on the sale of real estate at InterGroup and Portsmouth’s pretax (loss) income which includes its share in net loss of the Hotel. The Company’s tax benefit as a percentage of the Portsmouth’s loss before income taxes has increased in fiscal 2015 due to the redemption and a larger ownership in Justice.

MARKETABLE SECURITIES

As of March 31, 2015 and June 30, 2014, the Company had investments in marketable equity securities of $8,843,000 and $11,420,000, respectively. The following table shows the composition of the Company’s marketable securities portfolio by selected industry groups as:

As of March 31, 2015		% of Total	
Industry Group	Fair Value	Investment Securities	
Basic materials	$2,294,000	25.9	%
Industrial goods	1,788,000	20.2	%
Financial services	1,680,000	19.0	%
Energy	1,473,000	16.7	%
REITs and real estate companies	863,000	9.8	%
Other	745,000	8.4	%
	$8,843,000	100.0	%

As of June 30, 2014 % of Total Investment

Industry Group	Fair Value	Securities	
Basic materials	$5,081,000	44.5%	
Technology	1,395,000	12.2	%
REITs and real estate companies	1,001,000	8.8	%
Financial services	820,000	7.2	%
Other	3,123,000	27.3	%
	$11,420,000	100.0	%

The Company’s investment in marketable securities portfolio is diversified with 46 different equity positions. The Company holds four equity securities that are individually more than 10% of the equity value of the portfolio. The largest security represents 24.7% of the portfolio and consists of the common stock of Comstock Mining, Inc. (“Comstock” - NYSE MKT: LODE) which is included in the basic materials industry group. 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 10% of its total portfolio value, that investment could eventually exceed 10% as a result of equity appreciation or reduction of other positions. A significant percentage of the portfolio consists of common stock in Comstock that was obtained through dividend payments by Comstock on its 7.5% Series A-1 Convertible Preferred Stock. The Company also owns Comstock convertible preferred stock that is valued at $13,231,000 as of March 31, 2015 and June 30, 2014 and included in Other Investments.

Marketable securities are stated at fair value as determined by the most recently traded price of each security at the balance sheet date.

For the three months ended March 31,	2015	2014
Net (loss) gain on marketable securities	$(1,319,000)	$342,000
Impairment loss on other investments	(400,000)	-
Net unrealized (loss) gain on other investments	(72,000)	136,000
Dividend and interest income	5,000	9,000
Margin interest expense	(153,000)	(138,000)
Trading and management expenses	(262,000)	(327,000)
	$(2,201,000)	$22,000

For the nine months ended March 31,	2015	2014
Net (loss) gain on marketable securities	$(4,353,000)	$1,110,000
Impairment loss on other investments	(400,000)	-
Net unrealized (loss) gain on other investments	(98,000)	130,000
Dividend and interest income	522,000	524,000
Margin interest expense	(449,000)	(496,000)
Trading and management expenses	(866,000)	(861,000)
	$(5,644,000)	$407,000

FINANCIAL CONDITION AND LIQUIDITY

The Company’s cash flows are primarily generated from its Hotel operations, and general partner management fees, its real estate operations and from the investment of its cash in marketable securities and other investments.

On December 18, 2013, the Partnership completed an Offer to Redeem any and all limited partnership interests not held by Portsmouth. As a result, Portsmouth, which prior to the Offer to Redeem owned 50% of the then outstanding limited partnership interests now controls approximately 93% of the voting interest in Justice and is now its sole General Partner.

To fund redemption of limited partnership interests and to repay the prior mortgage, Justice obtained a $97,000,000 mortgage loan and a $20,000,000 mezzanine loan. The mortgage loan is secured by the Partnership’s principal asset, the Hilton San Francisco-Financial District. The mortgage loan initially bears an interest rate of 5.28% per annum and matures in January 2024. As additional security for the mortgage loan, there is a limited guaranty executed by the Company in favor of mortgage lender. The mezzanine loan is secured by the Operating membership interest held by

Mezzanine and is subordinated to the Mortgage Loan. The mezzanine loan initially bears interest at 9.75% per annum and matures in January 2024. As additional security for the mezzanine loan, there is a limited guaranty executed by the Company in favor of mezzanine lender.

Despite an uncertain economy, the Hotel has continued to generate strong revenue growth. While the debt service requirements related the new loans and the ongoing legal dispute with some of the former Justice partners, may create some additional risk for the Company and its ability to generate cash flows in the future, management believes that cash flows from the operations of the Hotel and the garage will continue to be sufficient to meet all of the Partnership's 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, to fund any new capital improvements and other requirements.

In February 2014, the Company entered into a contract to sell its 249 unit apartment complex located in Austin, Texas and the adjacent unimproved land for $15,800,000. The purchase/sale agreement provides that purchaser can terminate the agreement with or without cause, however, the potential purchaser would forfeit the earnest money ($208,000) and additional consideration ($250,000) totaling $458,000. The purchaser also had the option to extend the agreement. During the quarter ended September 30, 2014, the Company received the $458,000 and recognized it as income as the result of the potential buyer not extending the purchase agreement. In December 2014, the Company entered into a new contract with a different buyer to sell the same property for $16,300,000. In March 2015, the Company sold this property for $16,300,000 and realized a gain on the sale of real estate of $9,358,000. The Company received net proceeds of $7,890,000 after selling costs and the repayment of the mortgage of $6,356,000 and the early prepayment of debt penalty of $1,634,000.

In November 2014, the Company sold its 5,900 square foot commercial property for $3,450,000 and realized a gain on the sale of real estate of $1,742,000. The Company received net proceeds of $2,163,000 after selling costs and the repayment of the related mortgage of $1,100,000. Prior to its sale, this property was being leased by the buyer.

In March 2015, the Company refinanced the $3,636,000 mortgage note payable on its 157-unit property located in Florence, Kentucky for a new mortgage in the amount of $3,492,000. The Company paid down approximately $210,000 of the old mortgage as part of the refinancing. The new mortgage has a fixed interest rate of 3.87% for ten years and matures in April 2025.

Management believes that its cash, securities assets, real estate and the cash flows generated from those assets and from the partnership management fees, will be adequate to meet the Company's current and future obligations. Additionally, management believes there is significant appreciated value in the Hotel and other real estate properties to support additional borrowings if necessary.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

MATERIAL CONTRACTUAL OBLIGATIONS

The following table provides a summary as of March 31, 2015, the Company's material financial obligations which also including interest payments.

	Total	3 Months 2015	Year 2016	Year 2017	Year 2018	Year 2019	Thereafter
Mortgage and subordinated notes payable	$183,559,000	$398,000	$2,354,000	$2,135,000	$2,923,000	$3,064,000	$172,685,000
Other notes payable	541,000	121,000	296,000	79,000	45,000	-	-
Interest	76,886,000	2,691,000	10,245,000	10,120,000	9,591,000	8,947,000	35,292,000
Total	$260,986,000	$3,210,000	$12,895,000	$12,334,000	$12,559,000	$12,011,000	$207,977,000

IMPACT OF INFLATION

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. Since Prism has the power and ability under the terms of its management agreement to adjust hotel room rates on an ongoing basis, there should be minimal impact on partnership revenues due to inflation. The Company’s 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.

The Company's residential 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.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Critical accounting policies are those that are most significant to the presentation of our financial position and results of operations and require judgments by management in order to make estimates about the effect of matters that are inherently uncertain. The preparation of these condensed financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to the consolidation of our subsidiaries, to our revenues, allowances for bad debts, accruals, asset impairments, other investments, income taxes and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions. There have been no material changes to the Company's critical accounting policies during the nine months ended March 31, 2015. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2014 for a summary of the critical accounting policies.

Item 4. Controls and Procedures.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Principal 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 quarterly period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Chief Executive Officer and Principal 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 within the time periods specified in the Securities and Exchange Commission rules and forms.

CHANGES IN 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-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

The following table reflects purchases of InterGroup's common stock made by The InterGroup Corporation, for its own account, during the third quarter of its fiscal year ending June 30, 2015.

SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Fiscal 2015 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 (January 1- January 31)	-	-	-	97,966
Month #2 (February 1- February 28)	200	$ 19.59	200	97,766
Month #3 (March 1- March 31)	-	-	-	97,766
TOTAL:	200	$ 19.59	200	97,766

The Company has only one stock repurchase program. The program was initially announced on January 13, 1998 and was amended on February 10, 2003 and October 12, 2004. The total number of shares authorized to be repurchased pursuant to those prior authorizations was 870,000, adjusted for stock splits. On June 3, 2009, the Board of Directors authorized the Company to purchase up to an additional 125,000 shares of Company's common stock. On November 15, 2012, the Board of Directors authorized the Company to purchase up to an additional 100,000 shares of Company's common stock. The purchases will be made, in the discretion of management, from time to time, in the open market or through privately negotiated third party transactions depending on market conditions and other factors. The Company's repurchase program has no expiration date and can be amended and increased, from time to time, in the discretion of the Board of Directors. No plan or program expired during the period covered by the table.

Item 6. Exhibits.

31.1 Certification of Principal Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).

31.2 Certification of Principal Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).

32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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:	May 11, 2015	by	/s/ John V. Winfield John V. Winfield, President, Chairman of the Board and Chief Executive Officer
Date:	May 11, 2015	by	/s/ David T. Nguyen David T. Nguyen, Treasurer and Controller