

INTERGROUP CORP  
Form 10-Q  
October 29, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 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 (I.R.S. Employer  
Incorporation or organization) 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)

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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.

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).

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

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

Yes  No

The number of shares outstanding of registrant's Common Stock, as of October 9, 2015 was 2,384,989.



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**PART I****FINANCIAL INFORMATION****Item 1 - Condensed Consolidated Financial Statements**

THE INTERGROUP CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

| As of   | September<br>30, 2015<br>(Unaudited) | June 30, 2015     |
|---|--------------------------------------|-------------------|
| <b>ASSETS</b>   |                                      |                   |
| Investment in Hotel, net  | \$44,292,000                         | \$43,840,000      |
| Investment in real estate, net  | 57,537,000                           | 55,768,000        |
| Investment in marketable securities   | 17,733,000                           | 5,827,000         |
| Other investments, net  | 1,778,000                            | 15,082,000        |
| Cash and cash equivalents   | 8,344,000                            | 8,529,000         |
| Restricted cash - mortgage impounds   | 3,043,000                            | 2,868,000         |
| Other assets, net   | 7,153,000                            | 11,505,000        |
| <br>Total assets  | <br>\$139,880,000                    | <br>\$143,419,000 |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>  |                                      |                   |
| <b>Liabilities:</b>   |                                      |                   |
| Accounts payable and other liabilities  | \$3,792,000                          | \$5,268,000       |
| Accounts payable and other liabilities - Hotel  | 11,259,000                           | 13,615,000        |
| Due to securities broker  | -                                    | 345,000           |
| Obligations for securities sold   | -                                    | 22,000            |
| Other notes payable   | 4,781,000                            | 4,905,000         |
| Mortgage notes payable - Hotel  | 117,000,000                          | 117,000,000       |
| Mortgage notes payable - real estate  | 65,892,000                           | 66,233,000        |
| Deferred income taxes   | 446,000                              | 3,000             |
| Total liabilities   | 203,170,000                          | 207,391,000       |
| <br>Commitments and contingencies   |                                      |                   |
| <br>Shareholders' deficit:  |                                      |                   |
| Preferred stock, \$.01 par value, 100,000 shares authorized; none issued  | -                                    | -                 |
| Common stock, \$.01 par value, 4,000,000 shares authorized; 3,395,616 and 3,391,096 issued; 2,384,989 and 2,386,029 outstanding, respectively | 33,000                               | 33,000            |

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|   |                |                |
|---|----------------|----------------|
| Additional paid-in capital                              | 10,413,000     | 10,494,000     |
| Accumulated deficit                                     | (35,990,000 )  | (36,459,000 )  |
| Treasury stock, at cost, 1,010,627 and 1,005,067 shares | (12,000,000 )  | (11,878,000 )  |
| Total InterGroup shareholders' deficit                  | (37,544,000 )  | (37,810,000 )  |
| Noncontrolling interest                                 | (25,746,000 )  | (26,162,000 )  |
| Total shareholders' deficit                             | (63,290,000 )  | (63,972,000 )  |
| <br>  |                |                |
| Total liabilities and shareholders' equity              | \$ 139,880,000 | \$ 143,419,000 |

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

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THE INTERGROUP CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (UNAUDITED)

| For the three months ended September 30,                            | 2015          | 2014          |
|---|---------------|---------------|
| Revenues:   |               |               |
| Hotel   | \$ 15,138,000 | \$ 14,830,000 |
| Real estate   | 3,582,000     | 4,197,000     |
| Total revenues  | 18,720,000    | 19,027,000    |
| Costs and operating expenses:                                       |               |               |
| Hotel operating expenses  | (11,193,000)  | (11,838,000)  |
| Real estate operating expenses                                      | (1,736,000 )  | (2,140,000 )  |
| Depreciation and amortization expense                               | (1,236,000 )  | (1,226,000 )  |
| General and administrative expense                                  | (809,000 )    | (781,000 )    |
| Total costs and operating expenses                                  | (14,974,000)  | (15,985,000)  |
| Income from operations  | 3,746,000     | 3,042,000     |
| Other income (expense):   |               |               |
| Interest expense - mortgages  | (2,464,000 )  | (2,658,000 )  |
| Disposal of other assets  | (30,000 )     | -             |
| Net gain (loss) on marketable securities                            | 380,000       | (1,490,000 )  |
| Net unrealized loss on other investments                            | (74,000 )     | (42,000 )     |
| Dividend and interest income  | 13,000        | 14,000        |
| Trading and margin interest expense                                 | (240,000 )    | (469,000 )    |
| Other real estate income  | -             | 458,000       |
| Other expense, net  | (2,415,000 )  | (4,187,000 )  |
| Income (loss) before income taxes                                   | 1,331,000     | (1,145,000 )  |
| Income tax (expense) benefit  | (618,000 )    | 241,000       |
| Net income (loss)   | 713,000       | (904,000 )    |
| Less: Net (income) loss attributable to the noncontrolling interest | (244,000 )    | 141,000       |
| Net income (loss) attributable to InterGroup                        | \$ 469,000    | \$ (763,000 ) |
| Net income (loss) per share   |               |               |
| Basic   | \$ 0.30       | \$ (0.38 )    |
| Diluted   | \$ 0.29       | \$ (0.38 )    |
| Net income (loss) per share attributable to InterGroup              |               |               |
| Basic   | \$ 0.20       | \$ (0.32 )    |
| Diluted   | \$ 0.19       | \$ (0.32 )    |
| Weighted average number of basic common shares outstanding          | 2,387,296     | 2,386,146     |
| Weighted average number of diluted common shares outstanding        | 2,485,584     | 2,386,146     |

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

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THE INTERGROUP CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

| For the three months ended September 30,   | 2015         | 2014         |
|--|--------------|--------------|
| Cash flows from operating activities:  |              |              |
| Net income (loss)  | \$713,000    | \$(904,000 ) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |              |              |
| Depreciation and amortization  | 1,236,000    | 1,226,000    |
| Loss on disposal of assets   | 30,000       | -            |
| Net unrealized (gain) loss on marketable securities  | (440,000 )   | 1,646,000    |
| Unrealized loss on other investments   | 74,000       | 42,000       |
| Stock compensation expense   | 211,000      | 325,000      |
| Changes in assets and liabilities:   |              |              |
| Investment in marketable securities  | 1,764,000    | 458,000      |
| Other assets   | 4,399,000    | (289,000 )   |
| Accounts payable and other liabilities   | (3,832,000 ) | (3,468,000)  |
| Due to securities broker   | (345,000 )   | (2,009,000)  |
| Obligations for securities sold  | (22,000 )    | 2,376,000    |
| Deferred taxes   | 443,000      | (241,000 )   |
| Net cash provided by (used in) operating activities  | 4,231,000    | (838,000 )   |
| Cash flows from investing activities:  |              |              |
| Investment in hotel, net   | (1,291,000 ) | (1,313,000)  |
| Investment in real estate, net   | (2,243,000 ) | (211,000 )   |
| Investment in Santa Fe   | (120,000 )   | -            |
| Net cash used in investing activities  | (3,654,000 ) | (1,524,000)  |
| Cash flows from financing activities:  |              |              |
| Restricted cash - (payments to) withdrawal of mortgage impounds                                    | (175,000 )   | 553,000      |
| Net payments on mortgage and other notes payable   | (465,000 )   | (276,000 )   |
| Purchase of treasury stock   | (122,000 )   | -            |
| Net cash (used in) provided by financing activities  | (762,000 )   | 277,000      |
| Net decrease in cash and cash equivalents  | (185,000 )   | (2,085,000)  |
| Cash and cash equivalents at the beginning of the period   | 8,529,000    | 4,705,000    |
| Cash and cash equivalents at the end of the period   | \$8,344,000  | \$2,620,000  |
| Supplemental information:  |              |              |
| Interest paid  | \$2,563,000  | \$2,815,000  |
| Non-cash transaction:  |              |              |
| Conversion of other investments to marketable securities   | \$13,231,000 | \$-          |

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, 2015. The June 30, 2015 Condensed Consolidated Balance Sheet was derived from the Company’s Form 10-K for the year ended June 30, 2015.

The results of operations for the three months ended September 30, 2015 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2016.

For the three months ended September 30, 2015 and 2014, the Company had no components of comprehensive income other than net income (loss) 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 months ended September 30, 2015, there were 98,288 stock options that were considered dilutive. For the three months ended September 30, 2014, the Company did not have diluted earnings per share as the Company had a net loss for the respective periods.

As of September 30, 2015, the Company had the power to vote 85.6% 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”), a Delaware limited liability Company, and Justice Mezzanine Company, LLC (“Mezzanine”), a Delaware limited liability Company, 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 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. See Recent Business Developments – Limited Partnership Redemption and Restructuring. The Hotel is operated by the Partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with HLT Franchise Holding LLC (Hilton). Justice also has entered into 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. The Owner and Manager desire to amend and restate the Existing Management Agreement to change the nature of the services provided by Manager and its compensation, among other things. 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 three 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**

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015 and early application is permitted. We are in the process of evaluating this guidance.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which changes the consolidation analysis for both the variable interest model and for the voting model for limited partnerships and similar entities. ASU 2015-02 is effective for annual periods beginning after December 15, 2015 and for interim periods within those fiscal years, early application is permitted. ASU 2015-02 provides for one of two methods of transition: retrospective application to each prior period presented; or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. We are in the process of evaluating this guidance and our method of adoption.

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)* ("ASU 2014-08"). The amendments in ASU 2014-08 provide guidance for the recognition of discontinued operations, change the requirements for reporting discontinued operations in ASC 205-20, "Discontinued Operations" ("ASC 205-20") and require additional disclosures about discontinued operations. ASU 2014-08 is effective for the Company for annual periods beginning after December 15, 2014. The Company adopted this standard in the quarter ended September 30, 2015 and it did not have an impact on its consolidated financial statements as it relates primarily to how items are presented in the financial statements.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing,

and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The Company does not plan to early adopt. We are currently evaluating the impact ASU 2014-09 will have on the Company's consolidated financial statements.

In August 2014, the FASB issued Accounting Standard Update No. 2014-15, *Presentation of Financial Statements — Going Concern* ("ASU 2014-15"). The new guidance explicitly requires that management assess an entity's ability to continue as a going concern and may require additional detailed disclosures. ASU 2014-15 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Though permitted, the Company does not plan to early adopt. The Company does not believe that this standard will have a significant impact on its consolidated financial statements.

In July 2015, the FASB issued Accounting Standard Update No. 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11") which requires entities to measure most inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for annual and interim periods beginning after December 15, 2016. Though permitted, the Company does not plan to early adopt. We are currently evaluating the impact ASU 2015-11 will have on the Company's consolidated financial statements.

**NOTE 2 – INVESTMENT IN HOTEL, NET**

Investment in hotel consisted of the following as of:

| September 30, 2015        | Cost         | Accumulated<br>Depreciation | Net Book<br>Value |
|---------------------------|--------------|-----------------------------|-------------------|
| Land                      | \$2,738,000  | \$-                         | \$2,738,000       |
| Furniture and equipment   | 26,197,000   | (21,963,000)                | 4,234,000         |
| Building and improvements | 62,893,000   | (25,573,000)                | 37,320,000        |
|                           | \$91,828,000 | \$(47,536,000)              | \$44,292,000      |

| June 30, 2015             | Cost         | Accumulated<br>Depreciation | Net Book<br>Value |
|---------------------------|--------------|-----------------------------|-------------------|
| Land                      | \$2,738,000  | \$-                         | \$2,738,000       |
| Furniture and equipment   | 25,958,000   | (21,603,000)                | 4,355,000         |
| Building and improvements | 62,031,000   | (25,284,000)                | 36,747,000        |
|                           | \$90,727,000 | \$(46,887,000)              | \$43,840,000      |

**NOTE 3 – INVESTMENT IN REAL ESTATE**

Investment in real estate consisted of the following:

| As of                                 | September<br>30, 2015 | June 30,<br>2015 |
|---------------------------------------|-----------------------|------------------|
| Land                                  | \$24,828,000          | \$23,453,000     |
| Buildings, improvements and equipment | 65,696,000            | 64,828,000       |
| Accumulated depreciation              | (32,987,000)          | (32,513,000)     |
| Investment in real estate, net        | \$57,537,000          | \$55,768,000     |

In July 2015, the Company purchased residential house in Los Angeles, California as a strategic asset for \$1,975,000 in cash.

**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 September 30, 2015 and June 30, 2015, 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:

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| Investment               | Cost         | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Net<br>Unrealized Gain (Loss) | Fair<br>Value  |
|--------------------------|--------------|-----------------------------|-----------------------------|-------------------------------|----------------|
| As of September 30, 2015 |              |                             |                             |                               |                |
| Corporate<br>Equities    | \$19,333,000 | \$1,290,000                 | \$(2,890,000)               | \$ (1,600,000)                | ) \$17,733,000 |
| As of June 30, 2015      |              |                             |                             |                               |                |
| Corporate<br>Equities    | \$7,845,000  | \$1,136,000                 | \$(3,154,000)               | \$ (2,018,000)                | ) \$5,827,000  |

As of September 30, 2015 and June 30, 2015, the Company had unrealized losses of \$2,841,000 and \$3,062,000, respectively, related to securities held for over one year.

As of September 30, 2015, approximately 91% of the investment marketable securities balance above is comprised of the common stock of Comstock Mining, Inc.

Net gain (loss) 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 September 30,        | 2015       | 2014          |
|---|------------|---------------|
| Realized (loss) gain on marketable securities   | \$(60,000) | \$155,000     |
| Unrealized gain (loss) on marketable securities | 440,000    | (1,645,000)   |
| Net gain (loss) on marketable securities        | \$380,000  | \$(1,490,000) |

#### **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                                | September<br>30, 2015 | June 30,<br>2015 |
|-------------------------------------|-----------------------|------------------|
| Preferred stock - Comstock, at cost | \$-                   | \$13,231,000     |
| Private equity hedge fund, at cost  | 1,250,000             | 1,250,000        |
| Other preferred stock, at cost      | 459,000               | 497,000          |
| Warrants - at fair value            | 69,000                | 104,000          |
|                                     | \$1,778,000           | \$15,082,000     |

As of June 30, 2015, the Company had \$13,231,000 (13,231 preferred shares) held in Comstock Mining, Inc. (“Comstock” – OTCBB: LODE) 7 1/2% Series A-1 Convertible Preferred Stock (the “A-1 Preferred”).

On August 27, 2015, all of such preferred stock was converted into common stock of Comstock. Such shares are now included on the balance sheet under “Investment in marketable securities”.

**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 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 September 30, 2015

| Assets:                              | Level 1      | Level<br>2 | Level 3  | Total        |
|--------------------------------------|--------------|------------|----------|--------------|
| Other investments - warrants         | \$-          | \$ -       | \$69,000 | \$69,000     |
| Investment in marketable securities: |              |            |          |              |
| Basic materials                      | 16,207,000   | -          | -        | 16,207,000   |
| Other                                | 1,526,000    | -          | -        | 1,526,000    |
|                                      | 17,733,000   | -          | -        | 17,733,000   |
|                                      | \$17,733,000 | \$ -       | \$69,000 | \$17,802,000 |

As of June 30, 2015

| Assets:                              | Level 1     | Level<br>2 | Level 3   | Total       |
|--------------------------------------|-------------|------------|-----------|-------------|
| Other investments - warrants         | \$-         | \$ -       | \$104,000 | \$104,000   |
| Investment in marketable securities: |             |            |           |             |
| Basic materials                      | 2,761,000   | -          | -         | 2,761,000   |
| Other                                | 3,066,000   | -          | -         | 3,066,000   |
|                                      | 5,827,000   | -          | -         | 5,827,000   |
|                                      | \$5,827,000 | \$ -       | \$104,000 | \$5,931,000 |

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.,

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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      | September 30, 2015 | Net loss for the three months ended September 30, 2015 |
|----------------------------------|---------|---------|--------------|--------------------|--|
| Other non-marketable investments | \$ -    | \$ -    | \$ 1,709,000 | \$ 1,709,000       | \$ -   |

| Assets                           | Level 1 | Level 2 | Level 3       | June 30, 2015 | Net loss for the three months ended September 30, 2014 |
|----------------------------------|---------|---------|---------------|---------------|--|
| Other non-marketable investments | \$ -    | \$ -    | \$ 14,978,000 | \$ 14,978,000 | \$ -   |

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, 2015 for more detail information on the Company's stock-based compensation plans.

During the three months ended September 30, 2015 and 2014, the Company recorded stock option compensation cost of \$123,000 and \$237,000, respectively, related to stock options that were previously issued. As of September 30, 2015, there was a total of \$626,000 of unamortized compensation related to stock options which is expected to be recognized over the weighted-average period of 3.25 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 July 1, 2014 through September 30, 2015:

|                          |               | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Life | Aggregate<br>Intrinsic<br>Value |
|--------------------------|---------------|------------------------|--|--|---------------------------------|
| Oustanding at<br>Granted | July 1, 2014  | 367,000                | \$ 16.85                                 | 7.71 years                               | \$953,000                       |
| Exercised                |               | (2,400 )               | 18.00                                    |  |                                 |
| Forfeited                |               | (5,000 )               | 24.92                                    |  |                                 |
| Exchanged                |               | (9,600 )               | 18.00                                    |  |                                 |
| Oustanding at            | June 30, 2015 | 350,000                | \$ 16.70                                 | 6.95 years                               | \$939,000                       |
| Exercisable at           | June 30, 2015 | 126,639                | \$ 12.06                                 | 6.46 years                               | \$939,000                       |

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|                                |                    |         |          |            |             |
|--------------------------------|--------------------|---------|----------|------------|-------------|
| Vested and Expected to vest at | June 30, 2015      | 350,000 | \$ 16.70 | 6.95 years | \$939,000   |
| Oustanding at                  | July 1, 2015       | 350,000 | \$ 16.70 | 6.95 years | \$939,000   |
| Granted                        |                    | -       | -        |            |             |
| Exercised                      |                    | -       | -        |            |             |
| Forfeited                      |                    | -       | -        |            |             |
| Exchanged                      |                    | -       | -        |            |             |
| Oustanding at                  | September 30, 2015 | 350,000 | \$ 16.70 | 6.69 years | \$3,838,000 |
| Exercisable at                 | September 30, 2015 | 218,000 | \$ 26.80 | 6.06 years | \$2,719,000 |
| Vested and Expected to vest at | September 30, 2015 | 350,000 | \$ 16.70 | 6.69 years | \$3,838,000 |

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 three months ended September 30, 2015 and 2014) based on 100% of the fair market value of the Company's stock on the day of grant. During the three months ended September 30, 2015 and 2014, the four non-employee directors of the Company received a total grant of 4,520 and 4,608 shares of common stock.

**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 months ended September 30, 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 September 30, 2015 | Hotel Operations | Real Estate Operations | Investment Transactions | Other          | Total          |
|---|------------------|------------------------|-------------------------|----------------|----------------|
| Revenues  | \$ 15,138,000    | \$ 3,582,000           | \$-                     | \$-            | \$ 18,720,000  |
| Segment operating expenses                              | (11,193,000)     | (1,736,000 )           | -                       | (809,000 )     | (13,738,000 )  |
| Segment income (loss) from operations                   | 3,945,000        | 1,846,000              | -                       | (809,000 )     | 4,982,000      |
| Interest expense - mortgage                             | (1,814,000 )     | (650,000 )             | -                       | -              | (2,464,000 )   |
| Loss on disposal of assets                              | (30,000 )        | -                      | -                       | -              | (30,000 )      |
| Depreciation and amortization expense                   | (762,000 )       | (474,000 )             | -                       | -              | (1,236,000 )   |
| Income from investments                                 | -                | -                      | 79,000                  | -              | 79,000         |
| Income tax expense                                      | -                | -                      | -                       | (618,000 )     | (618,000 )     |
| Net income (loss)                                       | \$ 1,339,000     | \$ 722,000             | \$ 79,000               | \$(1,427,000 ) | \$ 713,000     |
| Total assets  | \$ 50,525,000    | \$ 57,537,000          | \$ 19,511,000           | \$ 12,307,000  | \$ 139,880,000 |

| As of and for the three months ended September 30, 2014 | Hotel Operations | Real Estate Operations | Investment Transactions | Other      | Total         |
|---|------------------|------------------------|-------------------------|------------|---------------|
| Revenues  | \$ 14,830,000    | \$ 4,197,000           | \$-                     | \$-        | \$ 19,027,000 |
| Segment operating expenses                              | (11,838,000)     | (2,140,000 )           | -                       | (781,000 ) | (14,759,000 ) |
| Segment income (loss) from operations                   | 2,992,000        | 2,057,000              | -                       | (781,000 ) | 4,268,000     |
| Interest expense  | (1,896,000 )     | (762,000 )             | -                       | -          | (2,658,000 )  |
| Depreciation and amortization expense                   | (691,000 )       | (535,000 )             | -                       | -          | (1,226,000 )  |
| Loss from investments                                   | -                | -                      | (1,987,000 )            | -          | (1,987,000 )  |
| Other real estate income                                | -                | 458,000                | -                       | -          | 458,000       |
| Income tax benefit                                      | -                | -                      | -                       | 241,000    | 241,000       |

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|                   |              |              |               |              |               |
|-------------------|--------------|--------------|---------------|--------------|---------------|
| Net income (loss) | \$405,000    | \$1,218,000  | \$(1,987,000) | \$(540,000)  | \$(904,000)   |
| Total assets      | \$42,492,000 | \$63,373,000 | \$25,111,000  | \$34,675,000 | \$165,651,000 |

**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 loan was eliminated in consolidation.

During the three months ended September 30, 2015 and 2014, the Company received management fees from Justice Investors totaling \$163,000 and \$140,000, 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 September 30, 2015, \$400,000 of these fees remains outstanding.

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, 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 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, 2015, 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 September 30, 2015, the Company owned approximately 81.7% 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 HLT Franchise Holding LLC (Hilton). The Partnership entered into a Franchise License agreement with the HLT Franchise Holding LLC (Hilton) on December 10, 2004. The term of the License agreement was for an initial period of 15 years commencing on the opening date, with an option to extend the license agreement for another five years, subject to certain conditions. On June 26, 2015, the Partnership and Hilton entered into an amended franchise agreement which extended the franchise agreement through 2030, modified the monthly royalty rate,

extended geographic protection to the Partnership and also provided the Partnership certain key money cash incentives to be earned through 2030. The key money cash incentives were received on July 1, 2015 and are included in accounts receivable at June 30, 2015.

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 three 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 an investment in unimproved real property. As of September 30, 2015, all of the Company’s properties are 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 September 30, 2015 Compared to the Three Months Ended September 30, 2014

The Company had a net income of \$713,000 for the three months ended September 30, 2015 compared to a net loss of \$904,000 for the three months ended September 30, 2014. The net income generated in current quarter is primarily attributable to the increased income from hotel operations and to a lesser extent, net gains from the Company's investment activities.

The Company had net income from hotel operations of \$1,339,000 for the three months ended September 30, 2015, compared to a net income of \$405,000 for the three months ended September 30, 2014. Hotel revenues increased during the current quarter, while operating expenses increased by a lower percentage relative to the increase in revenues.

The following table sets forth a more detailed presentation of Hotel operations for the three months ended September 30, 2015 and 2014.

| <u>For the three months ended September 30,</u>  | 2015         | 2014         |
|--|--------------|--------------|
| Hotel revenues:  |              |              |
| Hotel rooms  | \$12,607,000 | \$12,344,000 |
| Food and beverage  | 1,650,000    | 1,573,000    |
| Garage   | 685,000      | 697,000      |
| Other operating departments  | 196,000      | 216,000      |
| Total hotel revenues   | 15,138,000   | 14,830,000   |
| Operating expenses, excluding loss on disposal of assets, depreciation and amortization        | (11,193,000) | (11,838,000) |
| Operating income before loss on disposal of assets, interest and depreciation and amortization | 3,945,000    | 2,992,000    |
| Loss on disposal of assets   | (30,000 )    | -            |
| Interest expense - mortgage  | (1,814,000 ) | (1,896,000 ) |
| Depreciation and amortization expense  | (762,000 )   | (691,000 )   |
| Net income from Hotel operations   | \$1,339,000  | \$405,000    |

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For the three months ended September 30, 2015, the Hotel generated operating income of \$3,945,000 before the loss on disposal of assets and interest and depreciation and amortization on total operating revenues of \$15,138,000 compared to operating income of \$2,992,000 before the loss on disposal of assets and interest and depreciation and amortization on total operating revenues of \$14,830,000 for the three months ended September 30, 2014. Room revenues increased by \$263,000 for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily as the result of higher room rates. Food and beverage revenue also increased by \$77,000 as the result of the increase in room service and wine bar revenue during the current period.

Operating expenses decreased by \$645,000 compared to the prior period primarily due to royalty fees reduction per the new Hilton franchise agreement. Legal expenses also decreased as the result of coming closer to a settlement of the current litigation.

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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 September 30, 2015 and 2014.

| <b>Three Months</b>               | <b>Average</b>      | <b>Average</b>          |                      |
|-----------------------------------|---------------------|-------------------------|----------------------|
| <b><u>Ended September 30,</u></b> | <b><u>Daily</u></b> | <b><u>Occupancy</u></b> | <b><u>RevPAR</u></b> |
|                                   | <b><u>Rate</u></b>  | <b><u>%</u></b>         |                      |
| 2015                              | \$ 265              | 95                      | % \$ 252             |
| 2014                              | \$ 258              | 96                      | % \$ 247             |

The Hotel’s revenues increased by 2.1% quarter over quarter same time last year. Average daily rate increased by \$7 for the three months ended September 30, 2015 compared to the three months ended September 30, 2014. As a result, the Hotel was able to achieve a RevPAR number that was \$5 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 program. For the quarter, our loyalty score improved by one point percentage. This was achieved due to continued training of team members on Hilton brand standards and guest satisfaction, hiring and retaining talents in key operations, and enhancing the arrival experience. The carpet flooring in the lobby was replaced by oak wood, creating an open and welcoming environment. The furniture in the lobby, the porte cochere, and the second floor has been modernized. The third floor carpets and doors have been replaced. 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 enhance the client experience, the Hotel plans to renovate the fourth floor meeting rooms to make a state of the art meeting space. The fourth floor bathrooms will also be renovated. In the guest rooms, the bathrooms will be remodeled with modern shower amenities, and the desk tables and the night stands will be updated with granite tops for a sleek and modern look. 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 to take 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 September 30, 2015 decreased to \$3,582,000 from \$4,197,000 for the three months ended September 30, 2014 primarily as the result of the sale of the 249 unit apartment located in Austin, Texas in March 2015. Real estate operating expenses also decreased to \$1,736,000 from \$2,140,000 primarily as the result the of the sale. In August 2015, the Company terminated its third party property management agreement for the management of the Company’s properties located in California and will manage the properties in-house going forward. As of September 2015, all of the Company’s properties are being managed in house. Management believes this will

result in a decrease operating expenses and greater operating efficiencies. 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 July 2015, the Company purchased a single family house located in Los Angeles, California for \$1,975,000 as a strategic investment.

The Company had a net gain on marketable securities of \$380,000 for the three months ended September 30, 2015 compared to a net loss on marketable securities of \$1,490,000 for the three months ended September 30, 2014. Approximately \$281,000 of the \$380,000 net gain is related to the Company's investment in the common stock of Comstock. Such investments represent approximately 91% of the Company's portfolio as of September 30, 2015. For the three months ended September 30, 2015, the Company had a net realized loss of \$60,000 and a net unrealized gain of \$440,000. For the three months ended September 30, 2014, the Company had a net realized gain of \$155,000 and a net unrealized loss of \$1,645,000. 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.

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 September 30, 2015 and 2014 represents primarily the income tax effect of the pre-tax income (loss) at InterGroup and Portsmouth's pretax income (loss) which includes its share in net loss of the Hotel.

**MARKETABLE SECURITIES**

As of September 30, 2015 and June 30, 2015, the Company had investments in marketable equity securities of \$17,733,000 and \$5,827,000, respectively. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as:

| As of September 30, 2015 |              | % of Total Investment Securities |   |
|--------------------------|--------------|----------------------------------|---|
| Industry Group           | Fair Value   |                                  |   |
| Basic materials          | \$16,207,000 | 91.4                             | % |
| Other                    | 1,526,000    | 8.6                              | % |
|                          | \$17,733,000 | 100.0                            | % |

| As of June 30, 2015 |             | % of Total Investment Securities |   |
|---------------------|-------------|----------------------------------|---|
| Industry Group      | Fair Value  |                                  |   |
| Basic materials     | \$2,761,000 | 47.4                             | % |
| Other               | 3,066,000   | 52.6                             | % |
|                     | \$5,827,000 | 100.0                            | % |

The Company's investment in marketable securities portfolio consists primarily of (91.4%) of the common stock of Comstock Mining, Inc. ("Comstock" - NYSE MKT: LODE) which is included in the basic materials industry group. The significant increase in the Company's investment in Comstock was due to the conversion of the \$13,231,000 (13,231 preferred shares) held in Comstock Mining, Inc. ("Comstock" - OTCBB: LODE) 7 1/2% Series A-1 Convertible Preferred Stock (the "A-1 Preferred") to common stock on August 27, 2015. The A-1 Preferred was previously included in other investments prior to its conversion.

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 September 30, | 2015      | 2014          |
|--|-----------|---------------|
| Net gain (loss) on marketable securities | \$380,000 | \$(1,490,000) |
| Net unrealized loss on other investments | (74,000 ) | (42,000 )     |
| Dividend and interest income             | 13,000    | 14,000        |

|                                 |           |               |
|---------------------------------|-----------|---------------|
| Margin interest expense         | (99,000 ) | (157,000 )    |
| Trading and management expenses | (141,000) | (312,000 )    |
|                                 | \$79,000  | \$(1,987,000) |

## 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 Hotel. 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.

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 2 of the Company's Annual Report on Form 10-K for the year ended June 30, 2015.

Despite an uncertain economy, the Hotel has continued to generate strong revenue growth. While the debt service requirements related to 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 July 2015, the Company purchased residential house in Los Angeles, California as a strategic asset for \$1,975,000 in cash.

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 September 30, 2015, the Company's material financial obligations which also including interest payments.

|  | Total          | 9 Months<br>2016 | Year<br>2017  | Year<br>2018  | Year<br>2019  | Year<br>2020  | Thereafter     |
|--|----------------|------------------|---------------|---------------|---------------|---------------|----------------|
| Mortgage<br>and<br>subordinated<br>notes payable | \$ 182,892,000 | \$ 1,995,000     | \$ 2,129,000  | \$ 2,918,000  | \$ 3,059,000  | \$ 3,207,000  | \$ 169,584,000 |
| Other notes<br>payable                           | 4,781,000      | 395,000          | 473,000       | 406,000       | 362,000       | 362,000       | 2,783,000      |
| Interest   | 65,431,000     | 7,649,000        | 9,870,000     | 9,085,000     | 8,443,000     | 7,848,000     | 22,536,000     |
| Total  | \$ 253,104,000 | \$ 10,039,000    | \$ 12,472,000 | \$ 12,409,000 | \$ 11,864,000 | \$ 11,417,000 | \$ 194,903,000 |

**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 the Company has the power and ability to adjust hotel room rates on an ongoing basis, 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.

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 three months ended September 30, 2015. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2015 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 first quarter of its fiscal year ending June 30, 2016.

**SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES**

| Fiscal<br>2015<br>Period                            | (a) Total<br>Number<br>of<br>Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid<br>Per<br>Share | (c) Total<br>Number<br>of Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans<br>or<br>Programs | (d)<br>Maximum<br>Number<br>of shares<br>that May<br>Yet be<br>Purchased<br>Under the<br>Plans<br>or<br>Programs |
|---|--|---|---|--|
| <b>Month #1<br/>(July 1-<br/>July 31)</b>           | 3,705  | \$ 20.21  | 3,705   | 94,061   |
| <b>Month #2<br/>(August 1-<br/>August 31)</b>       | -  | -   | -   | 94,061   |
| <b>Month #3<br/>(September 1-<br/>September 30)</b> | 1,855  | \$ 25.30  | 1,855   | 92,206   |
| <b>TOTAL:</b>                                       | 5,560  | \$ 21.91  | 5,560   | 92,206   |

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.**

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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.

EX-101.INSXBRL Instance Document

EX-101.SCHXBRL Taxonomy Extension Schema

EX-101.CALXBRL Taxonomy Extension Calculation Linkbase

EX-101.DEF XBRL Taxonomy Extension Definition Linkbase

EX-101.LABXBRL Taxonomy Extension Label Linkbase

EX-101.PREXBRL Taxonomy Extension Presentation Linkbase

**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: October 29, 2015 by/s/ John V. Winfield  
John V. Winfield, President,  
Chairman of the Board and  
Chief Executive Officer

Date: October 29, 2015 by/s/ David T. Nguyen  
David T. Nguyen, Treasurer  
and Controller