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INTERGROUP CORP  
Form 10QSB  
November 10, 2005

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2005

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10324

THE INTERGROUP CORPORATION

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

DELAWARE  
-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-3293645  
-----  
(IRS Employer  
Identification No.)

820 Moraga Drive Los Angeles, CA 90049  
-----  
(Address of Principal Executive Offices)

(310) 889-2500  
-----  
(Issuer's Telephone Number)

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

The number of shares outstanding of the issuer's Common Stock, \$.01 par value, as of November 9, 2005 were 2,397,241 shares.

Transitional Small Business Disclosure Format: YES  NO

THE INTERGROUP CORPORATION

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### THE INTERGROUP CORPORATION CONSOLIDATED BALANCE SHEET (UNAUDITED)

As of September 30,	2005
ASSETS	
Investment in real estate, at cost:	
Land	\$ 22,937,000
Buildings, improvements and equipment	67,335,000
Less: accumulated depreciation	(19,912,000)
	70,360,000
Property held for sale or development	11,351,000
	81,711,000
Cash and cash equivalents	790,000
Restricted cash	2,983,000
Investment in marketable securities	23,357,000

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Prepaid expenses and other assets	7,258,000	
Investment in Justice Investors	8,778,000	-----
Total assets	\$124,877,000	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Mortgage notes payable	\$ 78,055,000	
Due to securities broker	10,205,000	
Obligation for securities sold	3,377,000	
Line of credit	6,058,000	
Accounts payable and other liabilities	3,699,000	
Deferred income taxes	6,300,000	-----
Total liabilities	107,694,000	-----
Minority interest	6,347,000	-----
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value, 2,500,000 shares authorized; none issued		-
Common stock, \$.01 par value, 4,000,000 shares authorized; 3,193,745 issued, 2,397,241 outstanding		21,000
Common stock, class A \$.01 par value, 2,500,000 shares authorized; none issued		-
Additional paid-in capital	8,686,000	
Retained earnings	10,343,000	
Treasury stock, at cost, 796,504 shares	(8,214,000)	-----
Total shareholders' equity	10,836,000	-----
Total liabilities and shareholders' equity	\$124,877,000	=====

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

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### THE INTERGROUP CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	2005	2004
	-----	-----
For the Three Months ended September 30,		
Real estate operations:		
Rental income	\$ 3,237,000	\$ 3,163,000
Rental expenses:		
Property operating expense	(1,660,000)	(1,369,000)
Mortgage interest expense	(952,000)	(954,000)
Real estate taxes	(462,000)	(363,000)
Depreciation	(671,000)	(627,000)
Amortization - intangible asset	-	(167,000)
	-----	-----

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Loss from real estate operations	(508,000)	(317,000)
	-----	-----
Equity in net income(loss) of Justice Investors	(787,000)	77,000
	-----	-----
Investment transactions:		
Net investment losses	(11,000)	(4,627,000)
Impairment loss on other investments	(58,000)	-
Dividend and interest income	302,000	292,000
Margin interest and trading expenses	(560,000)	(576,000)
	-----	-----
Loss from investment transactions	(327,000)	(4,911,000)
	-----	-----
Other income(expense):		
General and administrative expense	(338,000)	(381,000)
Other, net	13,000	86,000
	-----	-----
Other expense	(325,000)	(295,000)
	-----	-----
Loss before provision for income taxes and minority interest	(1,947,000)	(5,446,000)
	-----	-----
Provision for income tax benefit	747,000	2,178,000
	-----	-----
Loss before minority interest	(1,200,000)	(3,268,000)
Minority interest benefit, net of tax	321,000	645,000
	-----	-----
Net loss from continuing operations	\$ (879,000)	\$ (2,623,000)
	-----	-----
Discontinued operations:		
Net loss on discontinued operations	\$ (58,000)	\$ (305,000)
Gain(loss) on sale of real estate	(24,000)	6,006,000
Provision for income tax benefit(expense)	31,000	(2,280,000)
	-----	-----
Income(loss) from discontinued operations	\$ (51,000)	\$ 3,421,000
	-----	-----
Net income(loss)	\$ (930,000)	\$ 798,000
	=====	=====
Loss per share from continuing operations		
Basic	\$ (0.37)	\$ (1.05)
Diluted	\$ (0.37)	\$ (1.05)
	=====	=====
Income(loss) per share from discontinued operations		
Basic	\$ (0.02)	\$ 1.37
Diluted	\$ (0.02)	\$ 1.19
	=====	=====
Income(loss) per share		
Basic	\$ (0.39)	\$ 0.32
Diluted	\$ (0.39)	\$ 0.28
	=====	=====
Weighted average number of shares outstanding	2,403,192	2,496,468
	=====	=====
Diluted weighted average number of shares outstanding	2,770,692	2,862,468
	=====	=====

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

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THE INTEGROUP CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

For the three months ended September 30,	2005	2004
	-----	-----
Cash flows from operating activities:		
Net income(loss)	\$ (930,000)	\$ 798,000
Adjustments to reconcile net income(loss) to cash provided by(cash used) in operating activities:		
Depreciation of real estate	671,000	626,000
Depreciation (discontinued operations)	17,000	173,000
Amortization of intangible asset	-	167,000
Loss on early termination of debt	-	133,000
Impairment loss on other investments	58,000	-
Loss(gain) on sale of real estate	24,000	(6,006,000)
Net unrealized losses(gains) on investments	(170,000)	4,751,000
Equity in net loss(income) from Justice Investors	787,000	(77,000)
Minority interest benefit	(321,000)	(645,000)
Changes in assets and liabilities:		
Restricted cash	(2,000)	(1,027,000)
Investment in marketable securities	847,000	19,027,000
Prepaid expenses and other assets	(3,459,000)	1,665,000
Accounts payable and other liabilities	187,000	(690,000)
Due to broker	3,479,000	(2,816,000)
Obligation for securities sold	(1,880,000)	(15,100,000)
Deferred income taxes	-	674,000
	-----	-----
Net cash provided by(used in) operating activities	(692,000)	1,653,000
	-----	-----
Cash flows from investing activities:		
Net proceeds from sale of real estate	3,785,000	11,850,000
Investment in real estate	-	(1,467,000)
Additions to buildings, improvements and equipment	(164,000)	(875,000)
	-----	-----
Net cash provided by investing activities	3,621,000	9,508,000
	-----	-----
Cash flows from financing activities:		
Borrowings from mortgage notes payable	-	1,675,000
Principal payments on mortgage notes payable	(2,377,000)	(11,396,000)
Pay down of line of credit	(255,000)	-
Purchase of treasury stock	(375,000)	(268,000)
	-----	-----
Net cash used in financing activities	(3,007,000)	(9,989,000)
	-----	-----
Net increase(decrease) in cash and cash equivalents	(78,000)	1,172,000
Cash and cash equivalents at beginning of period	868,000	777,000
	-----	-----
Cash and cash equivalents at end of period	\$ 790,000	\$ 1,949,000
	=====	=====

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

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### THE INTERGROUP CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### 1. General

The consolidated financial statements included herein are unaudited; however, in the opinion of The InterGroup Corporation ("InterGroup" or the "Company"), the interim financial information contains all adjustments, including normal recurring adjustments, necessary to present fairly the results for the interim period. These consolidated financial statements include the accounts of the Company and its subsidiaries and should be read in conjunction with the Company's June 30, 2005 audited consolidated financial statements and notes thereto.

As of September 30, 2005, the Company had the power to vote 76.9% of the voting shares of Santa Fe Financial Corporation ("Santa Fe"), a public company (OTCBB: SFEF). Santa Fe's revenue is primarily generated through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), a public company (OTCBB: PRSI), which derives its revenue primarily as a general partner and a 49.8% limited partner in Justice Investors, a California limited partnership ("Justice" or the "Partnership"). Justice owns the land, improvements and leaseholds formerly known as the Holiday Inn Select Downtown & Spa, a 565-room hotel in San Francisco, California (the "Hotel").

The results of operations for the three months ended September 30, 2005 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2006.

#### Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the weighted-average number of common shares is increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued. The Company's only potentially dilutive common shares are stock options. Stock options are included in diluted earnings per share by application of the treasury stock method. As of September 30, 2005, the Company had 367,500 stock options that were considered potentially dilutive common shares and 37,500 stock options that were considered anti-dilutive. As of September 30, 2004, the Company had 366,000 stock options that were considered potentially dilutive common shares and 27,000 stock options that were considered anti-dilutive. These amounts were included in the calculation for diluted earnings per share.

#### Stock-Based Compensation Plans

Effective December 15, 2002, the Company adopted Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which amends Statement of Financial Accounting

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Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 148). In accounting for its plans, the Company, as allowable under the provisions of SFAS 148, applies Accounting Principles Board Opinions No. 25, "Accounting for Stock issued to Employees." As a result of this election, the Company does not recognize compensation expense for its stock option plans. During the three

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months ended September 30, 2005 and September 30, 2004, the Company granted 12,000 and 15,000 stock options, respectively. Had the Company determined compensation cost based on the fair value for its stock options at grant date, net income(loss) and earnings(loss) per share would have been reduced to the pro forma amounts as follows:

For the three months ended September 30,	2005	2004
	-----	-----
Net income(loss)	\$ (930,000)	\$ 798,000
Stock based employee Compensation expense*	(44,000)	(62,000)
	-----	-----
Pro forma net income(loss)	\$ (974,000)	\$ 736,000
	=====	=====
Earnings(loss) per share		
Basic as reported	\$ (0.39)	\$ 0.32
Basic pro forma	\$ (0.41)	\$ 0.29
Diluted as reported	\$ (0.39)	\$ 0.28
Diluted pro forma	\$ (0.41)	\$ 0.26

\*Determined based on the fair value method for awards net of related tax effects (38%).

The Black-Scholes option pricing model was used with the following weighted-average assumptions for the three months ended September 30, 2005; risk-free interest rate of 4.38%; dividend yield of 0%; expected Common Stock market price volatility factor of 21.21; and a weighted-average expected life of the options of 10 years. The weighted-average fair value of options granted during the three months ended September 30, 2005 was \$6.18 per option. The aggregate fair value of the options granted in during the three months ended September 30, 2005 was \$74,000. For the three months ended September 30, 2004, the following weighted-average assumptions for September 30, 2004; risk-free interest rate of 2.60%; dividend yield of 0%; expected Common Stock market price volatility factor of 31.37; and a expected life of the options of 10 years. The fair value of options granted in during the three months ended September 30, 2004 were \$6.95 per option. The aggregate fair value of the options granted during the three months ended September 30, 2004, was \$104,000.

The Company is currently evaluating the impact of Financial Accounting Standard 123R, "Share-Based Payments"(FAS 123R). FAS 123R requires companies to recognize compensation expense equal to the fair value of stock options or other share-based payments.

### 2. Investment in Real Estate

In August 2005, the Company sold its 112-unit apartment complex located in Austin, Texas for \$4,400,000 and realized a net loss on the sale real estate of \$24,000. The Company received net proceeds of \$1,664,000 after selling costs and attorney's fees and the repayment of the mortgage note in the amount of \$2,186,000.

Under the provisions of the Statement of Financial Accounting Standards No.144,

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Accounting for Impairment or Disposal of Long-Lived Assets, for properties disposed of during the year or for properties for which the Company actively markets for sale at a price that is reasonable in relation to its market value, the properties are required to be classified as held for sale on the balance sheet and accounted for under discontinued operations in the statement of operations. The revenues and expenses from the operation of these properties have been reclassified from continuing operations for the three months ended September 30, 2005 and 2004 and reported as income from discontinued operations in the consolidated statements of operations.

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As of September 30, 2005, the Company had five properties that were classified as held for sale, one of the properties is located in Texas and the remaining four are located in California. The revenues and expenses from the operation of these five properties and the property that was sold in August 2005 have been reclassified from continuing operations for the three months ended September 30, 2005 and 2004 and reported as income from discontinued operations in the consolidated statements of operations.

Revenues and expenses from the operation of these properties for the three months ended September 30, 2005 and 2004 are summarized as follows:

	2005	2004
	-----	-----
Revenues	\$ 245,000	\$ 702,000
Expenses	(303,000)	(1,007,000)
	-----	-----
Net loss	(58,000)	(305,000)
	=====	=====

Depreciation expense for the three months ended September 30, 2005 and 2004, was \$17,000 and \$173,000, respectively.

### 3. Marketable Securities:

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

At September 30, 2005, all of the Company's marketable securities are classified as trading securities. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the change in the unrealized gains and losses on these investments are included earnings. Trading securities are summarized as follows:

As of September 30, 2005

		Gross	Gross	Net	Market
Investment	Cost	Unrealized Gain	Unrealized Loss	Unrealized Gain	Value
	-----	-----	-----	-----	-----
Corporate					
Equities	\$21,052,000	\$3,989,000	(\$1,684,000)	\$2,305,000	\$23,357,000

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Of the cumulative gross unrealized loss of \$1,684,000, \$540,000 of the loss is related to securities held for over one year.

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

As part of the investment strategies, the Company may assume short positions in marketable securities. Short sales are used by the Company to potentially offset normal market risks undertaken in the course of its investing activities or to provide additional return opportunities. The Company has no naked short positions. As of September 30, 2005, the Company had obligations for securities sold (equities short) of \$3,377,000.

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The Company may utilize margin for its marketable securities purchases through the use of standard margin agreements with national brokerage firms. The use of available leverage is guided by the business judgment of management.

Included in the net losses on marketable securities of \$11,000 for the three months ended September 30, 2005 are net unrealized gains of \$170,000 and net realized losses of \$181,000. Included in the net losses on marketable securities of \$4,627,000 for the three months ended September 30, 2004 are net unrealized losses of \$4,751,000 and net realized gains of \$124,000.

#### 4. Investment in Justice Investors:

The consolidated accounts include a 49.8% interest in Justice Investors, a California limited partnership ("Justice" or the "Partnership"), in which Portsmouth serves as one of the two general partners. The other general partner, Evon Corporation ("Evon"), serves as the managing general partner. Justice owns the land, improvements and leaseholds at 750 Kearny Street, San Francisco, California, formerly known as the Holiday Inn Select Downtown & Spa (the "Hotel"). Portsmouth records its investment in Justice on the equity basis. The Company's investment in Justice is recorded on the equity basis.

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

As a general and limited partner, Portsmouth has significant control over the management and operation of the assets of Justice Investors. All significant partnership decisions require the active participation and approval of both general partners. The Company and Evon jointly consult and determine the amount of partnership reserves and the amount of cash to be distributed to the limited partners.

Pursuant to the terms of the partnership agreement, voting rights of the partners are determined according to the partners' entitlement to share in the net profit and loss of the partnership. The Company is not entitled to any additional voting rights by virtue of its position as a general partner. The partnership agreement also provides that no portion of the partnership real property can be sold without the written consent of the general and limited partners entitled to more than 72% of the net profit.

Historically, Justice's most significant income source was a lease between the Partnership and Felcor Lodging Trust, Inc. ("Felcor") for the Hotel portion of

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the property. Pursuant to a Settlement Agreement entered into on May 3, 2004, Felcor agreed to terminate its lease and surrender possession of the Hotel to Justice, on June 30, 2004. Effective July 1, 2004, Justice became the owner-operator of the Hotel, with the assistance of a Management Agreement with Dow Hotel Company, LLC. ("Dow") to perform the day-to day management functions of the Hotel. The Partnership also derives income from the lease of the garage portion of the property to Evon and from a lease on the lobby level of the Hotel to Tru Spa. The Company also derives revenue from management fees from Justice for actively managing the hotel as a general partner.

On December 10, 2004, Justice entered into a Franchise License Agreement for the right to operate the Hotel property as a Hilton brand hotel. Prior to operating the hotel as a Hilton, the Partnership is required to make substantial renovations to the hotel to meet Hilton standards in accordance with a product improvement plan agreed upon by Hilton and the Partnership, as well as complying with other brand standards. The Partnership currently

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estimates that the cost of the renovation project will be approximately \$34 million. That amount includes approximately \$29 million for the actual cost of the renovations and approximately \$5 million for construction interest and estimated carrying costs of operations during the renovation period. As of September 30, 2005, the Partnership has incurred approximately \$15,093,000 in construction costs related to the renovation. Of this amount, \$132,000 is related to capitalized interest. Additionally, the Partnership incurred approximately \$3,593,000 in carrying costs related to operations. The Agreement requires that those renovations be complete and the Hotel commence operations as a Hilton hotel no later than June 1, 2006. Hilton is presently accepting reservations for Hotel guest arrivals on January 29, 2006 and beyond. The Partnership believes that the renovations will be complete and the Hotel opened by that date. The term of the Agreement is for a period of 15 years commencing on the opening date, with an option to extend the license term for another five years, subject to certain conditions.

On March 15, 2005, the Partnership announced its decision to close down its Hotel operations on or about June 1, 2005 to complete renovations of the Hotel as required by the Hilton Agreement. It is anticipated that the Hotel will be closed for a period of approximately seven to nine months before a contemplated reopening in the early part of 2006 as the "Hilton San Francisco Financial District". The below ground parking garage and Tru Spa located on the lobby level of the Hotel, both of which are lessees of the Partnership, will remain open during the renovation work.

Condensed financial statements for Justice Investors are as follows:

### JUSTICE INVESTORS CONDENSED BALANCE SHEET (Unaudited)

As of September 30,	2005
	-----
Assets	
Cash	\$ 13,382,000
Other current assets	1,416,000
Property, plant and equipment, net of accumulated depreciation of \$13,538,000	4,870,000
Construction in progress	15,093,000
Land	1,124,000
	-----

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Total assets		\$ 35,885,000 =====
Liabilities and partners' capital		
Total current liabilities		\$ 2,471,000
Long-term debt		30,965,000
Partners' capital		2,449,000 -----
Total liabilities and partners' capital		\$ 35,885,000 =====

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### JUSTICE INVESTORS CONDENSED STATEMENTS OF OPERATIONS

For the three months ended September 30,	2005	2004
	-----	-----
Hotel revenue	\$ -	\$ 4,354,000
Hotel rent	-	45,000
Garage rent	157,000	306,000
Other income	23,000	14,000
Operating expenses	(1,640,000)	(4,443,000)
	-----	-----
Net income (loss)	\$ (1,460,000)	\$ 276,000
	=====	=====

#### 5. Mortgage Note Payable

In August 2005, the Company paid off a mortgage in the amount of \$2,186,000 related to the sale of its 112-unit multi-family apartment located Austin, Texas.

#### 6. Related Parties

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

#### 7. Segment Information

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

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Information below represents reported segments for the three months ended September 30, 2005 and 2004. Operating income for rental properties consists of rental income. Operating income from Justice Investors consists of the operations of the hotel and garage included in the equity in net income of Justice Investors. Operating income (loss) for investment transactions consist of net investment gains (losses) and dividend and interest income.

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Three months ended September 30, 2005	Real Estate				Subtotal
	Rental Properties	Justice Investors	Investment Transactions	Other	
Operating income(loss)	\$ 3,237,000	\$ (787,000)	\$ 291,000	\$ -	\$ 2,741,000
Operating expenses	(1,660,000)	-	(618,000)	-	(2,278,000)
Real estate taxes	(462,000)	-	-	-	(462,000)
Net operating income(loss)	1,115,000	(787,000)	(327,000)	-	1,000
Mortgage interest expense	(952,000)	-	-	-	(952,000)
Depreciation	(671,000)	-	-	-	(671,000)
Loss on sale of real estate	-	-	-	-	-
General and administrative Expense	-	-	-	(338,000)	(338,000)
Other income	-	-	-	13,000	13,000
Income tax benefit	-	-	-	747,000	747,000
Minority interest benefit	-	-	-	321,000	321,000
Net income(loss)	\$ (508,000)	\$ (787,000)	\$ (327,000)	\$ 743,000	\$ (879,000)
Total Assets	\$70,360,000	\$ 8,778,000	\$28,100,000	\$ 6,288,000	\$ 113,526,000

Three months ended September 30, 2004	Real Estate				Subtotal
	Rental Properties	Justice Investors	Investment Transactions	Other	
Operating income	\$ 3,163,000	\$ 77,000	\$ (4,335,000)	\$ -	\$ (1,095,000)
Operating expenses	(1,369,000)	-	(576,000)	-	(1,945,000)
Real estate taxes	(363,000)	-	-	-	(363,000)
Net operating income(loss)	1,431,000	77,000	(4,911,000)	-	(3,403,000)
Mortgage interest expenses	(954,000)	-	-	-	(954,000)
Depreciation	(627,000)	-	-	-	(627,000)
Amortization of intangible	(167,000)	-	-	-	(167,000)
Gain on sale of real estate	-	-	-	-	-
General and administrative expenses	-	-	-	(381,000)	(381,000)
Other income	-	-	-	86,000	86,000
Income tax benefit(expense)	-	-	-	2,178,000	2,178,000
Minority interest benefit	-	-	-	645,000	645,000

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	-----	-----	-----	-----	-----
Net income (loss)	\$ (317,000)	\$ 77,000	\$(4,911,000)	\$ 2,528,000	\$ (2,623,000)
	=====	=====	=====	=====	=====
Total Assets	\$71,945,000	\$11,405,000	\$43,254,000	\$ 8,694,000	\$ 135,298,000
	=====	=====	=====	=====	=====

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

#### FORWARD-LOOKING STATEMENTS AND PROJECTIONS

The discussion below and elsewhere in the Report includes forward-looking statements about the future business results and activities of the Company, which, by their very nature, involve a number of risks and uncertainties. When used in this discussion, the words "estimate", "project", "anticipate" and similar expressions, are subject to certain risks and uncertainties, such as the impact of terrorism and war on the national and international economies, including tourism and the securities markets, changes in general economic conditions, interest rates, local real estate markets, and competition, as well as uncertainties relating to uninsured losses, securities markets, and litigation, including those discussed below and in the Company's Form 10-KSB for the fiscal year ended June 30, 2005 that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

#### RECENT DEVELOPMENTS

In August 2005, the Company sold its 112-unit apartment complex located in Austin, Texas for \$4,400,000 and realized a net loss on the sale real estate of \$24,000. The Company received net proceeds of \$1,664,000 after selling costs and attorney's fees and the repayment of the mortgage note in the amount of \$2,186,000.

On July 27, 2005, Justice Investors entered into a first mortgage loan (the "Prudential Loan") with The Prudential Insurance Company of America in a principal amount of \$30,000,000. The term of the Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Loan calls for monthly installments of principal and interest in the amount of approximately \$165,100, calculated on a 360 month amortization schedule. The Loan is collateralized by a first deed of trust on the Partnership's Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Loan is without recourse to the limited and general partners of Justice.

On July 27, 2005, Justice also obtained a \$10,000,000 Revolving Line of Credit ("LOC") from United Commercial Bank. The term of the LOC is for 60 months at an annual interest rate based on the index selected by Justice at the time of the request for each advance. The interest rate will either be a variable rate equal to The Wall Street Journal Prime Rate or the Libor Rate plus 2%, fixed for the period selected by the Partnership. The LOC is collateralized by a second deed of trust on the Hotel property. Interest only is payable monthly with principal and accrued interest due at maturity.

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From the proceeds of the Prudential Loan, the Partnership retired its existing line of credit in the approximate amount of \$7,436,000, including accrued interest, and paid off a short term uncollateralized line of credit from United Commercial Bank in the amount of \$2,007,000, including accrued interest.

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### RESULTS OF OPERATIONS

For the Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

The Company had a net loss of \$930,000 for the three months ended September 30, 2005 compared to net income of \$798,000 for the three months ended September 30, 2004. As discussed below, the change was primarily due to the gain on the sale of real estate of \$6,006,000 that was recorded during the quarter ended September 30, 2004, the change in the equity in net income(loss) of Justice Investors to a significant loss, the increase in the loss from real estate operations and the decrease in other income. These changes were partially offset by the significant reduction in the net investment losses from the Company's marketable securities portfolio and the decrease in general and administrative expenses.

Loss from real estate operations increased to \$508,000 for the three months ended September 30, 2005 from \$317,000 for the three months September 30, 2004. The increase was primarily due to the increase in property operating expenses to \$1,660,000 from \$1,369,000 and the increase in real estate taxes to \$462,000 from \$363,000. The increase in property operating expenses was partially due to \$100,000 in consulting fees for professional services provided during the quarter to assist with the improvement of the Company's real estate operations and to help with the sale of certain non-strategic real estate properties. In an effort to improve the Company's real estate operations by providing better service to our tenants and to increase the economic occupancy of our properties, the Company also incurred additional leasing, salary, cleaning and decorating and repairs and maintenance expenses. These increases were partially offset by lower property insurance bills. Real estate taxes increased to \$462,000 from \$363,000 primarily as the result the \$90,000 increase in property tax expense on the Company's largest property located in Las Colinas, Texas that was acquired in April 2004. In August 2005, the Company sold it's 112-unit apartment complex located in Austin, Texas for \$4,400,000 and realized a loss on sale of real estate of \$24,000. The loss on the sale of this property and the related revenues and expenses are excluded from the real estate operations and are presented under discontinued operations. Also included in the discontinued operations are the revenues and expenses of the five properties that the Company intends to sell, four of which are located in California and the fifth located in Texas. These five properties are classified on the balance sheet as held-for-sale.

The Company had a loss in equity in net income (loss) of Justice Investors of \$787,000 for the three months ended September 30, 2005, compared to net income of \$77,000 for the three months ended September 30, 2004. Effective, May 31, 2005, the Partnership elected to close down its Hotel operations to complete the renovations of the Hotel as required by the Hilton Franchise Agreement. Thus, Partnership net income for the three months ended September 30, 2005 did not have any operating income from the Hotel, while the three months ended September 30, 2004 included the direct operating results of the Hotel. Net operating income from the Hotel for the three months ended September 30, 2004, was approximately \$305,000. The overall decrease in Partnership net income was also attributable to a decrease in garage rent to approximately \$167,000 from approximately \$306,000 related to the closing of the Hotel, and to increased costs in the current quarter related to higher interest expenses, insurance

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costs, professional fees and other costs for the repositioning of the Hotel.

While the Hotel had traditionally enjoyed a favorable year-round occupancy rate, but both occupancy and average daily room rates have suffered since fiscal year ended June 30, 2001. Newer and more upscale properties have opened

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in or near the Financial District, which provide greater amenities to their guests, making it difficult for the Hotel to compete. These competitors are now better positioned to attract both the business traveler and tourists and to achieve higher occupancy and room rates.

Management believes that the Hotel could not continue to be competitive under the conditions it operated under while a Holiday Inn Select brand hotel. By terminating the Hotel Lease with Felcor, and taking over the operations of the Hotel, the Partnership now has greater ability to direct the future of the Hotel. The Hotel is now approximately 25 years old, with no major renovations having been made to the property during that time. The Partnership is committed to make substantial improvements to almost every area of the Hotel before it reopens in the early part of 2006 as the Hilton San Francisco Financial District. The newly renovated Hotel will feature among other amenities: 552 totally remodeled guest rooms and suites; a new concierge lounge and common areas; modern and expanded meeting rooms; a new ballroom; a new restaurant and bar; a new fitness center; and the existing Tru Spa. The Partnership believes that this renovation project, coupled with the strength of the Hilton brand and reservation system, along with the hotel management expertise of Dow, will allow the Hotel to directly compete with all hotels in the Financial District.

Net losses on marketable securities decreased to \$11,000 for the three months ended September 30, 2005 from \$4,627,000 for the three months ended September 30, 2004. For the three months ended September 30, 2005, the Company had net realized losses of \$181,000 and net unrealized gains of \$170,000. For the three months ended September 30, 2004, the Company had net unrealized losses of \$4,751,000 and net realized gains of \$124,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's net income. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities please see the Marketable Securities section below.

During the quarter ended September 30, 2005, the Company recorded an impairment loss on other investments of \$58,000. There were no such losses recorded in the comparative quarter ended September 30, 2004.

Other income decreased to \$13,000 from \$86,000 primarily as the result of the receipt of \$69,000 in additional fees from Justice Investors for management's work in the positioning of the hotel during the three months ended September 30, 2004.

General and administrative expenses decreased to \$338,000 for three months ended September 30, 2005 from \$381,000 for the three months ended September 30, 2004. This decrease is the result of management's cost cutting efforts.

The provision for income tax benefit(expense) changed to a benefit of \$778,000 for the three months ended September 30, 2005 from an expense of \$102,000 for the three months ended September 30, 2004 due to the significant pre-tax loss incurred by the Company in the current quarter.

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Minority interest benefit decreased to \$321,000 from \$645,000 as the result of the lower losses incurred by the Company's subsidiary, Santa Fe, in the current quarter.

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### MARKETABLE SECURITIES

The Company's investment portfolio is diversified with 57 different equity positions. The portfolio contains six individual equity securities that are more than 5% of the equity value of the portfolio with the largest security being 9.9% of the value of the portfolio. The amount of the Company's investment in any particular issuer may increase or decrease, and additions or deletions to its securities portfolio may occur, at any time. While it is the internal policy of the Company to limit its initial investment in any single equity to less than 5% of its total portfolio value, that investment could eventually exceed 5% as a result of equity appreciation or reduction of other positions. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date.

As of September 30, 2005, the Company had investments in marketable equity securities of \$23,357,000. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as of September 30, 2005.

Industry Group	Market Value	% of Total Investment Securities
-----	-----	-----
Paper mills, steel mills and gold	\$ 5,944,000	25.4%
Telecommunications and media	5,822,000	24.9%
Insurance, banks and brokers	4,448,000	19.0%
Real estate invest trusts(REITs)	3,243,000	13.9%
Electric, pipelines, oil and gas	1,535,000	6.6%
Consumer goods and restaurants	973,000	4.2%
Motor vehicle parts	790,000	3.4%
Other	602,000	2.6%
	-----	-----
	\$23,357,000	100.0%
	=====	=====

The following table shows the net loss on the Company's marketable securities and the associated margin interest and trading expenses for the three ended September 30, 2005 and 2004, respectively.

For the three months ended	September 30, 2005	September 30, 2004
	-----	-----
Net losses on marketable securities	\$ (11,000)	\$ (4,627,000)
Impairment loss on other investments	(58,000)	-
Dividend & interest income	302,000	292,000
Margin interest expense	(173,000)	(252,000)
Trading and management expenses	(387,000)	(324,000)
	-----	-----
Investment loss	\$ (327,000)	\$ (4,911,000)
	=====	=====

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### FINANCIAL CONDITION AND LIQUIDITY

The Company's cash flows are generated primarily from its real estate activities, sales of investment securities and borrowings related to both. During the three months ended September 30, 2005, operating activities used cash of \$692,000, investing activities provided cash of \$3,621,000 and financing activities used cash of \$3,007,000.

During the three months ended September 30, 2005, the Company made property improvements in the aggregate amount of \$164,000. Management believes the improvements to its properties will enhance market values, maintain the competitiveness of the Company's properties and potentially enable the Company to obtain a higher yield through higher rents.

In August 2005, the Company sold its 112-unit apartment complex located in Austin, Texas for \$4,400,000 and realized a net loss on the sale real estate of \$24,000. The Company received net proceeds of \$1,664,000 after selling costs and attorney's fees and the repayment of the mortgage note in the amount of \$2,186,000. A portion of the net proceeds from the sale was used to pay down the Company's line of credit by \$255,000.

On May 3, 2004, Justice entered into a settlement agreement with the hotel lessee, Felcor, to resolve disputes regarding certain obligations of Felcor and others under the terms of the hotel lease. Pursuant to the settlement, Felcor paid the sum of \$5,000,000 to Justice towards the costs of capital repairs, replacements and maintenance necessary to place the hotel into the condition required at the end of the lease. Felcor also agreed to terminate its leasehold estate and surrendered possession of the hotel to the Partnership on June 30, 2004, at which time Justice assumed the role as owner-operator of the property.

To assist in the day-to-day operations of the hotel, Justice entered into a third party management agreement with Dow Hotel Company, effective July 1, 2004. The termination of the hotel lease also made it possible for the Partnership to seek a new franchise agreement for the hotel. Those efforts were successful and culminated with Justice entering into a Franchise License Agreement (the "Hilton Franchise Agreement"), on December 10, 2004, for the right to operate the hotel property as a Hilton brand hotel.

Prior to operating the hotel as a Hilton, the Partnership is required to make substantial renovations to the hotel to meet Hilton standards in accordance with a product improvement plan agreed upon by Hilton and the Partnership, as well as complying with other brand standards. The Partnership currently estimates that the cost of the renovation project will be approximately \$34 million. That amount includes approximately \$29 million for the actual cost of the renovations and approximately \$5 million for construction interest and estimated carrying costs of operations during the renovation period. The Hilton Franchise Agreement requires that those renovations be complete and the Hotel commence operations as a Hilton hotel no later than June 1, 2006.

Effective, May 31, 2005, the Partnership elected to close down its Hotel operations to complete the renovations of the Hotel as required by the Hilton Franchise Agreement. It is anticipated that the Hotel will be closed until the first part of 2006 before it reopens as the "Hilton San Francisco Financial District". The below ground parking garage and Tru Spa located on the lobby level of the Hotel, both of which are lessees of the Partnership, will remain open during the renovation work.

As the Partnership transitions from a lessor of the hotel to an owner-operator, cash flows will be dependent on net income from the operations of the hotel and

not from a lease with a guaranteed rent. That uncertainty increases the amount of risk for the Company, but also provides an opportunity for a greater share of the profits in good economic times with the repositioning of the hotel. Although the Partnership is not expected to see an improvement in cash flows until the Hotel reopens in the first part of 2006, it believes that the renovations to the Hotel, the new management structure and the new Hilton brand will make the Hotel more competitive in the future. There will be a negative impact on the revenues from the hotel garage during the transition period due to the shut down of the Hotel operations. Evon has entered into a management agreement with a new garage operator, effective September 1, 2005, and it is expected that the new operator will take affirmative steps to help minimize the loss of garage revenues during the transition period.

As discussed above, the Partnership will be expending significant amounts of money to renovate and reposition the Hotel as Hilton. During that transition period, the Hotel will be shut down and revenues to the Partnership will be limited to rentals received from the parking garage and Tru Spa. Thus, it is expected that the Partnership will continue to incur losses during that time. To meet its substantial financial commitments for the renovation project, Justice will have to rely on additional borrowings to meet its obligations.

On July 27, 2005, Justice entered into a first mortgage loan (the "Prudential Loan") with The Prudential Insurance Company of America in a principal amount of \$30,000,000. The term of the Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Loan calls for monthly installments of principal and interest in the amount of approximately \$165,100, calculated on a 360 month amortization schedule. The Loan is collateralized by a first deed of trust on the Partnership's Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Loan is without recourse to the limited and general partners of Justice.

On July 27, 2005, Justice also obtained a \$10,000,000 Revolving Line of Credit ("LOC") from United Commercial Bank. The term of the LOC is for 60 months at an annual interest rate based on the index selected by Justice at the time of the request for each advance. The interest rate will either be a variable rate equal to The Wall Street Journal Prime Rate or the Libor Rate plus 2%, fixed for the period selected by the Partnership. The LOC is collateralized by a second deed of trust on the Hotel property. Interest only is payable monthly with principal and accrued interest due at maturity. As of September 30, 2005, \$1,000,000 of the LOC was utilized by the Partnership.

From the proceeds of the Prudential Loan, the Partnership retired its existing line of credit in the approximate amount of \$7,436,000, including accrued interest, and paid off a short term uncollateralized line of credit from United Commercial Bank in the amount of \$2,007,000, including accrued interest. Justice believes that the Prudential Loan and the LOC will provide sufficient financial resources for the Partnership to complete the substantial renovations to the Hotel required by its Franchise License Agreement with Hilton and to meet its debt service requirements and operating capital needs through the reopening of the Hotel in the early part of 2006. The Partnership believes that, after the reopening of the Hotel, the revenues expected to be generated from the Hotel operations will be sufficient to meet all of its current and future obligations and financial requirements.

That additional amount of leverage related to the Prudential Loan and the utilization of the LOC and the associated debt service will create additional risk for the Partnership and its ability to generate cash flows in the future since the Hotel asset has been virtually debt free for many years. The Partnership does not anticipate paying any partnership distributions until some

time after operations commence under the Hilton brand and net income and capital requirements warrant such distributions. As a result, the Company may have to depend more on the revenues generated from the investment of its cash and securities assets during that transition period.

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

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

#### OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

The Company also does not have any material contractual obligations or commercial commitments.

#### IMPACT OF INFLATION

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

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

#### CRITICAL ACCOUNTING POLICIES

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

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

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## Item 3. Controls and Procedures

### (a) Disclosure Controls and Procedures.

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

### (b) Internal Control Over Financial Reporting.

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

## PART II. OTHER INFORMATION

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

(a) None.

(b) Not applicable.

(c) Purchases of equity securities by the small business issuer and affiliated purchasers.

### SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

2005 Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (Jul. 1- Jul. 31)	20,645	\$16.51	20,645	75,796
Month #2 (Aug. 1- Aug. 31)	2,300	\$15.01	2,300	73,496
Month #3 (Sep. 1-	-	-	-	73,496

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Sep. 30)

Total	22,945	\$16.35	22,945	73,496
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The Company currently has only one stock repurchase program. The program was initially announced on January 13, 1998 and was first amended on February 10, 2003. The total number of shares authorized to be repurchased was 720,000, adjusted for stock splits. On October 12, 2004, the Board of Directors authorized the Company to purchase up to an additional 150,000 shares of Company's common stock, increasing the total remaining number of shares authorized for repurchase to 152,941. The program has no expiration date and can be amended from time to time in the discretion of the Board of Directors. No plan or program expired during the period covered by the table.

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

(a) Exhibits

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

(b) Reports on Form 8-K:

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

SIGNATURES

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

THE INTERGROUP CORPORATION  
 (Registrant)

Date: November 10, 2005 by /s/ John V. Winfield  
 -----  
 John V. Winfield, President,  
 Chairman of the Board and  
 Chief Executive Officer

Date: November 10, 2005 by /s/ David T. Nguyen

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

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