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INTERGROUP CORP
Form 10-Q
February 13, 2009

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

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2008

☐ 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 registrant 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

(Registrant's telephone number)

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

Indicate by check mark whether the registrant is a 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 Exchange Act.) ☐ Yes ☒ No

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

THE INTERGROUP CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2008 (Unaudited)	June 30, 2008 (Audited)
ASSETS	-----	-----
Investment in hotel, net	\$ 46,800,000	\$ 48,122,000
Investment in real estate, net	64,468,000	65,296,000
Properties held for sale	7,110,000	7,064,000
Investment in marketable securities	6,741,000	6,706,000
Other investments, net	7,056,000	6,798,000
Cash and cash equivalents	583,000	1,906,000
Restricted cash	1,814,000	1,653,000

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Other assets, net	4,389,000	3,796,000
Minority interest of Justice Investors	7,122,000	6,793,000
	-----	-----
Total assets	\$146,083,000	\$148,134,000
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and other liabilities	\$ 11,589,000	\$ 10,462,000
Due to securities broker	2,795,000	2,633,000
Line of credit	1,756,000	4,975,000
Mortgage notes payable - hotel	47,124,000	47,482,000
Mortgage notes payable - real estate	61,444,000	61,433,000
Mortgage notes payable - property held for sale	10,776,000	10,313,000
Deferred income taxes	2,138,000	2,086,000
	-----	-----
Total liabilities	137,622,000	139,384,000
	-----	-----
Minority interest	3,130,000	3,621,000
	-----	-----
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$.01 par value, 100,000 shares authorized; none issued		
Common stock, \$.01 par value, 4,000,000 shares authorized; 3,204,653 issued, 2,351,273 outstanding	32,000	32,000
Additional paid-in capital	8,959,000	8,791,000
Retained earnings	5,491,000	5,457,000
Treasury stock, at cost, 853,380 shares	(9,151,000)	(9,151,000)
	-----	-----
Total shareholders' equity	5,331,000	5,129,000
	-----	-----
Total liabilities and shareholders' equity	\$146,083,000	\$148,134,000
	=====	=====

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 December 31,	2008	2007
	-----	-----
Hotel operations:		
Hotel and garage revenue	\$ 8,644,000	\$ 9,619,000
Operating expenses	(7,101,000)	(8,222,000)
Real estate taxes	(176,000)	(177,000)
Interest expense	(724,000)	(703,000)
Depreciation and amortization	(1,169,000)	(1,121,000)
Loss on termination of garage lease	(684,000)	-
	-----	-----
Loss from hotel operations	(1,210,000)	(604,000)

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Real estate operations:		
Rental income	3,180,000	3,125,000
Property operating expense	(1,319,000)	(1,183,000)
Real estate taxes	(364,000)	(290,000)
Mortgage interest expense	(857,000)	(856,000)
Depreciation	(534,000)	(547,000)
Income from real estate operations	106,000	249,000
Investment transactions:		
Net gain on marketable securities	445,000	1,375,000
Dividend and interest income	47,000	59,000
Margin interest and trading expenses	(301,000)	(373,000)
Income from investment transactions	191,000	1,061,000
General and administrative expense	(423,000)	(402,000)
Income(loss) before income tax and minority interest	(1,336,000)	304,000
Minority interest - Justice Investors, pre-tax	-	257,000
Income(loss) before income tax	(1,336,000)	561,000
Income tax benefit(expense)	276,000	(190,000)
Income(loss) before minority interest	(1,060,000)	371,000
Minority interest, net of tax	414,000	(68,000)
Income(loss) from continuing operations	(646,000)	303,000
Discontinued operations:		
Income from discontinued operations	49,000	66,000
Provision for income tax expense	(18,000)	(22,000)
Income from discontinued operations	31,000	44,000
Net (loss)income	\$ (615,000)	\$ 347,000
Net (loss)income per share from continuing operations		
Basic	\$ (0.27)	\$ 0.13
Diluted	\$ (0.27)	\$ 0.11
Net income per share from discontinued operations		
Basic	\$ 0.01	\$ 0.02
Diluted	\$ 0.01	\$ 0.02
Net (loss)income per share		
Basic	\$ (0.26)	\$ 0.15
Diluted	\$ (0.26)	\$ 0.13
Weighted average shares outstanding	2,354,403	2,352,395

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Diluted weighted average shares outstanding	2,429,403	2,735,645
	=====	=====

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 six months ended December 31,	2008	2007
	-----	-----
Hotel operations:		
Hotel and garage revenue	\$ 17,943,000	\$ 19,405,000
Operating expenses	(14,166,000)	(16,557,000)
Real estate taxes	(353,000)	(354,000)
Interest expense	(1,443,000)	(1,405,000)
Depreciation and amortization	(2,316,000)	(2,251,000)
Loss on termination of garage lease	(684,000)	-
	-----	-----
Loss from hotel operations	(1,019,000)	(1,162,000)
	-----	-----
Real estate operations:		
Rental income	6,406,000	6,124,000
Property operating expense	(2,592,000)	(2,275,000)
Real estate taxes	(730,000)	(676,000)
Mortgage interest expense	(1,717,000)	(1,798,000)
Depreciation	(1,083,000)	(1,097,000)
	-----	-----
Income from real estate operations	284,000	278,000
	-----	-----
Investment transactions:		
Net gain(loss) on marketable securities	2,088,000	(2,000)
Impairment loss on other investments	(595,000)	(125,000)
Dividend and interest income	107,000	112,000
Margin interest and trading expenses	(639,000)	(805,000)
	-----	-----
Income(loss) from investment transactions	961,000	(820,000)
	-----	-----
General and administrative expense	(804,000)	(831,000)
	-----	-----
Loss before income tax and minority interest	(578,000)	(2,535,000)
Minority interest - Justice Investors, pre-tax	(96,000)	535,000
	-----	-----
Loss before income tax	(674,000)	(2,000,000)
Income tax benefit	1,000	793,000
	-----	-----
Loss before minority interest	(673,000)	(1,207,000)
Minority interest, net of tax	626,000	341,000
	-----	-----
Loss from continuing operations	(47,000)	(866,000)
	-----	-----

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Discontinued operations:

Income from discontinued operations	134,000	28,000
Gain on sale of real estate	-	4,074,000
Provision for income tax expense	(53,000)	(1,626,000)
	-----	-----
Income from discontinued operations	81,000	2,476,000
	-----	-----
Net income	\$ 34,000	\$ 1,610,000
	=====	=====

Net loss per share from continuing operations

Basic	\$ (0.02)	\$ (0.37)
	=====	=====
Diluted	\$ (0.02)	\$ (0.37)
	=====	=====

Net income per share from discontinued operations

Basic	\$ 0.03	\$ 1.05
	=====	=====
Diluted	\$ 0.03	\$ 1.05
	=====	=====

Net income per share

Basic	\$ 0.01	\$ 0.68
	=====	=====
Diluted	\$ 0.01	\$ 0.68
	=====	=====

Weighted average shares outstanding	2,352,788	2,352,373
	=====	=====
Diluted weighted average shares outstanding	2,427,788	2,735,623
	=====	=====

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 six months ended December 31,	2008	2007
	-----	-----
Cash flows from operating activities:		
Net income	\$ 34,000	\$ 1,610,000
Adjustments to reconcile net income to cash provided by(used in) operating activities:		
Depreciation and amortization	3,399,000	3,348,000
Loss on termination of garage lease	684,000	-
Impairment loss on other investments	595,000	125,000
Gain on sale of real estate	-	(4,074,000)
Net unrealized (gain)loss on investments	(951,000)	112,000
Minority interest	(530,000)	(876,000)
Stock compensation expense	72,000	72,000
Changes in assets and liabilities:		
Investment in marketable securities	916,000	2,418,000

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Other investments	(853,000)	(2,225,000)
Other asset	(448,000)	(343,000)
Accounts payable and other liabilities	250,000	(171,000)
Due to securities broker	162,000	(1,332,000)
Obligation for securities sold	-	(1,286,000)
Deferred tax liability	52,000	833,000
	-----	-----
Net cash provided by(used in) operating activities	3,382,000	(1,789,000)
	-----	-----
Cash flows from investing activities:		
Net proceeds from sale of real estate	-	7,739,000
Investment in hotel	(801,000)	(2,314,000)
Investment in real estate	(301,000)	(767,000)
Restricted cash	(161,000)	2,460,000
Invest in Portsmouth	(7,000)	(28,000)
Invest in Santa Fe	(3,000)	(77,000)
	-----	-----
Net cash (used in)provided by investing activities	(1,273,000)	7,013,000
	-----	-----
Cash flows from financing activities:		
Borrowings from mortgage notes payable	1,004,000	6,850,000
Principal payments on mortgage notes payable	(888,000)	(12,880,000)
Paydown of line of credit	(3,219,000)	(300,000)
Distributions to minority partner	(425,000)	(500,000)
Exercise of stock options	96,000	-
Purchase of treasury stock	-	(2,000)
	-----	-----
Net cash used in financing activities	(3,432,000)	(6,832,000)
	-----	-----
Net decrease in cash and cash equivalents	(1,323,000)	(1,608,000)
Cash and cash equivalents at beginning of period	1,906,000	2,158,000
	-----	-----
Cash and cash equivalents at end of period	\$ 583,000	\$ 550,000
	=====	=====
Supplemental information:		
Interest paid	\$ 3,575,000	\$ 3,759,000
Non cash investing activities:		
Note payable on termination of garage lease	\$ (727,000)	\$ -
	=====	=====
Fixed assets acquired, net of liabilities, upon termination of garage lease	\$ 43,000	\$ -
	=====	=====

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

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THE INTERGROUP CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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The 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 consolidated financial statements prepared in accordance with generally accepted accounting principles 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 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.

As of December 31, 2008, the Company had the power to vote 79.9% 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 revenue is primarily generated through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), a public company (OTCBB: PRSI). InterGroup also directly owns approximately 11.7% of the common stock of Portsmouth. Portsmouth has a 50.0% limited partnership interest in Justice Investors, a California limited partnership ("Justice" or the "Partnership") and serves as one of the two general partners. The other general partner, Evon Corporation ("Evon") served as the managing general partner until December 1, 2008. As further discussed in Note 2, the Limited Partnership Agreement was amended, effective December 1, 2008, to provide for a change in the respective roles of the general partners. Pursuant to that amendment, Portsmouth became the Managing General Partner of Justice while Evon assumed the role of Co-General Partner of Justice. The financial statements of Justice are consolidated with those of the Company.

Justice owns a 544 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 parking garage. The Hotel was temporarily closed for major renovations from May 2005 to January 2006. The total construction costs related to the renovation project was approximately \$37 million.

The Hotel is operated by the Partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. Justice has a Management Agreement with Prism Hospitality L.P. ("Prism") to perform the day-to-day management functions of the Hotel. Until September 30, 2008, the Partnership also derived income from the lease of the parking garage to Evon. As further discussed in Note 10, effective October 1, 2008, Justice entered into an installment sale agreement with Evon to purchase the remaining term of the garage lease and related garage assets. Justice also leases a portion of the lobby level of the Hotel to a day spa operator. 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.

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In addition to the operations of the Hotel, the Company also generates income from the ownership of real estate. Properties include apartment complexes, commercial real estate, and two single-family houses as strategic investments. The properties are located throughout the United States, but are concentrated in Texas and Southern California. The Company also has investments in

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unimproved real property. Most of the Company's residential rental properties, are managed by professional third party property management companies.

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

It is suggested that these financial statements be read in conjunction with the audited financial statements and the notes therein included in the Company's Form 10-KSB for the year ended June 30, 2008.

The results of operations for the three and six months ended December 31, 2008 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2009.

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 162 (SFAS No. 162), The Hierarchy of Generally Accepted Accounting Principles. This new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. SFAS No. 162 is effective on November 15, 2008. SFAS No. 162 did not have a significant impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, and amendment to Accounting Research Bulletin (ARB) No. 51," (SFAS No. 160). This standard prescribes the accounting by a parent company for minority interests held by other parties in a subsidiary of the parent company. SFAS No. 160 is effective for the Company for fiscal year ending June 30, 2010. The Company is currently assessing the impact of SFAS No. 160 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), which replaces SFAS No. 141. SFAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after an entity's fiscal year that begins after December 15, 2008. The provisions of SFAS 141R are effective for the Company for the fiscal year ending June 30, 2010. The Company is currently assessing the impact of SFAS 141R on its financial statements.

Properties held for sale - Discontinued Operations

Properties are classified as held for sale when management commits to a plan to sell the asset, the asset is available for immediate sale, an active program to locate a buyer has been initiated, the sale of the asset is probable, the sale of the asset is actively marketed and it is unlikely that significant changes

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to the sale plan will be made or withdrawn. As of December 31, 2008, the Company had two properties classified as held for sale in accordance with SFAS No. 144, which requires that depreciation on these properties be stopped.

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Under the provisions of the Statement of Financial Accounting Standards No.144, Accounting for Impairment or Disposal of Long-Lived Assets, for properties disposed of 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 and six months ended December 31, 2008 and 2007 and reported as income from discontinued operations in the consolidated statements of operations.

Minority Interest

Minority interests in the net assets and earnings or losses of consolidated subsidiaries are reflected in the caption "Minority interest" in the Company's condensed consolidated balance sheet and condensed consolidated statements of operations. Minority interest adjusts the Company's consolidated results of operations to reflect only the Company's share of the earnings or losses of the consolidated subsidiaries. As of December 31, 2008 and June 30, 2008, the Company reported the minority interest of Justice Investors as an asset in the condensed consolidated balance sheet as the result of the accumulated deficit at Justice Investors. The accumulated deficit was primarily attributable to the temporary closing of the Hotel to undergo major renovations from May 2005 to January 2006 and subsequent net losses incurred by Justice due to substantial depreciation and amortization costs resulting from the renovations and operating losses as the Hotel ramped up operations after reopening. The Company expects the Hotel to be profitable in the future and the minority interest asset to be recoverable. Additionally, management believes that there is more than sufficient equity in the Hotel to support the carrying value of this asset on the Company's consolidated financial statements. However, due to impact that the sharp deterioration of the U.S. economy has had on the lodging sector since September 2008, and facing the prospect of a significant recession for the immediate future, the Company believed that it would be most appropriate not to add to the existing minority interest asset of \$7,122,000 balance beginning in the quarterly period ended December 31, 2008. As the result, the Company did not record a minority interest benefit of \$608,000 representing 50% of the loss from the hotel operations on its consolidated statement of operations for the three ended December 31, 2008.

Earnings Per Share

Basic income(loss) per share is computed by dividing net income(loss) available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted income(loss) 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. As of December 31, 2008, the Company had 75,000 stock options that were considered potentially dilutive common shares and 42,000 stock options that were considered anti-dilutive. As of December 31, 2007, the Company had 383,250 stock options that were considered potentially dilutive common shares and 21,750 stock options that were considered anti-dilutive.

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NOTE 2 - JUSTICE INVESTORS PARTNERSHIP AMENDMENTS

On December 1, 2008, Portsmouth and Evon, as the two general partners of

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Justice, entered into a 2008 Amendment to the Limited Partnership Agreement (the "Amendment") that provides for a change in the respective roles of the general partners. Pursuant to the Amendment, Portsmouth will assume the role of Managing General Partner and Evon will continue on as the Co-General Partner of Justice. The Amendment was ratified by approximately 98% of the limited partnership interests. The Amendment also provides that future amendments to the Limited Partnership Agreement may be made only upon the consent of the general partners and at least seventy five percent (75%) of the interests if the limited partners. Consent of at least 75% of the interests of the limited partners will also be required to remove a general partner pursuant to the Amendment.

Concurrent with the Amendment to the Limited Partnership Agreement, a new General Partner Compensation Agreement (the "Compensation Agreement") was entered into on December 1, 2008, among Justice, Portsmouth and Evon to terminate and supersede all prior compensation agreement for the general partners. Pursuant to the Compensation Agreement, the general partners of Justice will be entitled to receive an amount equal to 1.5% of the gross annual revenues of the Partnership (as defined), less \$75,000 to be used as a contribution toward the cost of Justice engaging an asset manager. In no event shall the annual compensation be less than a minimum base of approximately \$285,000, with eighty percent (80%) of that amount being allocated to Portsmouth for its services as managing general partner and twenty percent (20%) allocated to Evon as the co-general partner. Compensation earned by the general partners in each calendar year in excess of the minimum base, will be payable in equal fifty percent (50%) shares to Portsmouth and Evon.

NOTE 3 - INVESTMENT IN HOTEL, NET

Hotel property and equipment consisted of the following:

As of December 31, 2008	Cost	Accumulated Depreciation	Net Book Value
	-----	-----	-----
Land	\$ 2,738,000	\$ -	\$ 2,738,000
Furniture and equipment	15,852,000	(8,805,000)	7,047,000
Building and improvements	53,870,000	(16,855,000)	37,015,000
	-----	-----	-----
	\$ 72,460,000	\$ (25,660,000)	\$ 46,800,000
	=====	=====	=====

As of June 30, 2008	Cost	Accumulated Depreciation	Net Book Value
	-----	-----	-----
Land	\$ 2,738,000	\$ -	\$ 2,738,000
Furniture and equipment	16,279,000	(8,005,000)	8,274,000
Building and improvements	53,486,000	(16,376,000)	37,110,000
	-----	-----	-----
	\$ 72,503,000	\$ (24,381,000)	\$ 48,122,000
	=====	=====	=====

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NOTE 4 - INVESTMENT IN REAL ESTATE

Investment in real estate included the following:

December 31, 2008	June 30, 2008
-----	-----

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Land	\$ 24,735,000	\$ 24,735,000
Buildings, improvements and equipment	61,037,000	60,778,000
Accumulated depreciation	(21,304,000)	(20,217,000)
	-----	-----
	\$ 64,468,000	\$ 65,296,000
	=====	=====

In July 2008, the Company modified the mortgage on its 264-unit apartment complex located in St. Louis, Missouri and borrowed an additional \$500,000. As of December 31, 2008, the outstanding balance of the note was \$6,150,000. The term and the interest rate on the note remain the same.

In October 2008, the Company refinanced the mortgage on its 132-unit apartment located in San Antonio, Texas and obtained a new mortgage loan in the amount of \$2,850,000. The interest rate on the loan was fixed at 5.26% and the loan matures in October 2011. In December 2008, the Company modified this loan and borrowed an additional \$504,000. As part of the loan modification, the fixed interest rate on the loan was reduced to 5.0% with no change to the maturity date.

NOTE 5 - PROPERTY HELD FOR SALE AND DISCONTINUED OPERATIONS

As of December 31, 2008, the Company had listed for sale its 249-unit apartment building located in Austin, Texas and its 132-unit apartment located in San Antonio, Texas (both classified as Held for Sale on the balance sheet). Under the provisions of the Statement of Financial Accounting Standards No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, for properties disposed of or listed for sale during the year, the revenues and expenses are accounted for under discontinued operations in the statement of operations. The revenues and expenses from the operation of these two properties have been reclassified from continuing operations for the three and six months ended December 31, 2008 and 2007 and are reported as income(loss) from discontinued operations in the consolidated statements of operations.

In August 2007, the Company sold its 224-unit apartment complex located in Irving, Texas for \$8,050,000 and recognized a gain on the sale of real estate of \$4,074,000. The Company received net proceeds after selling costs of \$7,739,000 and paid off the related outstanding mortgage note payable of \$4,007,000.

The revenues and expenses from the operation of these three properties during the three and six months ended December 31, 2008 and 2007, are summarized as follows:

For the three months ended December 31,	2008	2007
	-----	-----
Revenues	\$ 661,000	\$ 663,000
Expenses	(612,000)	(597,000)
	-----	-----
Income	\$ 49,000	\$ 66,000
	=====	=====

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For the six months ended December 31,	2008	2007
	-----	-----

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Revenues	\$1,318,000	\$ 1,493,000
Expenses	(1,184,000)	(1,465,000)
	-----	-----
Income	\$ 134,000	\$ 28,000
	=====	=====

NOTE 6 - 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 inure to its shareholders through income and/or capital gain.

At December 31, 2008, 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:

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Fair Value
-----	-----	-----	-----	-----	-----
As of December 31, 2008					
Corporate Equities	\$ 4,954,000	\$3,021,000	(\$1,234,000)	\$1,787,000	\$6,741,000

As of June 30, 2008

Corporate Equities	\$ 5,869,000	\$ 2,127,000	(\$1,290,000)	\$ 837,000	\$6,706,000
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As of December 31, 2008 and June 30, 2008, the Company had unrealized losses of \$754,000 and \$708,000, respectively, related to securities held for over one year.

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 net gain(loss) for the three and six months ended December 31, 2008 and 2007, respectively.

For the three months ended December 31,	2008	2007
	-----	-----
Realized gain on marketable securities	\$ 55,000	\$ 357,000
Unrealized gain on marketable securities	390,000	1,018,000
	-----	-----
Net gain on marketable securities	\$ 445,000	\$ 1,375,000
	=====	=====

For the six months ended December 31,	2008	2007
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Realized gain on marketable securities	\$ 1,137,000	\$ 110,000
Unrealized gain(loss) on marketable securities	951,000	(112,000)
Net gain(loss) on marketable securities	\$ 2,088,000	\$ (2,000)

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NOTE 7 - OTHER INVESTMENTS

The Company may also invest, with the approval of the Securities Investment Committee, 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.

As of December 31, 2008 and June 30, 2008, the Company had net other investments of \$7,056,000 and \$6,798,000, respectively, which consist of the following:

Type	December 31, 2008	June 30, 2008
Private equity hedge fund	\$ 6,256,000	\$ 6,434,000
Corporate debt instruments	500,000	64,000
Other	300,000	300,000
	\$ 7,056,000	\$ 6,798,000

In accordance with Emerging Issues Task Force No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", the Company recorded impairment losses of \$595,000 and \$125,000, respectively, during the six months ended December 31, 2008 and 2007.

NOTE 8 - FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective as of the beginning of the Company's 2009 fiscal year. In February 2008, the FASB deferred the effective date of SFAS No. 157 for non-financial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis until the beginning of fiscal year 2010. The Company adopted SFAS No. 157 with respect to financial assets and liabilities on July 1, 2008. There was no material effect on the financial statements upon adoption of this new accounting pronouncement. The impact on the financial statements from adoption of SFAS No. 157 as it pertains to non-financial assets and liabilities has not yet been determined.

SFAS No. 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

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Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

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Level 3: Unobservable inputs that reflect the reporting entity's own assumptions

The assets measured at fair value on a recurring basis as of December 31, 2008 are as follows:

Assets:	Level 1	Level 2	Level 3	December 31, 2008
-----	-----	-----	-----	-----
Cash	\$ 583,000	\$ -	\$ -	\$ 583,000
Restricted cash	1,814,000	-	-	1,814,000
Investment in marketable securities	6,741,000	-	-	6,741,000
	-----	-----	-----	-----
	\$9,138,000	\$ -	\$ -	\$9,138,000
	=====	=====	=====	=====

The fair values of investments in marketable securities are determined by the most recently traded price of each security at the balance sheet date.

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 an impairment. The following table shows the fair value hierarchy for these assets measured at fair value on a non-recurring basis as of December 31, 2008:

Assets:	Level 1	Level 2	Level 3	December 31, 2008	Loss f six mon Decembe
-----	-----	-----	-----	-----	-----
Other non-marketable investments	\$ -	\$ -	\$7,056,000	\$7,056,000	\$ (59

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. 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.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB

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Statement No. 115." SFAS No. 159 provides entities with an irrevocable option to report selected financial assets and financial liabilities at fair value. It also establishes presentation and disclosure requirements that are designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company adopted SFAS No. 159 on July 1, 2008 and chose not to elect the fair value option for its financial assets and liabilities that had not been previously carried at fair value. Therefore, material financial assets and liabilities not carried at fair value, such as other assets, accounts payable, line of credit, and mortgage payables are reported at their carrying values.

NOTE 9 - LINES OF CREDIT

In April 2004, the Company obtained a revolving \$5,000,000 line of credit ("LOC"). The LOC carries a variable interest rate (lender's base rate plus 1%). Interest is paid on a monthly basis. During the quarter ended September 2008, the outstanding balance on the line of credit of \$3,462,000 was paid off. The LOC has matured as of September 30, 2008.

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On December 12, 2008, Justice obtained a modification and extension of its unsecured revolving line of credit facility from United California Bank ("UCB") which was to mature on February 2, 2009. The modification extends the term of the credit facility to February 2, 2010, but reduced the limit of funds available to the Partnership for short term capital for the Hotel's business operations from \$3,000,000 to \$2,500,000. The annual interest rate is based on an index selected by Justice at the time of advance, equal to the Wall Street Journal Prime Rate plus 1.0%, or the LIBOR Rate plus 3.5%, with an interest rate floor of 5% per annum. As of December 31, 2008, there was a balance of \$1,756,000 drawn by Justice under the line of credit facility, with an annual interest rate of 5% since the selected rate of Prime (3.25% as of December 31, 2008) plus 1% was less than the floor rate.

As of December 31, 2008, Justice was not in compliance with a financial covenant pertaining to the line of credit. The non-compliance resulted from the one-time, non-recurring loss of \$684,000 on the termination of the garage lease and related professional fees. The Company is working on obtaining a waiver of non-compliance from the bank and does not believe it will have a material impact on the financial statements.

NOTE 10 - TERMINATION OF GARAGE LEASE

Effective October 1, 2008, Justice and Evon entered into an Installment Sale Agreement whereby Justice purchased all of Evon's right title and interest in the remaining term of its lease of the parking garage, which was to expire on November 30, 2010, and other related assets. Justice also agreed to assume Evon's contract with Ace Parking for the management of the garage and any other liabilities related to the operation of the garage commencing October 1, 2008. The purchase price for the garage lease and related assets was approximately \$755,000, payable in one down payment of approximately \$28,000 and 26 equal monthly installments of approximately \$29,000, which includes interest at the rate of 2.4% per annum. During the three and six months ended December 31, 2008, the Company recorded a loss on the termination of the garage lease of \$684,000 on the Company's condensed consolidated statements of operations.

Future installment payments are as follows:

For the year ending June 30,

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2009	\$172,000
2010	345,000
2011	144,000

Total	\$661,000
	=====

As of December 31, 2008, the total installment liability of \$631,000 was included in the accounts payable and other liabilities balance of \$11,589,000 on the Company's condensed consolidated balance sheet.

NOTE 11 - STOCK BASED COMPENSATION PLANS

The Company follows the Statement of Financial Accounting Standards 123 (Revised), "Share-Based Payments" ("SFAS No. 123R") which addresses accounting for equity-based compensation arrangements, including employee stock options. Under SFAS No. 123R, compensation expense is recognized using the fair-value

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based method for all new awards granted after July 1, 2006. No stock options were issued by the Company after July 1, 2006. Additionally, compensation expense for unvested stock options that are outstanding at July 1, 2006 is recognized over the requisite service period based on the fair value of those options as previously calculated at the grant date under the pro-forma disclosures of SFAS 123. The fair value of each grant is estimated using the Black-Scholes option pricing model.

On December 7, 2008, the Company's 1998 Stock Option Plan for Key Officers and Employees expired; however, any outstanding options issued under that plan remain effective in accordance with their terms. Previously, the Company's 1998 Stock Option Plan for Non-Employee Directors Plan was terminated upon shareholder approval, and Board adoption, of the 2007 Stock Compensation Plan for Non-Employee Directors; however, any outstanding options under that plan remained effective in accordance with their terms. Those stock compensation plans are more fully described in Note 17 of the Company's Form 10-KSB for the fiscal year ended June 30, 2008.

On December 3, 2008, the Board of Directors of the Company adopted, subject to shareholder approval, a new equity compensation plan for its officers, directors and key employees on December 3, 2008, entitled, The InterGroup Corporation 2008 Restricted Stock Unit Plan (the "Plan"). The Plan was adopted, in part, to replace the stock option plans that expired on December 7, 2008. At the same time the Board adopted the Plan, the holders of more than 65.2% of the outstanding common stock of the Company executed written consents in favor of the adoption of the Plan and have committed to vote in favor of the ratification of the Plan at the Company's Annual Meeting of Shareholders to be held on February 18, 2009.

The Plan authorizes the Company to issue restricted stock units ("RSUs") as equity compensation to officers, directors and key employees of the Company on such terms and conditions established by the Compensation Committee of the Company. RSUs are not actual shares of the Company's common stock, but rather promises to deliver common stock in the future, subject to certain vesting requirements and other restrictions as may be determined by the Committee. Holders of RSUs have no voting rights with respect to the underlying shares of common stock and holders are not entitled to receive any dividends until the RSUs vest and the shares are delivered. No awards of RSUs shall vest until at

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least six months after shareholder approval of the Plan. Subject to certain adjustments upon changes in capitalization, a maximum of 200,000 shares of the common stock are available for issuance to participants under the Plan. The Plan will terminate ten (10) years from December 3, 2008, unless terminated sooner by the Board of Directors. After the Plan is terminated, no awards may be granted but awards previously granted shall remain outstanding in accordance with the Plan and their applicable terms and conditions.

Under the Plan, the Compensation Committee also has the power and authority to establish and implement an exchange program that would permit the Company to offer holders of awards issued under prior shareholder approved compensation plans to exchange certain options for new RSUs on terms and conditions to be set by the Committee. The exchange program is designed to increase the retention and motivational value of awards granted under Prior Plans. In addition, by exchanging options for RSUs, the Company will reduce the number of shares of common stock subject to equity awards, thereby reducing potential dilution to stockholders in the event of significant increases in the value of its common stock.

Pursuant to an exchange offer authorized by the Compensation Committee, a total of 5,812 RSUs were issued to four holders of Non-Employee Director stock options in exchange for a total of 36,000 stock options which were surrendered to the Company on December 7, 2008. The number of RSUs issued was determined by

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multiplying the number of options that were surrendered by the difference between the exercise price of the options surrendered (\$8.00) and the closing price of the Company's common stock on December 5, 2008 of \$9.54, with that product divided by the closing price of the common stock on December 5, 2009. No stock option compensation expense was recognized related to the exchange as the fair market value of the options immediately prior to the exchange, approximated the fair value of the RSUs on the day of issuance. On December 15, 2008, the Compensation Committee authorized a similar exchange offer to the Company's Chief Executive Officer ("CEO"), respecting 225,000 stock options issued to him under the 1998 Key Officer and Employee Plan that were to expire on December 21, 2008. Pursuant to that exchange offer, the Company's CEO surrendered his 225,000 options to the Company on December 21, 2008 in exchange for 84,628 RSUs. The number of RSUs issued was based on an exercise price of the options surrendered of \$7.917 and the closing price of the Company's common stock on December 19, 2008 of \$12.69, using the same formula as the exchange offer to the holders of the Non-Employee Director options. No stock option compensation expense was recognized related to the exchange as the fair market value of the options immediately prior to the exchange, approximated the fair value of the RSUs on the day of issuance. Although the Plan became effective upon adoption by the Board of Directors on December 3, 2008, the Plan shall be rescinded and all equity compensation granted under the Plan shall be null and void unless within six months from the date of the adoption of the Plan it is approved by the shareholders of the Company. All grants of restricted stock units were made subject to shareholder approval of the Plan and no awards of RSUs can vest until at least six months after such approval and are subject to such other restrictions and conditions as may be determined by the Compensation Committee and set forth in the award agreement to be executed after shareholder approval of the Plan.

The table below summarizes the RSUs granted and outstanding.

	Number of RSUs

Granted	90,440

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Outstanding at December 31, 2008 90,400
=====

In December 2008, a director exercised his 12,000 stock options and acquired 12,000 shares of the Company stock at \$8.00 per share. No stock compensation was recognized as compensation expense for these options as they were previously calculated at the grant date under the pro-forma disclosures of SFAS 123.

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The following table summarizes the stock options outstanding as of December 31, 2008:

	Number of Shares	Weighted-average Exercise Price
	-----	-----
Outstanding at June 30, 2007	405,000	\$9.91
Granted	-	-
Exercised	-	-
Forfeited	(15,000)	\$35.11
	-----	-----
Outstanding at June 30, 2008	390,000	\$9.13
Granted	-	-
Exercised	(12,000)	8.00
Forfeited	-	-
Exchanged	(261,000)	7.93
	-----	-----
Outstanding at December 31, 2008	117,000	\$11.91
	=====	=====
Exercisable at December 31, 2008	112,500	\$11.86
	=====	=====

The range of exercise prices for the outstanding and exercisable options as of December 31, 2008 are as follows:

	Number of Options	Range of Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Life
	-----	-----	-----	-----
Outstanding options	117,000	\$8.17-\$18.00	\$ 11.91	3.24 years
Exercisable options	112,500	\$8.17-\$18.00	\$ 11.86	3.29 years

NOTE 12 - SEGMENT INFORMATION

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

Information below represents reported segments for the three and six months ended December 31, 2008 and 2007. 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 for

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investment transactions consist of net investment gain(loss) and dividend and interest income.

As of and for the Three months ended December 31, 2008	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Subtotal
	-----	-----	-----	-----	-----
Operating income	\$ 8,644,000	\$ 3,180,000	\$ 492,000	\$ -	\$ 12,316,000
Operating expenses	(9,854,000)	(3,074,000)	(301,000)	-	(13,229,000)
	-----	-----	-----	-----	-----
Net operating income(loss)	(1,210,000)	106,000	191,000	-	(913,000)
General and administrative Expense	-	-	-	(423,000)	(423,000)
Income tax expense	-	-	-	276,000	276,000
Minority interest	-	-	-	414,000	414,000
	-----	-----	-----	-----	-----
Net income(loss)	\$(1,210,000)	106,000	\$ 191,000	\$ 267,000	\$ (646,000)
	=====	=====	=====	=====	=====
Total Assets	\$41,740,000	\$64,468,000	\$13,797,000	\$18,968,000	\$ 138,973,000
	=====	=====	=====	=====	=====

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As of and for the Three months ended December 31, 2007	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Subtotal
	-----	-----	-----	-----	-----
Operating income	\$ 9,619,000	\$ 3,125,000	\$ 1,434,000	\$ -	\$ 14,178,000
Operating expenses	(10,223,000)	(2,876,000)	(373,000)	-	(13,472,000)
	-----	-----	-----	-----	-----
Net operating income(loss)	(604,000)	249,000	1,061,000	-	706,000
General and administrative Expense	-	-	-	(402,000)	(402,000)
Income tax expense	-	-	-	(190,000)	(190,000)
Minority interest	257,000	-	-	(68,000)	189,000
	-----	-----	-----	-----	-----
Net income(loss)	\$ (347,000)	249,000	\$ 1,061,000	\$ (660,000)	\$ 303,000
	=====	=====	=====	=====	=====
Total Assets	\$52,268,000	\$66,105,000	\$22,627,000	\$ 9,600,000	\$ 150,600,000
	=====	=====	=====	=====	=====

As of and for the Six months ended December 31, 2008	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Subtotal
	-----	-----	-----	-----	-----
Operating income	\$17,943,000	\$ 6,406,000	\$ 2,195,000	\$ -	\$ 26,544,000
Operating expenses	(18,962,000)	(6,122,000)	(1,234,000)	-	(26,318,000)

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Net operating income(loss)	(1,019,000)	284,000	961,000	-	226,000
General and administrative					
Expense	-	-	-	(804,000)	(804,000)
Income tax expense	-	-	-	1,000	1,000
Minority interest	(96,000)	-	-	626,000	530,000
Net income(loss)	<u>\$ (1,115,000)</u>	<u>284,000</u>	<u>\$ 961,000</u>	<u>\$ (177,000)</u>	<u>\$ (47,000)</u>
Total Assets	<u>\$41,740,000</u>	<u>\$64,468,000</u>	<u>\$13,797,000</u>	<u>\$18,968,000</u>	<u>\$ 138,973,000</u>

As of and for the Six months ended December 31, 2007	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Subtotal
Operating income	\$19,405,000	\$ 6,124,000	\$ (15,000)	\$ -	\$ 25,514,000
Operating expenses	(20,567,000)	(5,846,000)	(805,000)	-	(27,218,000)
Net operating income(loss)	(1,162,000)	278,000	(820,000)	-	(1,704,000)
Gain on sale of real estate	-	-	-	-	-
General and administrative					
Expense	-	-	-	(831,000)	(831,000)
Income tax expense	-	-	-	793,000	793,000
Minority interest	535,000	-	-	341,000	876,000
Net income(loss)	<u>\$ (627,000)</u>	<u>278,000</u>	<u>\$ (820,000)</u>	<u>\$ 303,000</u>	<u>\$ (866,000)</u>
Total Assets	<u>\$52,268,000</u>	<u>\$66,105,000</u>	<u>\$22,627,000</u>	<u>\$ 9,600,000</u>	<u>\$ 150,600,000</u>

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NOTE 13 - 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.

Evon, a general partner of Justice, was the lessee of the parking garage until September 30, 2008. Under the terms of the lease agreement, Evon paid the Partnership \$319,000 and \$415,000 for the six months ended December 31, 2008 and 2007, respectively. As discussed in Note 10, Justice and Evon entered into an installment sale agreement whereby Justice purchased the remaining term of the lease agreement and related assets for a total of approximately \$755,000.

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

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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," "may," "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, 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-KSB for the fiscal year ended June 30, 2008, 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

The Company's principal business is conducted through its general and limited partnership interest in the Justice Investors limited partnership ("Justice" or the "Partnership"). The Company has a 50.0% limited partnership interest in Justice and serves as one of the general partners. Justice owns the land, improvements and leaseholds at 750 Kearny Street, San Francisco, California, known as the Hilton San Francisco Financial District (the "Hotel"). The financial statements of Justice have been consolidated with those of the Company.

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The Hotel is operated by the Partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. The term of the Agreement is for a period of 15 years commencing on January 12, 2006, with an option to extend the license term for another five years, subject to certain conditions. Justice also has a Management Agreement with Prism Hospitality L.P. ("Prism") to perform the day-to-day management functions of the Hotel.

Until September 30, 2008, the Partnership also derived income from the lease of the parking garage to Evon Corporation ("Evon") the other general partner of Justice. As discussed below, effective October 1, 2008, Justice entered into an installment sale agreement with Evon to purchase the remaining term of the garage lease and related garage assets. Justice also leases a portion of the lobby level of the Hotel to a day spa operator. 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 eighteen apartment complexes, two commercial real estate properties, and two single-family houses as strategic investments. The properties are located throughout

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the United States, but are concentrated in Texas and Southern California. The Company also has investments in unimproved real property. All of the Company's residential rental properties with exception of the San Antonio, Texas, Las Colinas, Texas and Morris County, New Jersey properties, are managed by professional third party property management companies.

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.

RECENT DEVELOPMENTS

Effective October 1, 2008, Justice and Evon entered into an Installment Sale Agreement whereby the Partnership purchased all of Evon's right title and interest in the remaining term of its lease of the parking garage, which was to expire on November 30, 2010, and other related assets. The partnership also agreed to assume Evon's contract with Ace Parking for the management of the garage and any other liabilities related to the operation of the garage commencing October 1, 2008. The purchase price for the garage lease and related assets was approximately \$755,000, payable in one down payment of approximately \$28,000 and 26 equal monthly installments of approximately \$29,000, which includes interest at the rate of 2.4% per annum.

On December 1, 2008, Portsmouth and Evon, as the two general partners of Justice, entered into a 2008 Amendment to the Limited Partnership Agreement (the "Amendment") that provides for a change in the respective roles of the general partners. Pursuant to the Amendment, Portsmouth will assume the role of Managing General Partner and Evon will continue on as the Co-General Partner of Justice. The Amendment was ratified by approximately 98% of the limited partnership interests. The Amendment also provides that future amendments to the Limited Partnership Agreement may be made only upon the consent of the general partners and at least seventy five percent (75%) of the interests if the limited partners. Consent of at least 75% of the interests of the limited partners will also be required to remove a general partner pursuant to the Amendment. A copy of the full text of the Amendment is filed as Exhibit 10.1 to this Report.

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Concurrent with the Amendment to the Limited Partnership Agreement, a new General Partner Compensation Agreement (the "Compensation Agreement") was entered into on December 1, 2008, among Justice, Portsmouth and Evon to terminate and supersede all prior compensation agreement for the general partners. Pursuant to the Compensation Agreement, the general partners of Justice will be entitled to receive an amount equal to 1.5% of the gross annual revenues of the Partnership (as defined), less \$75,000 to be used as a contribution toward the cost of Justice engaging an asset manager. In no event shall the annual compensation be less than a minimum base of approximately \$285,000, with eighty percent (80%) of that amount being allocated to Portsmouth for its services as managing general partner and twenty percent (20%) allocated to Evon as the co-general partner. Compensation earned by the general partners in each calendar year in excess of the minimum base, will be payable in equal fifty percent (50%) shares to Portsmouth and Evon. A copy of the full text of the Compensation Agreement is filed as Exhibit 10.2 to this Report.

Three Months Ended December 31, 2008 Compared to the Three Months Ended

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December 31, 2007

The Company had a net loss of \$615,000 for the three months ended December 31, 2008 compared to net income of \$347,000 for the three months ended December 31, 2007. As discussed in Note 1, the Company stopped recording a minority interest benefit in Justice Investors beginning the quarter ended December 31, 2008 resulting in the recording of an additional \$608,000 in net loss. During the three months ended December 31, 2008, the Company had a loss on hotel operations of \$1,210,000 compared to a loss of \$604,000 primarily due to one-time loss related to the termination of the hotel garage lease. During the same period, income from investment transactions decreased to \$191,000 for the three months ended December 31, 2008 from \$1,061,000 for the three months ended December 31, 2007. Income from real estate operations decreased to \$106,000 for the three months ended December 31, 2008 from \$249,000 for the three months ended December 31, 2007.

The following table sets forth a more detailed presentation of Hotel operations for the three months ended December 31, 2008 and 2007.

For the three months ended December 31,	2008	2007
	-----	-----
Hotel revenues:		
Hotel rooms	\$ 6,612,000	\$ 7,309,000
Food and beverage	1,268,000	1,659,000
Garage	571,000	421,000
Other operating departments	193,000	230,000
	-----	-----
Total hotel revenues	8,644,000	9,619,000
	-----	-----
Operating expenses excluding interest, depreciation and amortization	(7,277,000)	(8,399,000)
	-----	-----
Operating income	1,367,000	1,220,000
Loss on termination of garage lease	(684,000)	-
Interest expense	(724,000)	(703,000)
Depreciation and amortization expense	(1,169,000)	(1,121,000)
	-----	-----
Loss from hotel operations	\$ (1,210,000)	\$ (604,000)
	=====	=====

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For the three months ended December 31, 2008, the Hotel generated operating income of approximately \$1,367,000, before the loss on termination of garage lease, interest, depreciation and amortization, on operating revenues of approximately \$8,644,000 compared to operating income of approximately \$1,242,000 before interest, depreciation and amortization, on operating revenues of approximately \$9,619,000 for the three months ended December 31, 2007. The increase in Hotel operating income is primarily attributable to lower operating expenses and an increase in garage revenues partially offset by a decrease in room and food and beverage revenues. Management expects that the termination of the garage lease will result in greater operating income in the future and promote greater efficiencies with the garage operations now integrated into those of the Hotel.

Room revenues decreased by \$697,000 for the three months ended December 31, 2008 when compared to the three months ended December 31, 2007 and food and

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beverage revenues decreased by \$391,000 for the same periods. That decrease in revenues was attributable to both a lower average daily rate and occupancy percentage compared to the prior period. The decrease in operating expenses is primarily attributable to the decline in hotel occupancy during the current quarter and management's efforts to reduce operating costs and to achieve greater efficiencies.

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 December 31, 2008 and 2007.

Three Months Ended December 31, -----	Average Daily Rate -----	Average Occupancy% -----	RevPar -----
2008	\$166	79%	\$132
2007	\$171	85%	\$146

The operations of the Hotel were severely impacted by the dramatic downturn in the domestic and international economies and markets during the three months ended December 31, 2008. Average daily rate, occupancy and RevPar all declined compared to the three months ended December 31, 2007. That impact is expected to continue through fiscal 2009. If that remains true, we expect Hotel operating revenues to be less than fiscal 2008.

Facing an uncertain economy and the prospect of a lingering recession, management has continued to focus on ways to improve efficiencies and reduce operating costs and other expenses in its efforts to stabilize and maintain operating income of the Hotel. As a result of those efforts, we have seen further reductions in operating costs of the Hotel as a percentage of Hotel revenues for the three months ended December 31, 2008. Management has also increased its sales and marketing efforts in what has become an even more competitive hotel market in San Francisco as hotels have slashed rates in an effort to maintain occupancy levels. Management will also continue to explore new and innovative ways to improve operations and enhance the guest experience. One significant step was to move lunch and dinner service from the restaurant to the lounge to create a more intimate, yet lively, atmosphere and to complement the new wine bar "Flyte" in the lobby of the Hotel.

Income from real estate operations decreased to \$106,000 for the three months ended December 31, 2008 from \$249,000 for the three months ended December 31, 2007. Rental income increased to \$3,180,000 from \$3,125,000 while operating expense increased to \$1,319,000 from \$1,183,000. The increase in revenue and operating expenses are due of management's efforts to improve the competitiveness of the Company's properties through interior and exterior

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improvements as well as providing better service. Real estate taxes increased to \$364,000 for the three months ended December 31, 2008 from \$290,000 for the three months ended December 31, 2007 primarily as the result of increase taxes at the Company's properties located in Texas.

As of December 31, 2008, the Company had listed for sale its 249-unit apartment complex located in Austin, Texas and its 132-unit apartment complex located in San Antonio, Texas. These properties are classified as held for sale on the Company's condensed consolidated balance sheet with the operations of these properties classified under discontinued operations in the condensed consolidated statements of operations.

The Company had a net gain on marketable securities of \$445,000 for the three months ended December 31, 2008 compared to a net gain of \$1,375,000 for the

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three months ended December 31, 2007. For the three months ended December 31, 2008, the Company had a net realized gain of \$55,000 and a net unrealized gain of \$390,000. For the three months ended December 31, 2007, the Company had a net realized gain of \$357,000 and net unrealized gain of \$1,018,000. 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 please see the Marketable Securities section below.

Margin interest and trading expenses decreased to \$301,000 for the three months ended December 31, 2008 from \$373,000 for the three months ended December 31, 2007 primarily as the result of the decrease in margin interest expense related to the decrease in the use of margin.

As discussed in Note 1, during the three months December 31, 2008, the Company did not record a minority interest benefit of \$608,000 related to the loss at Justice Investors. In the comparable quarter ended December 31, 2007, the Company recorded a minority interest benefit of \$257,000.

The total provision for income tax changed to tax benefit of \$258,000 for the three months ended December 31, 2008 from an expense of \$212,000 for the three months ended December 31, 2007 primarily as the result of the Company having a pre-tax loss in the current quarter. As noted above and in Note 1, the Company did not record a pre-tax minority interest benefit for the three months ended December 31, 2008. As the result the effective tax rate during the three months ended December 31, 2008 is lower compared to the three months ended December 31, 2007.

Minority interest related to Portsmouth and Santa Fe changed to income of \$414,000 for the three months ended December 31, 2008 from an expense of \$68,000 for the three months ended December 31, 2007 primarily due to the loss incurred by Portsmouth and Santa Fe during the three months ended December 31, 2008.

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Six Months Ended December 31, 2008 Compared to the Six Months Ended December 31, 2007

The Company had net income of \$34,000 for the six months ended December 31, 2008 compared to net income of \$1,610,000 for the six months ended December 31, 2007. As discussed in Note 1, the Company stopped recording a minority interest benefit in Justice Investors beginning the quarter ended December 31, 2008 resulting in the recording of an additional \$608,000 in net loss. During the six months ended December 31, 2008, the Company had a loss on hotel operations of \$1,019,000 compared to a loss of \$1,162,000. During the same period, the Company had income from investment transactions of \$961,000 for the six months ended December 31, 2008 compared to a loss from investment transactions of \$820,000 for the six months ended December 31, 2007. Income from real estate operations remained consistent with the comparable period.

The following table sets forth a more detailed presentation of Hotel operations for the six months ended December 31, 2008 and 2007.

For the six months ended December 31,

2008

2007

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	-----	-----
Hotel revenues:		
Hotel rooms	\$14,200,000	\$ 15,224,000
Food and beverage	2,527,000	2,948,000
Garage	970,000	836,000
Other operating departments	246,000	397,000
	-----	-----
Total hotel revenues	17,943,000	19,405,000
	-----	-----
Operating expenses excluding interest, depreciation and amortization	(14,519,000)	(16,911,000)
	-----	-----
Operating income	3,424,000	2,494,000
Loss on termination of garage lease	(684,000)	-
Interest expense	(1,443,000)	(1,405,000)
Depreciation and amortization expense	(2,316,000)	(2,251,000)
	-----	-----
Loss from hotel operations	\$ (1,019,000)	\$ (1,162,000)
	=====	=====

For the six months ended December 31, 2008, the Hotel generated operating income of approximately \$3,424,000, before the loss on the termination of garage lease, interest, depreciation and amortization, on operating revenues of approximately \$17,943,000 compared to operating income of approximately \$2,494,000 before interest, depreciation and amortization, on operating revenues of approximately \$19,405,000 for the six months ended December 31, 2007.

The increase in Hotel operating income is primarily due to a significant decrease in operating expenses of approximately \$2,392,000, partially offset by a decrease in operating revenues of approximately \$1,462,000. The decrease in operating expenses is primarily attributable to certain nonrecurring legal and consulting fees incurred in the three months ended September 30, 2007 related to construction litigation that was settled as of June 30, 2008 and for zoning issues. Operating expenses also decreased due to a decline in hotel occupancy during the current period and management's efforts to reduce costs and achieve greater efficiencies. That decline in occupancy was also the primary reason for the decrease in operating revenues compared to the prior period. Management expects that the termination of the garage lease will result in greater operating income in the future and promote greater efficiencies with the garage operations now integrated into those of the Hotel.

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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 six months ended December 31, 2008 and 2007.

Six Months Ended December 31,	Average Daily Rate	Average Occupancy%	RevPar
-----	-----	-----	-----
2008	\$177	80%	\$142
2007	\$173	87%	\$152

While the Hotel was able to achieve a modest increase of approximately \$4 in its average daily room rates for the six months ended December 31, 2008 compared to the six months ended December 31, 2007, that increase was primarily attributable to the three months ended September 30, 2008. The full impact of

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the dramatic downturn in the domestic and international economies and markets was not felt by the operations of the Hotel until September 2008 and is expected to continue at least through fiscal 2009. As a result, average occupancy percentage declined approximately 7% for the six months ended December 31, 2008 and RevPar was down approximately \$10 from the comparable period.

Facing the prospect of a recession and a decline in business, group and leisure travel, both domestic and international, management has continued to focus on ways to improve efficiencies and reduce operating costs and other expenses in its efforts to stabilize and maintain operating income of the Hotel. As a result of those efforts, we have seen further reductions in operating costs of the Hotel as a percentage of Hotel revenues for the three months ended December 31, 2008. Management will also increase its sales and marketing efforts in what is expected to become an even more competitive hotel market in San Francisco. Management will also continue to explore new and innovative ways to improve operations and enhance the guest experience. One significant step was to move lunch and dinner service from the restaurant to the lounge to create a more intimate, yet lively, atmosphere and to complement the new wine bar "Flyte" in the lobby of the Hotel.

Income from real estate operations remained consistent with income of \$284,000 for the six months ended December 31, 2008 compared to income of \$278,000 for the six months ended December 31, 2007. Rental income increased to \$6,406,000 from \$6,124,000 while operating expense increased to \$2,592,000 from \$2,275,000. The increases in rental income and operating expense are due of management's efforts to improve the competitiveness of the Company's properties through interior and exterior improvements as well as providing better service. Real estate taxes increased to \$730,000 for the six months ended December 31, 2008 from \$676,000 for the six months ended December 31, 2007 primarily as the result of increase taxes at the Company's properties located in Texas.

As of December 31, 2008, the Company had listed for sale its 249-unit apartment complex located in Austin, Texas and its 132-unit apartment complex located in San Antonio, Texas. These properties are classified as held for sale on the Company's condensed consolidated balance sheet with the operations of these properties classified under discontinued operations in the condensed consolidated statements of operations.

During the six months ended December 31, 2007, the Company sold its 224-unit apartment complex located in Irving, Texas for \$8,050,000 and recognized a gain on the sale of real estate of \$4,074,000. The operations and the related gain on the sale of real estate are also included under discontinued operations.

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The Company had a net gain on marketable securities of \$2,088,000 for the six months ended December 31, 2008 compared to a net loss of \$2,000 for the six months ended December 31, 2007. For the six months ended December 31, 2008, the Company had a net realized gain of \$1,137,000 and a net unrealized gain of \$951,000. For the six months ended December 31, 2007, the Company had a net realized gain of \$110,000 and net unrealized loss of \$112,000. 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 please see the Marketable Securities section below.

The Company may also invest, with the approval of the Securities Investment

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Committee, 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. As of December 31, 2008, the Company had net other investments of \$7,056,000. During the six months ended December 31, 2008 and 2007, the Company performed an impairment analysis of its other investments and determined that its investments had other than temporary impairments and recorded impairment losses of \$595,000 and \$125,000, respectively.

Margin interest and trading expenses decreased to \$639,000 for the six months ended December 31, 2008 from \$805,000 for the six months ended December 31, 2007 primarily as the result of the decrease in margin interest expense related to the decrease in the use of margin.

Minority interest related to Justice Investors changed to an expense of \$96,000 for the six months ended December 31, 2008 from a benefit of \$535,000 for the six months ended December 31, 2007. As discussed in Note 1, during the three months December 31, 2008, the Company did not record a minority interest benefit of \$608,000 related to the loss from hotel operations. The \$96,000 minority interest expense was recorded during the three months ended September 30, 2008. During the six months ended December 31, 2007, the Company recorded a minority interest benefit of \$535,000.

The total provision for income tax expense decreased to \$52,000 for the six months ended December 31, 2008 from \$833,000 for the six months end December 31, 2007. The decrease primarily was the result of having lower pre-tax income. As noted above and in Note 1, the Company did not record a pre-tax minority interest benefit for the three months ended December 31, 2008. As the result the effective tax rate during the six months ended December 31, 2008 is lower compared to the six months ended December 31, 2007.

Minority interest related to Portsmouth and Santa Fe increased to \$626,000 for the six months ended December 31, 2008 from \$341,000 for the six months ended December 31, 2007 primarily due to the higher loss incurred by Portsmouth and Santa Fe during the six months ended December 31, 2008.

MARKETABLE SECURITIES AND OTHER INVESTMENTS

The Company's investment portfolio is diversified with 56 different equity positions. The portfolio contains four individual equity securities that are more than 5% of the equity value of the portfolio with the largest security being 35.8% of the value of the portfolio. The amount of the Company's investment in any particular issuer may increase or decrease, and additions or

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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 December 31, 2008, the Company had investments in marketable equity securities of \$6,741,000. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as of December 31, 2008 and June 30, 2008.

As of December 31, 2008

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Industry Group	Fair Value	% of Total Investment Securities
-----	-----	-----
Dairy products	\$ 2,414,000	35.8%
Basic materials and energy	1,187,000	17.6%
Consumer cyclical	633,000	9.4%
Industrial	590,000	8.8%
Financial services and REITs	539,000	8.0%
Healthcare	526,000	7.8%
Other	852,000	12.6%
-----	-----	-----
	\$ 6,741,000	100.0%
	=====	=====

As of June 30, 2008

Industry Group	Fair Value	% of Total Investment Securities
-----	-----	-----
Dairy products	\$ 1,540,000	23.0%
Communications	1,123,000	16.7%
Financial	721,000	10.8%
Basic materials	654,000	9.8%
Medical	467,000	7.0%
Transportation	442,000	6.6%
Others	1,759,000	26.1%
-----	-----	-----
	\$ 6,706,000	100.0%
	=====	=====

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

For the three months ended December 31,	2008	2007
	-----	-----
Net gain on marketable securities	\$ 445,000	\$ 1,375,000
Dividend & interest income	47,000	59,000
Margin interest expense	(43,000)	(65,000)
Trading and management expenses	(258,000)	(308,000)
	-----	-----
	\$ 191,000	\$ 1,061,000
	=====	=====

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For the six months ended December 31,	2008	2007
	-----	-----
Net gain(loss) on marketable securities	\$ 2,088,000	\$ (2,000)
Impairment loss on other investments	(595,000)	(125,000)
Dividend & interest income	107,000	112,000
Margin interest expense	(102,000)	(182,000)
Trading and management expenses	(537,000)	(623,000)
	-----	-----
	\$ 961,000	\$ (820,000)
	=====	=====

The Company may also invest, with the approval of the Securities Investment Committee, 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

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part of other investments, net of other than temporary impairment losses.

As of December 31, 2008, the Company had net other investments of \$7,056,000. During the six months ended December 31, 2008 and 2007, the Company made investments in corporate debt instruments of a public company in the basic materials sector totaling \$1,250,000 and \$525,000, respectively.

During the six months ended December 31, 2008 and 2007, the Company received common stock issued upon conversion or as payment of interest and penalties on convertible notes in this company. During the six months ended December 31, 2008 and 2007, the Company sold approximately \$1,994,000 and \$40,000, respectively, of this company's stock. As of December 31, 2008, the Company had \$852,000 of this company's common stock included in its investment in marketable securities balance of \$6,741,000.

FINANCIAL CONDITION AND LIQUIDITY

The Company's cash flows are primarily generated from hotel operations. The Company also receives revenues generated from its real estate operations and from the investment of its cash and securities assets. Since the operations of the Hotel were temporarily suspended on May 31, 2005, and significant amounts of money were expended to renovate and reposition the Hotel as a Hilton, Justice did not pay any partnership distributions until the end of March 2007. As a result, the Company had to depend more on the revenues generated from the investment of its cash and marketable securities and from its real estate operations during that transition period.

The Hotel started to generate cash flows from its operations in June 2006, which have continued to improve since that time. For the six months ended December 31, 2008, Justice paid a total of \$850,000 in limited partnership distributions, of which the Company received \$425,000. For the six months ended December 31, 2007, Justice paid a total of \$1,000,000 in limited partnership distributions, of which the Company received \$500,000. The general partners expect to conduct regular reviews to set the amount of any future distributions that may be appropriate based on the results of operations of the Hotel and other factors, including establishment of reasonable reserves for debt payments and operating contingencies. The recent dramatic downturn in domestic and international economies and markets, and the prospect of a prolonged recession, are expected to have a negative impact on the operating results of the Hotel in fiscal 2009, which will limit amounts available for limited partnership distributions.

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To meet its substantial financial commitments for the renovation and transition of the Hotel to a Hilton, Justice had to rely on borrowings to meet its obligations. On July 27, 2005, Justice entered into a first mortgage loan with The Prudential Insurance Company of America in a principal amount of \$30,000,000 (the "Prudential Loan"). The term of the Prudential Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Prudential Loan calls for monthly installments of principal and interest in the amount of approximately \$165,000, calculated on a 30-year amortization schedule. The Prudential 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 Prudential Loan is without recourse to the limited and general partners of Justice. As of December 31, 2008 the Prudential Loan balance was approximately \$28,492,000.

On March 27, 2007, Justice entered into a second mortgage loan with Prudential (the "Second Prudential Loan") in the principal amount of \$19,000,000. The term

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of the Second Prudential Loan is for approximately 100 months and matures on August 5, 2015, the same date as the first Prudential Loan. The Second Prudential Loan is at a fixed interest rate of 6.42% per annum and calls for monthly installments of principal and interest in the amount of approximately \$119,000, calculated on a 30-year amortization schedule. The Second Prudential Loan is collateralized by a second 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 Second Prudential Loan is without recourse to the limited and general partners of Justice. As of December 31, 2008, the Second Prudential Loan balance was approximately \$18,632,000.

On December 12, 2008, Justice obtained a modification and extension of its unsecured revolving line of credit facility from United California Bank ("UCB") which was to mature on February 2, 2009. The modification extends the term of the credit facility to February 2, 2010, but reduced the limit of funds available to the Partnership for short term capital for the Hotel's business operations from \$3,000,000 to \$2,500,000. The annual interest rate is based on an index selected by Justice at the time of advance, equal to the Wall Street Journal Prime Rate plus 1.0%, or the LIBOR Rate plus 3.5%, with an interest rate floor of 5% per annum. As of December 31, 2008, there was a balance of \$1,756,000 drawn by Justice under the line of credit facility, with an annual interest rate of 5% since the selected rate of Prime (3.25% as of December 31, 2008) plus 1% was less than the floor rate.

While the debt service requirements related to the two Prudential loans, as well as the utilization of the UCB line of credit, may create some additional risk for the Company and its ability to generate cash flows in the future since the Partnership's assets had been virtually debt free for an number of years, 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 April 2004, the Company obtained a revolving \$5,000,000 line of credit ("LOC"). The LOC carries a variable interest rate (lender's base rate plus 1%). Interest is paid on a monthly basis. During the six months ended December 31, 2008, the outstanding balance on the line of credit was repaid. The LOC matured in September 2008.

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In October 2008, the Company refinanced the mortgage on its 132-unit apartment located in San Antonio, Texas and obtained a new mortgage loan in the amount of \$2,850,000. The interest rate on the loan is fixed at 5.26% and the loan matures in October 2011. In December 2008, the Company modified this loan and borrowed an additional \$504,000. As part of the loan modification, the fixed interest rate was reduced to 5.0% with no change to the maturity date.

In July 2008, the Company modified the mortgage on its 264-unit apartment complex located in St. Louis, Missouri and borrowed an additional \$500,000 on the note. As of December 31, 2008, the balance of the note was \$6,150,000. The term and the interest rate on the note remain the same.

In August 2007, the Company sold its 224-unit apartment complex located in Irving, Texas for \$8,050,000 and recognized a gain on the sale of real estate of \$4,074,000. The Company received net proceeds after selling costs of \$7,739,000 and paid off the related outstanding mortgage note payable of \$4,007,000.

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In August 2007, the Company refinanced its \$7,203,000 construction loan on its 30-unit apartment complex located in Los Angeles, California and obtained a mortgage note payable in the amount of \$6,850,000. The term of the note is 15 years, with interest only for the first two years. The interest is fixed at 5.97%.

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 consolidated statements of operations.

Management believes that its cash, marketable securities, and the cash flows generated from those assets and from its real estate operations, partnership distributions and management fees, will be adequate to meet the Company's current and future obligations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

MATERIAL CONTRACTUAL OBLIGATIONS

The Company does not have any material contractual obligations or commercial commitments other than the mortgages of its rental properties, its line of credit and Justice Investors' mortgage loans with Prudential and its revolving line of credit facility with UCB.

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. Since Prism has the power and ability under the terms of its management agreement to adjust hotel room rates on an ongoing

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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.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are most significant to the portrayal 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

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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.

Item 4T. 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.

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PART II.

OTHER INFORMATION

Item 6. Exhibits.

(a) Exhibits

- 10.1 2008 Amendment to the Limited Partnership Agreement, dated December 1, 2008.
- 10.2 General Partner Compensation Agreement, dated December 1, 2008.
- 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 Principal 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 Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.

SIGNATURES

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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: February 12, 2009

by

/s/ John V. Winfield

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

Date: February 12, 2009

by

/s/ David Nguyen

David Nguyen, Treasurer
and Controller
(Principal Financial Officer)

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