SPO Medical Inc
Form NT 10-Q
November 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 12B-25
NOTIFICATION OF LATE FILING

SEC File Number 0-11772
CUSIP Number 67019L101

(Check one): | | Form 10-K | | Form 20-F | |Form 11-K
|X| Form 10-Q | | Form 10-D
| | Form N-SAR | | Form N-CSR
For Period Ended: September 30, 2008

| | Transition Report on Form 10-KSB
| | Transition Report on Form 20-F
| | Transition Report on Form 11-K
| | Transition Report on Form Form 10-QSB
| | Transition Report on Form N-SAR
For the Transition Period Ended: ______________________________

Nothing in this form shall be construed to imply that the Commission has verified any information contained herein.

If the notification relates to a portion of the filing checked above, identify the item(s) to which the notification relates:

PART I REGISTRANT INFORMATION

SPO MEDICAL INC.
Full Name of Registrant

Beit Hapa'amon, Suite 209, 20 Hata'as Street, Kfar Saba, Israel

Beit Hapa'amon, Suite 209, 20 Hata'as Street
Address of Principal Executive Office

Kfar Saba Israel
City, State and Zip Code

PART II - RULES 12B-25(B) AND (C)

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12b-25(b), the following should be completed. (Check box if appropriate)

[X] (a) The reasons described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense

[X] (b) The subject annual report, semi-annual report, transition report on Forms 10-K, 20-F, 11-K, Form N-SAR or Form N-CSR, or portion thereof will be filed on or before the fifteenth calendar day following the prescribed due date; or the subject quarterly report or transition report on Form 10-Q, or portion thereof will be filed on or before the fifth calendar day following the prescribed due date; and

(c) The accountant's statement or other exhibit required by Rule 12b-25(c) has been attached if applicable

PART III NARRATIVE

State below in reasonable detail the reason why Forms 10-K, 20-F, 11-K, 10-Q, 10-D, N-SAR, N-CSR or the transition report portion thereof could not be filed within the prescribed time period.

The registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008 could not be filed by the prescribed due date of November 14, 2008 because the registrant had not yet finalized its financial statements for the quarter and the review of registrant's financial statements for the quarter is ongoing. Accordingly, the registrant is unable to file such report within the prescribed time period without unreasonable effort or expense. The registrant anticipates that the subject Quarterly Report on Form 10-Q will be filed on or before November 19, 2009.

PART IV - OTHER INFORMATION

(1) Name and telephone number of person to contact in regard to this notification.

MICHAEL BRAUNOLD, CEO (818) 888-4380

(2) Have all other periodic reports required under Section 13 or 15(d) or the Securities Exchange Act of 1934 or Section 30 of the Investment Company Act of 1940 during the preceding 12 months or for such shorter period that the registrant was required to file such report(s) been filed? If the answer is no, identify report(s). Yes |X| No |_|

(3) Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof? Yes |X| No |_|

If so: attach an explanation of the anticipated change, both narratively and quantitatively, and, if appropriate, state the reason why a reasonable estimate of the results cannot be made.

For the three and nine months ended September 30, 2007, the registrant recorded revenues of $1,408,000 and $4,174,000, respectively, and a net loss of $436,000 and $899,000 respectively. For the three and nine months ended September 30, 2008, the registrant currently estimates that it had revenues of approximately $253,000 and $2,421,000 and a net loss of approximately $588,000 and $1,661,000. Results for the 2008 periods remain subject to further adjustment and actual results may differ significantly from the foregoing estimates.

This increase in net loss for the 2008 periods as compared to 2007 is primarily attributable to the decline in revenues in the period.

This Notification of Late Filing on Form 12b-25 contains forward-looking statements, including forward-looking statements relating to the Registrant's financial results for the fiscal quarter ended September 30, 2008. These statements are based on management's current expectations and involve a number of risks and uncertainties, including risks described in our filings with the Securities and Exchange Commission. The Registrant's actual results may differ materially from the Registrant's anticipated or expected results and the results in the forward-looking statements.

SPO MEDICAL INC.

(Name of Registrant as Specified in Charter)

has caused this notification to be signed on its behalf by the undersigned hereunto duly authorized.

Date: November 14, 2008 By: /s/ Michael Braunold

Michael Braunold
Chief Executive Officer

he partially adjusted net operating income for the fiscal year exceeded the amount of the Partnership's return for the fiscal year. Prism is also entitled to an incentive management fee if certain milestones are accomplished. No incentive fees were earned during the year ended June 30, 2008. Management fees paid to Prism during the years ended June 30, 2008 and 2007 were $571,000 and $212,000, respectively. Prior to the Prism management agreement, the Hotel was managed and operated by Dow Hotel Company LLC (Dow). Under the Dow management agreement, the Partnership was to pay base management fees of 2.5% of gross operating revenues for the fiscal year. However, 0.75% of the stated management fee is due only if the partially adjusted net operating income for the fiscal year exceeded the amount of the Partnership's return ($7 million). Dow was also entitled to incentive management fees if certain milestones were accomplished. No incentive management fees were paid during the year ended June 30, 2007. Management fees paid to Dow during the year ended June 30, 2007 was $311,000. NOTE 13 - HILTON FRANCHISE LICENSE AGREEMENT Partnership entered into a Franchise License Agreement with Hilton Hotels Corporation (the "Hilton Franchise Agreement") on December 10, 2004 for the right to operate the Hotel as a Hilton brand hotel. The term of the Hilton Franchise Agreement is for 15 years commencing on the opening date of the Hotel, January 12, 2006, with an option to extend that Agreement for another five years, subject to certain conditions. Beginning on the opening date, the Partnership pays monthly royalty fees for the first two years of three percent (3%) of the Hotel's gross room revenue for the preceding calendar month; the third year will be four percent (4%) of the Hotel's gross room revenue; and the fourth year until the end of the term will be five percent (5%) of the Hotel's gross room revenue. The Partnership also pays a monthly program fee of four percent (4%) of the Hotel's gross revenue. The amount of the monthly program fee is subject to change; however, the increase can not exceed one percent of the Hotel gross room revenue in any calendar year, and the cumulative increases in the monthly fees will not exceed five percent (5%) of gross room revenue. For the years ended June 30, 2008 and 2007, the royalty fees and program fees (collectively "Franchise fees") were $2,181,528 and $1,702,000, respectively. -50- The Partnership also pays Hilton a monthly information technology recapture charge of 0.75% of the Hotel's gross revenues. For the years ended June 30, 2008 and 2007, those charges were $221,000 and $183,000, respectively. NOTE 14 - GENERAL PARTNERS COMPENSATION Effective May 31, 2004, and as amended on February 23, 2006, the Partnership entered into a new General Partner Compensation Agreement (the "Compensation Agreement") with its two general partners, Evon and Portsmouth, to compensate them for their services to the Partnership, including the repositioning of the Hotel, the active oversight of its operations and the management of the Partnership's assets. The Compensation Agreement provides for annual base compensation equal to 1.5% of gross revenues for the fiscal year, payable in monthly installments, with a minimum annual base compensation of $262,000, subject to CPI percentage adjustments. From the minimum annual base compensation, 80% is to be paid to Evon as the managing general partner, and 20% is to be paid to Portsmouth as the other general partner. Base annual compensation in excess of the minimum is payable in equal amounts to Evon and Portsmouth. The maximum annual compensation that can be earned by the general partners is 1.5% of $40,000,000 of gross revenues, subject to CPI percentage adjustments. The Compensation Agreement will continue to remain in effect until otherwise amended by the Partnership. During the years ended June 30, 2008 and 2007, the general partners were paid $285,000 and $283,000, respectively, for the minimum base compensation. For the years ended June 30, 2008 and 2007, additional compensation earned above the minimum base compensation was $232,000 and $184,000, respectively. Pursuant to the Compensation Agreement, the general partners are also eligible for incentive compensation based upon 5% of net operating income of the Partnership in excess of $7 million. No incentive compensation was earned during the years ended June 30, 2008 and 2007. In accordance with the Compensation Agreement as restated on February 23, 2006, the general partners were entitled to certain fees for services rendered to the Partnership with the respect to repositioning the Hotel, which were to be paid equally to both general partners. The payments were due after six milestones in the restoration of the Hotel. As of June 30, 2007, all milestones had been achieved and all repositioning fees had been paid. There were no repositioning fees earned during the year ended June 30, 2008. For the year ended June 30, 2007, repositioning fees earned totaled $379,000. NOTE 15 - INCOME TAXES The provision for the Company's income tax benefit(expense) is comprised of the following: For the years ended June 30, 2008 2007 ----------------------------------- ----------------------------------- Discontinued Discontinued Operations Operations Total Operations Operations Total ----------- ----------- ---------- ----------- ----------- ---------- Current tax expense $ (107,000) $ - $ (107,000) $ - $ (10,000) $ (10,000) Deferred tax benefit 2,112,000 (1,708,000) 404,000 1,391,000 - 1,391,000 ----------- ----------- --------- ------------ ----------- ---------- $ 2,005,000 $(1,708,000) $ 297,000 $ 1,391,000 $ (10,000) $ 1,381,000 =========== ========== ========= =========== =========== ========== -51- The provision for income taxes differs from the amount of income tax computed by applying the federal statutory income tax rate to income before taxes as a result of the following differences: For the years ended June 30, 2008 2007 -------- -------- Income tax at federal statutory rates 34.0% 34.0% State income taxes, net of federal benefit 12.4% 5.2% Dividend received deduction 1.5% 1.5% Other adjustments (11.9%) (3.2%) Valuation allowance (19.0%) (14.2%) -------- -------- Total income tax benefit 17.0% 23.3% ======== ======== The components of the deferred tax asset and liabilities as of June 30, 2008, are as follows: Deferred tax assets Net operating loss carryforwards $ 8,435,000 Other investment impairment reserve 649,000 Accruals and reserves 929,000 Valuation allowance (1,171,000) ---------- 8,842,000 Deferred tax liabilities Deferred real estate gains (8,831,000) Unrealized gains on marketable securities (363,000) Depreciation (47,000) Equity earnings (1,380,000) State taxes (307,000) ----------- (10,928,000) ----------- Net deferred tax liability $ (2,086,000) =========== As of June 30, 2008, the Company had net operating losses(NOLs) of $20,562,000 and $18,840,000 for federal and state purposes, respectively. Below is the break-down of the NOLs for Intergroup, Santa Fe and Portsmouth. The carryforward expires in varying amounts through the year 2025. Federal State ---------- ---------- Intergroup $ 5,747,000 $ 7,369,000 Santa Fe 4,514,000 1,445,000 Portsmouth 10,301,000 10,026,000 ---------- ---------- $20,562,000 $18,840,000 ========== ========== -52- NOTE 16 - SEGMENT INFORMATION The Company operates in three reportable segments, the operations of its multi-family residential properties, the operation of the hotel, and the investment of its cash and securities assets. These three operating segments, as presented in the financial statements, reflect how management internally reviews each segment's performance. Management also makes operational and strategic decisions based on this same information. Information below represents reported segments for the years ended June 30, 2008 and 2007. Operating income for rental properties consist of rental income. Operating income(loss) from hotel operations consist of the operations of the hotel and garage. Operating income for investment transactions consist of net investment gain(loss) and dividend and interest income. As of and For the year ended Hotel Real estate Investment Discontinued June 30, 2008 Operations operations Transactions Other Subtotal Operations Total ----------- ----------- ---------- ----------- ------------ ----------- ----------- Operating income $37,778,000 $12,833,000 $(1,362,000) $ - $ 49,249,000 $ 2,823,000 $ 52,072,000 Operating expenses (39,388,000) (12,038,000) (2,878,000) - (54,304,000) (2,572,000) (56,876,000) ---------- ---------- ---------- ---------- ----------- ----------- ------------ Net operating income (1,610,000) 795,000 (4,240,000) - (5,055,000) 251,000 (4,804,000) Gain on sale of real estate - - - - - 4,074,000 4,074,000 General and administrative expense - - - (1,817,000) (1,817,000) - (1,817,000) Income tax benefit(expense) - - - 2,005,000 2,005,000 (1,708,000) 297,000 Minority interest 802,000 - - 1,147,000 1,949,000 - 1,949,000 ----------- ----------- ---------- ----------- ------------ ----------- ------------ Net income(loss) $ (808,000) $ 795,000 $(4,240,000) $ 1,335,000 $ (2,918,000) $ 2,617,000 $ (301,000) =========== ========== ========== =========== =========== =========== =========== Total assets $51,153,000 $65,296,000 $13,504,000 $11,117,000 $ 141,070,000 $ 7,064,000 $148,134,000 =========== ========== ========== =========== =========== =========== =========== As of and For the year ended Hotel Real estate Investment Discontinued June 30, 2007 Operations operations Transactions Other Subtotal Operations Total ----------- ----------- ----------- ---------- ----------- ----------- ------------ Operating income $31,715,000 $11,049,000 $ 3,330,000 $ - $ 46,094,000 $ 3,814,000 $ 49,908,000 Operating expenses (36,502,000) (13,097,000) (3,158,000) - (52,757,000) (3,754,000) (56,511,000) ----------- ----------- ----------- ---------- ------------ ------------ ------------ Net operating income(loss) (4,787,000) (2,048,000) 172,000 - (6,663,000) 60,000 (6,603,000) General and administrative expense - - - (1,747,000) (1,747,000) - (1,747,000) Income tax benefit(expense) - - - 1,391,000 1,391,000 (10,000) 1,381,000

Minority interest 2,423,000 - - 954,000 3,377,000 - 3,377,000 ----------- ----------- ----------- ----------- ------------ ------------ ------------ Net income(loss) $(2,364,000) $(2,048,000) $ 172,000 $ 598,000 $ (3,642,000) $ 50,000 $ (3,592,000) =========== =========== =========== =========== ============ ============ ============ Total assets $49,599,000 $74,671,000 $23,057,000 $10,028,000 $ 157,355,000 $ 2,488,000 $159,843,000 =========== =========== =========== =========== ============ ============ ============ -53- NOTE 17 - STOCK-BASED COMPENSATION PLANS The Company currently has two equity based compensation plans, The InterGroup Corporation 2007 Stock Compensation Plan for Non-Employee Directors (the "2007 Plan") and the 1998 Stock Option Plan for Selected Key Officers, Employees and Consultants (the "1998 Key Employee Plan"). Both plans were approved by the shareholders of the Company and adopted by the Board of Directors. The stock to be available for issuance under the 2007 Plan shall be shares of the Company's Common Stock, par value $.01 per share, which may be unissued shares or treasury shares. Subject to certain adjustments upon changes in capitalization, a maximum of 60,000 shares of the Common Stock will be available for issuance to participants under the 2007 Plan. The 2007 Plan will terminate upon the earlier of the date all shares reserved for issuance have been awarded or February 21, 2017, if not sooner terminated by the Board of Directors. All non-employee directors are eligible to participate in the 2007 Plan. Each non-employee director as of the adoption date of the 2007 Plan shall be granted an award of 600 unrestricted shares of the Company's Common Stock. On each July 1 following the adoption date of the 2007 Plan, each non-employee director shall receive an automatic grant of a number of shares of Company's Common Stock equal in value to $18,000 based on 100% of the fair market value (as defined) of the Common Stock on the date of grant. All stock awards to non-employee directors will be unrestricted shares and are fully vested on the date of grant. The dollar amount of the annual grant is subject to further adjustment by the Board of Directors upon recommendation by the Compensation Committee. The 2007 Plan was adopted to replace the 1998 Stock Option Plan for Non- Employee Directors (the "1998 Non-Employee Director Plan") since all options authorized to be issued under the 1998 Non-Employee Director Plan were exhausted in fiscal 2006. Although the 1998 Non-Employee Director Plan was terminated upon shareholder approval, and Board adoption, of the 2007 Plan, any outstanding options under the 1998 Non-Employee Director Plan remain effective in accordance with their terms. For the years ended June 30, 2008 and 2007, the four non-employee directors of the Company each received a grant of 987 (3,948 total issued) and 600 (2,400 total issued) shares of Common Stock, respectively, pursuant to the 2007 Plan. For the years ended June 30, 2008 and 2007, the Company recorded expenses of approximately $72,000 and $44,000, respectively, related to the issuance of the Company's Common Stock. The 1998 Key Employee Plan provides for the granting of stock options to purchase shares of the Company's common stock to key officers of the Company. The aggregate number of shares to be delivered upon exercise of all options granted under the Plan may not exceed 300,000 (adjusted for stock split). The Key Employee Plan shall terminate on the earliest to occur of (i) the dates when all of the Common Stock available under the Key Employee Plan shall have been acquired through the exercise of options granted under the Key Employee Plan; (ii) 10 years after the date of adoption of the Key Employee Plan by the Board; or (iii) such other date that the Board may determine. The exercise price of any options granted shall be determined at the time of grant and shall not be less than 100% of the fair market value of the Common Stock at the time of the grant of the option. The term of the option shall not exceed 10 years from the date on which the option is granted. The vesting schedule for the options and the method or time that when the option may be exercised in whole or in part shall be determined by the Committee. However, -54- in no event shall an option be exercisable within six months of the date of grant in the case of an optionee subject to Section 16(b) of the Exchange Act. Subject to certain exceptions, the option shall terminate six months after the optionee's employment with the Company terminates. No options to purchase shares were granted pursuant to the Key Employee Plan during fiscal 2008. During the year ended June 30, 2008 and 2007, there were no options granted or exercised under the 1998 Key Employee Plan and the 1998 Non-Employee Director Plan. Accordingly, no stock-based compensation expense was recognized during the period related to these two stock option plans. Additionally, since inception of the 1998 Key Employee Plan and the 1998 Non-Employee Director Plan, there have been no options exercised. For the year ended June 30, 2008, 2,250 employee options were vested. However, the fair value of the vested options is considered immaterial. The following table summarizes the stock options outstanding as of June 30, 2008: Number of Weighted-average Shares Exercise Price ---------- -------------- Unexercised options Outstanding at June 30, 2006 405,000 $9.91 Granted - - Exercised - - Forfeited - - ---------- -------------- Unexercised options Outstanding at June 30, 2007 405,000 $9.91 Granted - - Exercised - - Forfeited (15,000) $35.11 ---------- -------------- Unexercised options Outstanding at June 30, 2008 390,000 $9.13 ========= ============== As of June 30, 2008, of the total 390,000 unexercised options outstanding, 4,500 were not yet vested. Unexercised Range of Weighted Average Weighted Average Options Exercise Price Exercise Price Remaining Life ---------------- ------------- --------------- ---------------- June 30, 2008 $7.92-$18.00 $ 9.13 1.50 years NOTE 18 - RELATED PARTY TRANSACTIONS The contractor that was selected to oversee the garage and the first four floors' renovation (excluding room upgrades) of the Hotel was the contractor who originally constructed the Hotel. He is also a partner in the Partnership and is a director of Evon Corporation, the managing general partner of the Partnership. The contractor is also a board member of Evon Corporation. At June 30, 2008 and 2007, there were $67,000 and $33,000, respectively, payable to the contractor. Services performed by the contractor are capitalized as fixed assets which totaled $399,000 and $1,256,000 for the year ended June 30, 2008 and 2007, respectively. Management believes these renovations were competitively priced. -55- The garage lessee, Evon, is the Partnership's managing general partner. Evon paid the Partnership $1,602,000 and $1,533,000 for the years ended June 30, 2008 and 2007, respectively, under the terms of the lease agreement. Rent receivable from Evon as of June 30, 2008 and 2007 was $15,000 and $33,000, respectively. During the year ended June 30, 2008, the Company made additional investments in Santa Fe and Portsmouth totaling $154,000 and $216,000, respectively. As Chairman of the Securities Investment Committee, the Company's President and Chief Executive Officer, John V. Winfield, directs the investment activity of the Company in public and private markets pursuant to authority granted by the Board of Directors. Mr. Winfield also serves as Chief Executive Officer and Chairman of InterGroup and oversees the investment activity of the Company. Depending on certain market conditions and various risk factors, the Chief Executive Officer, his family and the Company 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 InterGroup, at risk in connection with investment decisions made on behalf of the Company. On July 18, 2003, the Company's subsidiaries established a performance based compensation program for the Company's CEO, John V. Winfield, to keep and retain his services as a direct and active manager of the securities portfolios of those companies. On January 12, 2004, the disinterested members of the Securities Investment Committee of InterGroup also established a performance based compensation program for Mr. Winfield, which was ratified by the Board of Directors. The Company's previous experience and results with outside money managers was not acceptable. Pursuant to the criteria established the Board of Directors, Mr. Winfield is entitled to performance compensation for his management of the securities portfolios of the Company and its subsidiaries equal to 20% of all net investment gains generated in excess of an annual return equal to the Prime Rate of Interest (as published by the Wall Street Journal) plus 2%. Compensation amounts are earned, calculated and paid quarterly based on the results of the Company's investment portfolio for that quarter. Should the companies have a net investment loss during any quarter, Mr. Winfield would not be entitled to any further performance-based compensation until any such investment losses are recouped by the Company. This performance based compensation program may be modified or terminated at the discretion of the respective Boards of Directors. During the year ended June 30, 2008 and 2007, Mr. Winfield did not receive any performance based compensation. -56- NOTE 19 - COMMITMENTS AND CONTINGENCIES The Company leases certain equipment under capital leases expiring in various years through 2012. Capital lease obligations as of June 30, 2008 were $638,000 and are included in the accounts payable and other liabilities balance in the consolidated balance sheet. Minimum future lease payments for assets under capital leases as of June 30, 2008 for each of the next five years and in aggregate are: Year ending June 30 2009 $ 243,000 2010 243,000 2011 243,000 2012 14,000 -------- Total minimum lease payments: 743,000 Less interest on capital leases (105,000) -------- Present value of minimum lease payments $ 638,000 ======== The Company leases equipment from an unrelated third party under operating leases with expiration dates through 2010. Minimum future operating lease commitments for equipment leases as of June 30, 2008 are as follows: Year ended June 30, 2009 $ 196,000 2010 10,000 -------- $ 206,000 ======== The Partnership was involved with a contract claim with one of its general contractors who recorded a mechanic's lien against the Partnership property arising out of the renovation work performed on the Hotel. The contractor had failed to pay a number of subcontractors who also filed mechanic's lien claims against the property. In November 2007, the Partnership entered into settlement agreements with the subcontractors and their liens were released. The balance of the dispute with the general contractor was submitted to arbitration pursuant to the terms of the construction contract. All remaining claims asserted by the general contractor were settled by the Partnership on June 5, 2008 for the sum of $588,000 and a release of the lien claim was recorded and the action dismissed. Management believes that all claims against the

Partnership or on the property had been settled as of June 30, 2008. The Company is involved from time to time in various claims in the ordinary course of business. Management does not believe that the impact of such matters will have a material effect on the financial conditions or result of operations when resolved. -57- Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure. Disclosure of the appointment of Burr, Pilger & Mayer LLP as the Company's independent registered public accounting firm in October 2007 was previously reported and no additional disclosure is required under this Item. Item 8A(T). 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) or 15d-15(e) under the Exchange Act) as of the end of the fiscal period covered by this Annual Report on Form 10-KSB. 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. MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, for the Company. In establishing adequate internal control over financial reporting, management has developed and maintained a system of internal control, policies and procedures designed to provide reasonable assurance that information contained in the accompanying consolidated financial statements and other information presented in this annual report is reliable, does not contain any untrue statement of a material fact or omit to state a material fact, and fairly presents in all material respects the financial condition, results of operations and cash flows of the Company as of and for the periods presented in this annual report. Management conducted an evaluation of the effectiveness of Company's internal control over financial reporting using the framework in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under that framework, management believes that the Company's internal control over financial reporting was effective as of June 30, 2008. This Annual Report on Form 10-KSB does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-KSB. 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 Annual Report on Form 10-KSB that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. -58- Item 8B. Other Information. None to report. PART III Item 9. Directors, Executive Officers, Promoters and Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act. The following table sets forth certain information with respect to the Directors and Executive Officers of the Company as of June 30, 2008: Position with Name the Company Age Term to Expire ------------------ ------------------ --- ----------------- Class A Directors: John V. Winfield Chairman of the Board; 61 Fiscal 2009 Annual Meeting (1)(4)(6)(7) President and Chief Executive Officer Josef A. Grunwald Director and Vice 60 Fiscal 2009 Annual Meeting (2)(3)(5)(7) Chairman of the Board Class B Directors: Gary N. Jacobs (1)(2)(5)(6)(7) Secretary; Director 63 Fiscal 2010 Annual Meeting William J. Nance (1) (2)(3)(4)(6)(7) Director 63 Fiscal 2010 Annual Meeting Class C Director: John C. Love Director 68 Fiscal 2008 Annual Meeting (3)(4) Other Executive Officers: David C. Gonzalez Vice President 41 N/A Real Estate Michael G. Zybala Asst. Secretary 56 N/A and Counsel David T. Nguyen Treasurer and 35 N/A Controller ----------------- (1) Member of the Executive Committee (2) Member of the Administrative and Compensation Committee (3) Member of the Audit Committee (4) Member of the Real Estate Investment Committee (5) Member of the Nominating Committee (6) Member of the Securities Investment Committee (7) Member of the Special Strategic Options Committee -59- Business Experience: The principal occupation and business experience during the last five years for each of the Directors and Executive Officers of the Company are as follows: John V. Winfield -- Mr. Winfield was first appointed to the Board in 1982. He currently serves as the Company's Chairman of the Board, President and Chief Executive Officer, having first been appointed as such in 1987. Mr. Winfield also serves as President, Chairman and Chief Executive Officer of Santa Fe Financial

Corporation ("Santa Fe") and Portsmouth Square, Inc. ("Portsmouth") both public companies. Josef A. Grunwald -- Mr. Grunwald is an industrial, commercial and residential real estate developer. He serves as Chairman of PDG N.V. (Belgium), a hotel management company, and President of I.B.E. Services S.A. (Belgium), an international trading company. Mr. Grunwald was first elected to the Board in 1987 and named Vice Chairman on January 30, 2002. Mr. Grunwald is also a Director of Portsmouth. William J. Nance -- Mr. Nance is a Certified Public Accountant and private consultant to the real estate and banking industries. He is also President of Century Plaza Printers, Inc. Mr. Nance was first elected to the Board in 1984. He served as the Company's Chief Financial Officer from 1987 to 1990 and as Treasurer from 1987 to June 2002. Mr. Nance is also a Director of Santa Fe and Portsmouth. Mr. Nance also serves as a director of Goldspring, Inc., a public company. Gary N. Jacobs -- Mr. Jacobs was appointed to the Board and as Secretary in 1998. Mr. Jacobs is Executive Vice President, General Counsel, Secretary and a Director of MGM MIRAGE (NYSE: MGM) and has held those positions since 2000. John C. Love -- Mr. Love was appointed to the Board in 1998. Mr. Love is an international hospitality and tourism consultant and a hotel broker. He was formerly a partner in the national CPA and consulting firm of Pannell Kerr Forster. He is Chairman Emeritus of the Board of Trustees of Golden Gate University in San Francisco. Mr. Love is also a Director of Santa Fe and Portsmouth. David C. Gonzalez -- Mr. Gonzalez was appointed Vice President Real Estate of the Company on January 31, 2001. Over the past 20 years, Mr. Gonzalez has served in numerous capacities with the Company, including Controller and Director of Real Estate. David T. Nguyen - Mr. Nguyen was appointed as Treasurer of the Company on February 26, 2003. Mr. Nguyen also serves as Treasurer of Santa Fe and Portsmouth, having been appointed to those positions on February 27, 2003. Mr. Nguyen is a Certified Public Accountant and, from 1995 to 1999, was employed by PricewaterhouseCoopers LLP where he was a Senior Accountant specializing in real estate. Mr. Nguyen served as the Company's Controller from 1999 to 2001 and from 2003 to the present. Michael G. Zybala -- Mr. Zybala was appointed Vice President Operations and Assistant Secretary of the Company on January 27, 1999 and served as Vice President Operations until July 15, 2002. Mr. Zybala is an attorney at law and has served as a special legal consultant to the Company. Mr. Zybala is also the Vice President and Secretary of Santa Fe and Portsmouth and has served as their General Counsel since 1995. Mr. Zybala has provided legal services to Santa Fe and Portsmouth since 1978. -60- Family Relationships: There are no family relationships among directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers. Involvement in Certain Legal Proceedings: No director or executive officer, or person nominated or chosen to become a director or executive officer, was involved in any legal proceeding requiring disclosure. Compliance with Section 16(a) of the Securities Exchange Act of 1934 Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and each beneficial owner of more than ten percent of the Common Stock of the Company, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten-percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on its review of the copies of Forms 3 and 4 and amendments thereto furnished to the Company during its most recent fiscal year, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that during fiscal 2008 all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with. Code of Ethics. The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics is filed as Exhibit 14 to this Report. The Company will provide to any person without charge, upon request, a copy of its Code of Ethics by sending such request to: The InterGroup Corporation, Attn: Treasurer, 820 Moraga Drive, Los Angeles 90049. The Company does not maintain an Internet website. The Company will promptly disclose any amendments or waivers to its Code of Ethics on Form 8-K. BOARD AND COMMITTEE INFORMATION InterGroup's common stock is listed on the NASDAQ Capital Market tier of the NASDAQ Stock Market, LLC ("NASDAQ"). InterGroup is a small business issuer under the rules and regulations of the Securities and Exchange Commission ("SEC"). With the exception of the Company's President and CEO, John V. Winfield, all of InterGroup's Board of Directors consists of "independent" directors as independence is defined by the applicable rules of the SEC and NASDAQ. Nominating Committee The Company's Nominating Committee is comprised of two "independent" directors as independence is defined by the applicable rules of the SEC and NASDAQ. Directors Love and Grunwald serve as the current members of the Nominating Committee. The Company has not established a charter for the Nominating Committee and the Committee has no policy with regard to consideration of any director candidates recommended by security holders. As a small business issuer whose directors own in excess of fifty percent of the voting shares of the Company, InterGroup has not deemed it appropriate to institute such a policy. There have not been any material changes to the procedures by which security holders may recommend nominees to the Company's board of directors. -61- Audit Committee and Audit Committee Financial Expert The Company is a small business issuer under SEC rules. The Company's Audit Committee is currently comprised of three members: Directors Nance (Chairperson), Grunwald and Love, each of who meet the independence requirements of the SEC and NASDAQ as modified or supplemented from time to time. The Company's Board of Directors has determined that Directors Nance and Love also meet the Audit Committee Financial Expert requirement as defined by the SEC and NASDAQ. Item 10. Executive Compensation. The following table provides certain summary information concerning compensation awarded to, earned by, or paid to the Company's principal executive officer and other named executive officers of the Company whose total compensation exceeded $100,000 for all services rendered to the Company and its subsidiaries for each of the Company's last two completed fiscal years ended June 30, 2008 and June 30, 2007. There are currently no employment contracts with the executive officers and no stock awards, long-term compensation, options or stock appreciation rights were granted to any of the named executive officers during the last two fiscal years. SUMMARY COMPENSATION TABLE Fiscal All Other Name and Principal Position Year Salary Bonus Compensation Total -------------------------- ---- ---------- ---------- ------------ ------------ John V. Winfield 2008 $522,000(1) $ - $166,000(2) $ 688,000 Chairman, President and 2007 $522,000(1) $ - $153,000(2) $ 675,000 Chief Executive Officer David C. Gonzalez 2008 $180,000 $ - $ - $ 180,000 Vice President 2007 $180,000 $ - $ - $ 180,000 Real Estate David T. Nguyen 2008 $180,000(3) $ - $ - $ 180,000 Treasurer and 2007 $180,000(3) $ - $ - $ 180,000 Controller Michael G. Zybala 2008 $138,000(4) $ - $ - $ 138,000 Asst. Secretary 2007 $162,000(4) $ - $ - $ 162,000 and Counsel -------------------------- (1) Mr. Winfield also serves as President and Chairman of the Board of the Company's subsidiary, Santa Fe, and Santa Fe's subsidiary, Portsmouth. Mr. Winfield received a salary from Santa Fe and Portsmouth in the aggregate amount of $255,000 from those entities for each of fiscal years 2008 and 2007, as well as director's fees totaling $12,000 for each year. Those amounts are included in this item. (2) Amounts include an auto allowance and compensation for a portion of the salary of an assistant. The auto allowance was $29,000 and $23,000 during fiscal years 2008 and 2007, respectively. The amount of compensation related to the assistant was approximately $52,000 and $42,000 during fiscal years 2008 and 2007, respectively. During fiscal 2008 and 2007, the Company and its subsidiaries also paid annual premiums in the total amount of $85,000 for split dollar whole life insurance policies owned by, and the beneficiary of which are, a trust for the benefit of Mr. Winfield's family. Of the $85,000 in premiums paid each year, Santa Fe and Portsmouth paid $43,000 of that amount. The Company has a secured right to receive, from any proceeds of the policies, reimbursement of all premiums paid prior to any payment to the beneficiary. -62- (3) Mr. Nguyen's salary is allocated approximately 50% to the Company and 50% to Santa Fe and Portsmouth. (4) For fiscal 2008, this amount includes $94,800 in salary and Special Hotel Committee fees allocated to and paid by Portsmouth and $16,200 in salary allocated to Santa Fe. For fiscal 2007, this amount includes $118,800 in salary and Special Hotel Committee fees allocated to Portsmouth and $16,200 in salary allocated Santa Fe. On July 18, 2003, the disinterested members of the respective Boards of Directors of the Company's subsidiary, Santa Fe and Santa Fe's subsidiary, Portsmouth, established a performance based compensation program for the Company's CEO, John V. Winfield, to keep and retain his services as a direct and active manager of the securities portfolios of those companies. On January 12, 2004, the disinterested members of the Securities Investment Committee of InterGroup also established a performance based compensation program for Mr. Winfield, which was ratified by the Board of Directors. The Company's previous experience and results with outside money managers was not acceptable. Pursuant to the criteria established the Board of Directors, Mr. Winfield is entitled to performance compensation for his management of the securities portfolios of the Company and its subsidiaries equal to 20% of all net investment gains generated in excess of an annual return equal to the Prime Rate of Interest (as published by the Wall Street Journal) plus 2%. Compensation amounts are earned, calculated and paid quarterly based on the results of the Company's investment portfolio for that quarter. Should the companies have a net investment loss during any quarter, Mr. Winfield would not be entitled to any further performance-based compensation until any such investment losses are recouped by the Company. This performance based compensation program may be modified or terminated at the discretion of the respective Boards of Directors. No performance based compensation was earned or paid for fiscal years ended June 30, 2008 or 2007. Internal Revenue Code Limitations Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), provides that, in the case of a publicly held corporation, the corporation is not generally allowed to deduct remuneration paid to its chief executive officer and certain other highly compensated officers to the extent that such remuneration exceeds $1,000,000 for the taxable year. Certain remuneration, however, is not subject to disallowance, including compensation paid on a commission basis and, if certain requirements prescribed by the Code are satisfied, other performance based compensation. Since InterGroup, Santa Fe and Portsmouth are each public companies, the $1,000,000 limitation applies separately to the compensation paid by each entity. For fiscal years 2008 and 2007, no compensation paid by the Company to its CEO or other executive officers was subject the deduction disallowance prescribed by Section 162(m) of the Code. Outstanding Equity Awards at Fiscal Year End. The following table sets forth information concerning unexercised options for each named executive officer outstanding as of the end of the Company's last competed fiscal year ended June 30, 2008. There were no stock awards issued or outstanding to any named executive officer. -63- Outstanding Equity Awards at Fiscal Year End Number of Number of securities securities underlying underlying unexercised unexercised Option Option options(#) options(#) exercise expiration Name exercisable unexercisable price($) date -------- ----------- ------------ -------- ----------- John V. Winfield 225,000 - $ 7.92 12/21/2008 David C. Gonzalez 10,500 4,500(1) $13.17 01/30/2011 ----------------- (1) Mr. Gonzalez's options vest at a rate of 2,250 shares per year on each January 31 for the next two years. EQUITY COMPENSATION PLANS The Company currently has two equity compensation plans, each of which has been approved by the Company's stockholders. Set forth below is a summary of those plans. 1998 Stock Option Plan for Selected Key Officers, Employees and Consultants On December 8, 1998, the Board of Directors of the Company adopted, subject to shareholder approval and ratification, a 1998 Stock Option Plan for selected key officers, employees and consultants (the "Key Employee Plan"). The Key Employee Plan was ratified by the stockholders on January 27, 1999. The stock to be offered under the Key Employee Plan shall be shares of the Company's Common Stock, par value $.01 per share, which may be unissued shares or treasury shares. Subject to certain adjustments upon changes in capitalization, the aggregate number of shares to be delivered upon exercise of all options granted under the Key Employee Plan shall not exceed 300,000 shares (adjusted for stock split). The Key Employee Plan shall terminate on the earliest to occur of (i) the dates when all of the Common Stock available under the Key Employee Plan shall have been acquired through the exercise of options granted under the Key Employee Plan; (ii) 10 years after the date of adoption of the Key Employee Plan by the Board; or (iii) such other date that the Board may determine. The Key Employee Plan is administered by a Committee appointed by the Board of Directors which consists of two or more disinterested persons within the meaning of Rule 16b-3 promulgated pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"). Persons eligible to receive options under the Key Employee Plan shall be employees who are selected by the Committee. In determining the Employees to whom options shall be granted and the number of shares to be covered by each option, the Committee shall take into account the duties of the respective employee, their present and potential contribution to the success of the Company, their anticipated number of years of active service remaining and other factors as it deems relevant in connection with accomplishing the purposes of the Key Employee Plan. An employee who has been granted an option may be granted an additional option or options as the Committee shall so determine. -64- The exercise price of the option shall be determined at the time of grant and shall not be less than 100% of the fair market value of the Common Stock at the time of the grant of the option. The term of the option shall not exceed 10 years from the date on which the option is granted. The vesting schedule for the options and the method or time that when the option may be exercised in whole or in part shall be determined by the Committee. However, in no event shall an option be exercisable within six months of the date of grant in the case of an optionee subject to Section 16(b) of the Exchange Act. Subject to certain exceptions, the option shall terminate six months after the optionee's employment with the Company terminates. No options to purchase shares were granted pursuant to the Key Employee Plan during fiscal 2008. 1998 Stock Option Plan for Non-Employee Directors On December 8, 1998, the Board of Directors of the Company adopted, subject to stockholder approval and ratification, a 1998 Stock Option Plan for Non- employee Directors (the "Plan"). The stockholders ratified that plan on January 27, 1999. The stock offered under the Plan were shares of the Company's Common Stock, par value $.01 per share, which may be unissued shares or treasury shares. Subject to certain adjustments upon changes in capitalization, the aggregate number of shares to be delivered upon exercise of all options granted under the Plan were not to exceed 150,000 shares (adjusted for March 31, 2003 stock split). Since all options authorized to be issued under the Plan were exhausted in fiscal 2006, the Plan was terminated upon shareholder approval, and Board adoption, of the 2007 Stock Compensation Plan for Non-Employee Directors described below; however, any outstanding options under the Plan remain effective in accordance with their terms. 2007 Stock Compensation Plan for Non-Employee Directors On

February 21, 2007, the stockholders of the Company approved The InterGroup Corporation 2007 Stock Compensation Plan for Non-Employee Directors (the "2007 Plan"), which was thereafter adopted by the Board of Directors. The 2007 Plan will terminate upon the earlier of the date all shares reserved for issuance have been awarded or February 21, 2017, if not sooner terminated by the Board upon recommendation by the Compensation Committee. The stock to be available for issuance under the 2007 Plan shall be unrestricted shares of the Company's Common Stock, par value $.01 per share, which may be unissued shares or treasury shares. Subject to certain adjustments upon changes in capitalization, a maximum of 60,000 shares (subject to changes in capitalization or other adjustments for corporate changes) of the Common Stock will be available for issuance to participants under the 2007 Plan. All non-employee directors are eligible to participate in the 2007 Plan. Each non-employee director as of the adoption date of the 2007 Plan shall be granted an award of 600 unrestricted shares of the Company's Common Stock. On each July 1 following the adoption date of the 2007 Plan, each non-employee director shall receive an automatic grant of a number of shares of Company's Common Stock equal in value to $18,000 based on 100% of the fair market value (as defined) of the Common Stock on the date of grant, provided he or she holds such position on that date and the number of shares of Common Stock -65- available for grant under the 2007 Plan is sufficient to permit such automatic grant. Any fractional shares resulting from such grant will be rounded up to next highest whole share. All stock awards to non-employee directors will be fully vested on the date of grant. The dollar amount of the annual grant is subject to further adjustment by the Board of Directors upon recommendation by the Compensation Committee. The stock awards granted under the 2007 Plan are shares of unrestricted Common Stock and are fully vested on the date of grant. The right of the non-employee director to receive his or her annual grant of Common is personal to the director and is not transferable. Once received, shares of Common Stock awarded to the non-employee director are freely transferable subject to any requirements of Section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On June 28, 2007, Company filed a registration statement on Form S-8 to register the shares subject to the 2007 Plan and the Company's two stock option plans. Upon recommendation of the Compensation Committee, the Board may, at any time and from time to time and in any respect, amend or modify the 2007 Plan. The Board must obtain stockholder approval of any material amendment to the 2007 Plan if required by any applicable law, regulation or stock exchange rule. The Board of Directors may amend the 2007 Plan or any award agreement, which amendment may be retroactive, in order to conform it to any present or future law, regulation or ruling relating to plans of this or similar nature. No amendment or modification of the 2007 Plan or any award agreement may adversely affect any outstanding award without the written consent of the participant holding the award. For the fiscal year ended June 30, 2008, the four non-employee directors of the Company, Josef A. Grunwald, Gary N. Jacobs, John C. Love and William J. Nance, each received a grant of 987 shares of Common Stock pursuant to the 2007 Plan. DIRECTOR COMPENSATION Fees Earned or Paid Stock All Other Name in Cash(1) Awards(2) Compensation Total ---------------- --------- ---------- ----------- ------- Josef A. Grunwald $22,000(3) $18,000 - $40,000 Gary N. Jacobs $16,000 $18,000 - $34,000 John C. Love $66,000(4) $18,000 - $84,000 William J. Nance $68,000(5) $18,000 - $86,000 John V. Winfield(6) -------------- (1) Amounts shown include board retainer fees, committee fees and meeting fees. (2) Amounts shown reflect value of 987 shares of Common Stock awarded on July 2, 2007 pursuant to the 2007 Stock Compensation Plan for Non-Employee Directors based on closing price of the Company's Common Stock of $18.24 on June 29, 2007. -66- (3) Mr. Grunwald also serves as a director of the Company's subsidiary, Portsmouth. This amount includes $6,000 in regular board fees paid to Mr. Grunwald by Portsmouth. (4) Mr. Love also serves as a director of the Company's subsidiaries, Santa Fe and Portsmouth. Amounts shown include $8,000 in regular board and audit committee fees paid by Santa Fe and $8,000 in regular board and audit committee fees paid by Portsmouth. These amounts also include $30,000 in special hotel committee fees paid by Portsmouth related to the oversight its Hotel asset. (5) Mr. Nance also serves as a director of the Company's subsidiaries, Santa Fe and Portsmouth. Amounts shown include $8,000 in regular board and audit committee fees paid by Santa Fe and $8,000 in regular board and audit committee fees paid by Portsmouth. These amounts also include $30,000 in special hotel committee fees paid by Portsmouth related to the oversight its Hotel asset. (6) As Chief Executive Officer, the Company's Chairman, John Winfield, was not paid any board, committee or meetings fees. Mr. Winfield did receive a a total of $12,000 in regular board fees from the Company's subsidiaries, which is reported on the Summary Compensation Table. Compensation of Directors Until December 31, 2006, each director was paid a fee of $1,500 per quarter for a total annual compensation of $6,000. Directors were also eligible to receive $500 for each committee meeting attended and $600 for each committee meeting chaired. Members of the Audit Committee also received a fee of $500 per quarter.

Directors who are also executive officers did not receive any fee for attending Board or Committee meetings. As an executive officer, the Company's Chairman has also elected to forego his annual board fee. Non- employee directors were eligible for grants of options to purchase shares of the Company's Common Stock pursuant to the 1998 Stock Option Plan for Non- Employee Directors. All of the options authorized to be issued under that Plan were exhausted effective with the July 1, 2005 option grants and that Plan was terminated. On February 21, 2007, the 2007 Plan was adopted to replace the old Plan. Pursuant to the 2007 Plan, each non-employee director is entitled to an annual grant of a number of shares of Common Stock of the Company equal in value to $18,000 based on the fair market value of the Common Stock on the date of grant and a grant of 600 shares of Common Stock upon the formal adoption of the 2007 Plan by the Board. Based on recommendations of the Administrative and Compensation Committee, the Board of Directors also approved a change in the amount and manner by which non-employee directors are to be paid cash compensation. Effective January 1, 2007, each non-employee director receives an annual cash retainer in the amount of $16,000, to be paid in equal quarterly payments. With the exception of members of the Audit Committee, non-employee directors will not receive any additional fees for attending Board or Committee meetings, but will be entitled to reimbursement of their reasonable expenses to attend such meetings. Members of the Audit Committee are paid a fee of $1,000 per quarter, with the Chair of that Committee to receive $1,500 per quarter. The previous cash compensation policy had been in effect since 1986. -67- Change in Control or Other Arrangements Except for the foregoing, there are no other arrangements for compensation of Directors and there are no employment contracts between the Company and its Directors or any change in control arrangements. Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. The following table sets forth, as of September 10, 2008, certain information with respect to the beneficial ownership of Common Stock of the Company (adjusted for stock split) owned by (i) those persons or groups known by the Company to own more than five percent of the outstanding shares of Common Stock, (ii) each Director and Executive Officer, and (iii) all Directors and Executive Officers as a group. Name and Address of Amount and Nature Beneficial Owner (1) of Beneficial Owner(2) Percentage(3) ------------------- --------------------- ------------ John V. Winfield 1,613,953(4) 62.6% Josef A. Grunwald 129,588(3) 5.4% William J. Nance 80,424(3) 3.4% Gary N. Jacobs 32,502(3)(5) 1.4% John C. Love 29,027(3) 1.2% David C. Gonzalez 26,250(6) 1.1% Michael G. Zybala 0 * David T. Nguyen 0 * All Directors and Executive Officers as a Group (8 persons) 1,911,774 70.7% ----------------- * Ownership does not exceed 1%. (1) Unless otherwise indicated, the address for the persons listed is 820 Moraga Drive, Los Angeles, CA 90049. (2) Unless otherwise indicated and subject to applicable community property laws, each person has sole voting and investment power with respect to the shares beneficially owned. (3) Percentages are calculated on the basis of 2,351,273 shares of Common Stock outstanding at September 10, 2008, plus any securities that person has the right to acquire within 60 days pursuant to options, warrants, conversion privileges or other rights. The following options are included in director's shares: Josef A. Grunwald-32,400; William J. Nance-32,400; Gary N. Jacobs- 26,400; John C. Love-26,400. -68- (4) Includes 225,000 shares of which Mr. Winfield has the right to acquire pursuant to options (5) Other than his options, all shares of Mr. Jacobs are held by the Gary and Robin Jacobs Family Trust. (6) Includes 10,500 shares of which Mr. Gonzalez has the right to acquire pursuant to options. Changes in Control Arrangements There are no arrangements that may result in a change in control of the Company. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS. The following table sets forth information as of June 30, 2008 (adjusted for March 31, 2003 stock split), with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance, aggregated as follows: Plan category Securities to Weighted average Remaining available be issued exercise price for future issuance upon exercise of outstanding under equity of outstanding options compensation plans options, warrants and (excluding warrants and rights securities rights reflected in column (a)) (a) (b) (c) ------------------ ------------ ------------ ------------------ Equity compensation plans approved by security holders(1) 390,000 $9.13 60,000 -- Equity compensation plans not approved by security holders None N/A None -- Total 390,000 $9.13 60,000 -- (1) The Company also has 53,652 shares of Common Stock available for future issuance pursuant to the 2007 Stock Compensation Plan for Non-Employee Directors, which plan was approved by security holders on February 21, 2007. Pursuant to the 2007 Plan, each non-employee director will receive, on July 1 of each year, an annual grant of a number of shares of Common Stock of the Company equal in value to $18,000 based on the fair market value of the Common Stock on the date of grant. -69- Item 12.

Certain Relationships and Related Transactions, and Director Independence On December 4, 1998, the Administrative and Compensation Committee authorized the Company to obtain whole life and split dollar insurance policies covering the Company's President and Chief Executive Officer, Mr. Winfield. During fiscal 2008 and 2007, the Company paid annual premiums in the amount of approximately $85,000 for the split dollar insurance policy owned by, and the beneficiary of which is, a trust for the benefit of Mr. Winfield's family. The Company has a secured right to receive, from any proceeds of the policy, reimbursement of all premiums paid prior to any payments to the beneficiary. On June 30, 1998, the Company's Chairman and President entered into a voting trust agreement with the Company giving the Company the power to vote his 4.0% interest in the outstanding shares of the Santa Fe common stock. As Chairman of the Securities Investment Committee, the Company's President and Chief Executive officer, John V. Winfield, oversees the investment activity of the Company in public and private markets pursuant to authority granted by the Board of Directors. Mr. Winfield also serves as Chief Executive Officer and Chairman of Santa Fe and Portsmouth and oversees the investment activity of those companies. Depending on certain market conditions and various risk factors, the Chief Executive Officer, his family, Santa Fe and Portsmouth 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 Santa Fe and Portsmouth, at risk in connection with investment decisions made on behalf of the Company. Under the direction of the Securities Investment Committee, the Company has instituted certain modifications to its procedures to reduce the potential for conflicts of interest. The Company, its subsidiary Santa Fe and Santa Fe's subsidiary, Portsmouth, have established performance based compensation programs for Mr. Winfield's management of the securities portfolios of those companies. The performance based compensation program was approved by the disinterested members of the respective Boards of Directors of the Company and its subsidiaries. No performance bonus compensation was paid to Mr. Winfield for the fiscal years ended June 30, 2008 and 2007. In August 2007, Portsmouth agreed to make a $973,000 equity investment in the Company's wholly subsidiary, Intergroup Uluniu, Inc., a Hawaii corporation ("Uluniu") in exchange for a 50% equity position in Uluniu. Uluniu owns an approximately two-acre parcel of unimproved land located in Kihei, Maui, Hawaii which is held for development. Portsmouth's investment in Uluniu represents an amount equal to the costs paid by InterGroup for the acquisition and carrying costs of the property through August 2007. As of September 5, 2007, $758,000 of the investment amount was paid by Portsmouth and the proceeds were used by Uluniu to retire the mortgage on the property in the approximate amount of $756,000. On June 25, 2008, the balance of $215,000 was paid by Portsmouth to Uluniu. Director Independence InterGroup's common stock is listed on the NASDAQ Capital Market tier of the NASDAQ Stock Market LLC ("NASDAQ"). InterGroup is a small business issuer under the rules and regulations of the Securities and Exchange Commission ("SEC"). The Board of Directors of InterGroup currently consists of five members. With the exception of the Company's President and CEO, John V. -70- Winfield, all of InterGroup's Board of Directors consists of "independent" directors as independence is defined by the applicable rules of the SEC and NASDAQ. There are no members of the Company's compensation, nominating or audit committees that do not meet those independence standards. Item 13. Exhibits. (a) Listing of Exhibits by Table Number ---------------------------------- 3. (i) Articles of Incorporation 3.1 Certificate of Incorporation, dated September 11, 1985, incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-4, filed on September 6, 1985 (Registration No. 33-00126) and Amendment 1 to that Registration Statement filed on October 23, 1985. 3.2 Restated Certificate of Incorporation, dated March 9, 1998, incorporated by reference to Exhibit 3 of the Company's Amended Quarterly Report on Form 10-QSB/A for the period ended March 31, 1998, as filed on May 19, 1998. 3.3 Certificate of Amendment to Certificate of Incorporation, dated October 2, 1998, incorporated by reference to Exhibit 3 of the Company's Quarterly report of Form 10-QSB for the period ended September 30, 1998, as filed on November 11, 1998. 3.4 Certificate of Amendment of Certificate of Incorporation filed with the Delaware Secretary of State on August 6, 2007, incorporated by reference to Exhibit 3.4 of the Company's Annual Report on Form 10-KSB for the year ended June 30, 2007 as filed on September 28, 2007. 3 (ii) By-Laws 3.5 Amended and Restated By-Laws of The InterGroup Corporation, effective as of December 10, 2007, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed on December 12, 2007. 4. Instruments defining the rights of security holders, including indentures * 9. Voting Trust Agreement Voting Trust Agreement dated June 30, 1998 between John V. Winfield and The InterGroup Corporation is incorporated by reference to the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on September 28, 1998. 10. Material Contracts 10.1 1998 Stock Option Plan for Non-Employee Directors approved by the Board of Directors on December 8, 1998 and ratified by the shareholders on January 27, 1999 ** 10.2 1998 Stock Option Plan for Selected Key Officers, Employees and Consultants approved by the Board of Directors on December 8, 1998 and ratified by the shareholders on January 27, 1999 ** -71- 10.3 The InterGroup Corporation 2007 Stock Compensation Plan for Non- Employee Directors, incorporated by reference to the Company's Proxy Statement on Schedule 14A filed the Commission on January 26, 2007. 14. Code of Ethics (filed herewith) 21. Subsidiaries: (1) Intergroup Summit Hills, Inc. (incorporated on August 12, 1993 in TX) (2) Intergroup Mariposa, Inc. (incorporated on June 23, 1994 in TX) (3) Intergroup Arlington Arms, Inc. (incorporated on August 5, 1993 in TX) (4) Intergroup Woodland Village, Inc. (incorporated on August 5, 1993 in OH) (5) Intergroup Cross Keys, Inc. (incorporated on April 1, 1994 in MO) (6) Intergroup Bridgeton, Inc. (incorporated on May 12, 1994 in MO) (7) Intergroup Whisperwood, Inc. (incorporated on June 20, 1994 in PA) (8) Intergroup Eagle Creek, Inc. (incorporated on April 15, 1994 in TX) (9) Intergroup Entertainment Corp. (incorporated on December 23, 1993 in DE) (10) Mutual Real Estate Corp. (incorporated on March 10, 1994 in TX) (11) WinGroup Capital (incorporated on September 21, 1994 in CA) (12) Broadview Enterprises, Inc. (incorporated April 14, 1995 in MO) (13) Wayward, Inc. (incorporated April 18, 1995 in MO) (14) Golden West Entertainment, Inc. (incorporated February 15, 1990 in CA) (15) Golden West Television Productions, Inc. (incorporated September 17, 1991 in CA) (16) Golden West Television Productions, Inc. (incorporated March 17, 1986 in NY) (17) Intergroup The Trails, Inc. (incorporated on September 14, 1994 in TX) (18) Intergroup Meadowbrook Gardens, Inc. (incorporated on June 23, 1994 in NJ) (19) Intergroup Pine Lake, Inc. (incorporated on February 9, 1996 in KY) (20) Bellagio Capital Fund, LLC (established on June 18, 1997 in CA) (21) Intergroup Casa Maria, Inc. (incorporated on April 3, 1997 in TX) (22) Healthy Planet Communications, Inc. (incorporated July 3, 1997 in CA) (23) Santa Fe Financial Corporation (incorporated July 25, 1967 in NV) (24) Portsmouth Square, Inc. (incorporated July 6, 1967 in CA) (24) 2301 Bel-Air Equity, Inc. (incorporated May 25, 2000 in CA) (26) 11378 Ovada Properties, Inc. (incorporated June 21, 2000 in CA) (27) 11371 Ovada Properties, Inc. (incorporated May 25, 2000 in CA) (28) 11361 Ovada Properties, Inc. (incorporated June 1, 2000 in CA) (29) 11680 Bellagio Properties, Inc. (incorporated May 25, 2000 in CA) (30) North Sepulveda Properties, Inc. (incorporated June 21, 2000 in CA) (31) 11650 Bellagio Properties, Inc. (incorporated August 17, 2000 in CA) (32) Intergroup Elwood, Inc. (incorporated October 12, 2000 in TX) (33) 11720 Bellagio Properties, Inc. (incorporated January 17, 2001 in CA) (34) 636 Acanto Properties, Inc. (incorporated February 15, 2001 in CA) (35) Intergroup Tollgate Creek, Inc. (incorporated June 14, 2001 in TX) (36) 614 Acanto Properties, Inc. (incorporated November 7, 2001 in CA) (37) Intergroup Uluniu, Inc. (incorporated August 12, 2004 in HI) 23.1 Consent of Independent Registered Public Accounting Firm - Burr Pilger & Mayer LLP (filed herewith) 23.2 Consent of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP (filed herewith) -72- 31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a) (filed herewith). 31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a) (filed herewith) 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 (filed herewith). 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350. (filed herewith). * All Exhibits marked by one asterisk are incorporated herein by reference to the Trust's Registration Statement on Form S-4 as filed with the Securities and Exchange Commission on September 6, 1985, Amendment No. 1 to Form S-4 as filed with the Securities and Exchange Commission on October 23, 1985, Exhibit 14 to Form 8 Amendment No. 1 to Form 8 filed with the Securities & Exchange Commission November 1987 and Form 8 Amendment No. 1 Item 4 filed with the Securities & Exchange Commission October 1988. ** All Exhibits marked by two asterisks are incorporated herein by reference to the Company's Schedule 14A filed with the Securities and Exchange Commission on December 21, 1998. (b) Reports on Form 8-K: ------------------- The Company did not file any reports on Form 8-K during the last quarter of the period covered by this Report. -73- Item 14. Principal Accountant Fees and Services. Audit Fees - The aggregate fees billed for each of the last two fiscal years ended June 30, 2008 and 2007 for professional services rendered by Burr, Pilger & Mayer, LLP (fiscal 2008) and PricewaterhouseCoopers LLP (fiscal 2007), the independent registered public accounting firms for the audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-QSB or services normally provided by the independent registered public accounting firms in connection with statutory and regulatory filings or engagements for those fiscal years, were as follows: Fiscal Year ------------------------ 2008 2007 -------- -------- Audit Fees $277,000 $407,000 Audit Related Fees - - Tax Fees - - All Other Fees - - -------- -------- TOTAL: $277,000 $407,000 ======== ======== Audit Committee Pre-Approval Policies The Audit Committee shall pre-approve all auditing services and permitted non- audit services (including the fees and terms thereof) to be performed for the Company by its independent registered public accounting firm, subject to any de minimus exceptions that may be set for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non- audit services, provided that decisions of such subcommittee to grant pre- approvals shall be presented to the full Committee at its next scheduled meeting. All of the services described herein were approved by the Audit Committee pursuant to its pre-approval policies. None of the hours expended on the independent registered public accounting firms' engagement to audit the Company's financial statements for the most recent fiscal year were attributed to work performed by persons other than the independent registered public accounting firm's full-time permanent employees. -74- SIGNATURES ---------- In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. THE INTERGROUP CORPORATION (Registrant) Date: September 25, 2008 by /s/ John V. Winfield ------------------ -------------------------------------- John V. Winfield, Chairman of the Board, President and Chief Executive Officer Date: September 25, 2008 by /s/ David T. Nguyen ------------------ -------------------------------------- David T. Nguyen, Treasurer and Controller Controller (Principal Accounting Officer) In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Date: September 25, 2008 /s/ John V. Winfield ------------------ -------------------------------------- John V. Winfield, Chairman of the Board, President and Chief Executive Officer Date: September 25, 2008 /s/ Josef A. Grunwald ------------------ -------------------------------------- Josef A. Grunwald, Vice Chairman of Board Date: September 25, 2008 /s/ Gary N. Jacobs ------------------ -------------------------------------- Gary N. Jacobs, Director Date: September 25, 2008 /s/ John C. Love ------------------ -------------------------------------- John C. Love, Director Date: September 25, 2008 /s/ William J. Nance ------------------ -------------------------------------- William J. Nance, Director -75-