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INTERGROUP CORP
Form 10-Q
February 11, 2011

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, 2010

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

13-3293645

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

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

90024

(Address of principal executive offices)

(Zip Code)

(310) 889-2500

(Registrant's telephone number)

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

The number of shares outstanding of issuer's Common Stock, as of February 9, 2011, was 2,424,164

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PART I FINANCIAL INFORMATION

Item 1 - Condensed Consolidated Financial Statements

THE INTERGROUP CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2010 (Unaudited)	June 30, 2010
	-----	-----
Assets:		
Investment in hotel, net	\$ 40,450,000	\$ 41,961,000
Investment in real estate, net	60,868,000	61,184,000
Properties held for sale	7,314,000	7,193,000
Investment in marketable securities	21,846,000	7,712,000
Other investments, net	17,871,000	6,651,000

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Cash and cash equivalents	1,213,000	1,140,000
Restricted cash	2,055,000	1,641,000
Other assets, net	4,865,000	4,645,000
	-----	-----
Total assets	\$156,482,000	\$132,127,000
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Liabilities:		
Accounts payable and other liabilities	\$ 9,844,000	\$ 10,473,000
Due to securities broker	10,491,000	2,235,000
Obligations for securities sold	-	1,698,000
Other notes payable	3,593,000	3,688,000
Mortgage notes payable - hotel	45,590,000	45,990,000
Mortgage notes payable - real estate	63,078,000	59,842,000
Mortgage notes payable - property held for sale	10,335,000	10,450,000
Deferred income taxes	6,166,000	1,135,000
	-----	-----
Total liabilities	149,097,000	135,511,000
	-----	-----
Commitments and contingencies		
Shareholders' equity (deficit):		
Preferred stock, \$.01 par value, 100,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 4,000,000 shares authorized; 3,313,152 and 3,290,872 issued; 2,424,164 and 2,401,884 outstanding, respectively	33,000	33,000
Additional paid-in capital	9,256,000	9,109,000
Retained earnings	12,801,000	4,190,000
Treasury stock, at cost, 888,988 shares	(9,564,000)	(9,564,000)
	-----	-----
Total Intergroup shareholders' equity	12,526,000	3,768,000
Noncontrolling interest (deficit)	(5,141,000)	(7,152,000)
	-----	-----
Total shareholders' equity (deficit)	7,385,000	(3,384,000)
	-----	-----
Total liabilities and shareholders' equity (deficit)	\$156,482,000	\$132,127,000
	=====	=====

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,	2010	2009
	-----	-----
Revenues:		
Hotel	\$ 9,142,000	\$ 8,368,000
Real estate	3,012,000	3,077,000
	-----	-----
Total revenues	12,154,000	11,445,000

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Costs and operating expenses:		
Hotel operations	(6,816,000)	(6,543,000)
Real estate operations	(1,594,000)	(1,499,000)
Depreciation and amortization	(1,733,000)	(1,727,000)
General and administrative	(400,000)	(451,000)
Total costs and operating expenses	(10,543,000)	(10,220,000)
Income from operations	1,611,000	1,225,000
Other income (expense):		
Mortgage interest expense	(1,529,000)	(1,533,000)
Net gain on marketable securities	3,703,000	182,000
Net unrealized income on other investments	11,822,000	226,000
Impairment loss on other investments	(310,000)	(917,000)
Dividend and interest income	472,000	55,000
Trading and margin interest expense	(324,000)	(352,000)
Total other income (expense), net	13,834,000	(2,339,000)
Income (loss) from continuing operations before income taxes	15,445,000	(1,114,000)
Income tax (expense) benefit	(4,965,000)	338,000
Income (loss) from continuing operations	10,480,000	(776,000)
Discontinued operations:		
Income from discontinued operations	110,000	94,000
Provision for income tax expense	(44,000)	(39,000)
Income from discontinued operations	66,000	55,000
Net income (loss)	10,546,000	(721,000)
(Income) loss attributable to the noncontrolling interest	(1,944,000)	242,000
Net income (loss) attributable to InterGroup	\$ 8,602,000	\$ (479,000)
Net income (loss) per share from continuing operations		
Basic	\$ 4.32	\$ (0.32)
Diluted	\$ 4.14	\$ (0.32)
Net income per share from discontinued operations		
Basic	\$ 0.03	\$ 0.02
Diluted	\$ 0.03	\$ 0.02
Net income (loss) per share attributable to InterGroup		
Basic	\$ 3.55	\$ (0.20)
Diluted	\$ 3.40	\$ (0.20)
Weighted average shares outstanding:		
Basic	2,424,136	2,394,109
Diluted	2,532,804	2,443,884

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,	2010	2009
	-----	-----
Revenues:		
Hotel	\$ 18,668,000	\$ 16,898,000
Real estate	6,102,000	6,122,000
	-----	-----
Total revenues	24,770,000	23,020,000
	-----	-----
Costs and operating expenses:		
Hotel operations	(14,133,000)	(13,419,000)
Real estate operations	(3,162,000)	(3,158,000)
Depreciation and amortization	(3,497,000)	(3,396,000)
General and administrative	(872,000)	(716,000)
	-----	-----
Total costs and operating expenses	(21,664,000)	(20,689,000)
	-----	-----
Income from operations	3,106,000	2,331,000
	-----	-----
Other income (expense):		
Mortgage interest expense	(3,004,000)	(3,076,000)
Net gain (loss) on marketable securities	4,056,000	(1,140,000)
Net unrealized income on other investments	11,863,000	226,000
Impairment loss on other investments	(540,000)	(917,000)
Dividend and interest income	611,000	132,000
Trading and margin interest expense	(627,000)	(728,000)
	-----	-----
Total other income (expense), net	12,359,000	(5,503,000)
	-----	-----
Income (loss) from continuing operations before income taxes	15,465,000	(3,172,000)
Income tax (expense) benefit	(4,955,000)	1,037,000
	-----	-----
Income (loss) from continuing operations	10,510,000	(2,135,000)
	-----	-----
Discontinued operations:		
Income from discontinued operations	188,000	147,000
Provision for income tax expense	(76,000)	(60,000)
	-----	-----
Income from discontinued operations	112,000	87,000
	-----	-----
Net income (loss)	10,622,000	(2,048,000)
(Income) loss attributable to the noncontrolling interest	(2,011,000)	638,000
	-----	-----
Net income (loss) attributable to Intergroup	\$ 8,611,000	\$ (1,410,000)
	=====	=====
Net income (loss) per share from continuing operations		
Basic	\$ 4.35	\$ (0.90)
Diluted	\$ 4.19	\$ (0.90)

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Net income per share from discontinued operations			
Basic	\$	0.05	\$ 0.04
Diluted	\$	0.04	\$ 0.04
Net income(loss) per share attributable to InterGroup			
Basic	\$	3.56	\$ (0.60)
Diluted	\$	3.43	\$ (0.60)
Weighted average shares outstanding:			
Basic		2,417,055	2,368,528
Diluted		2,507,999	2,368,528

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,	2010	2009
	-----	-----
Cash flows from operating activities:		
Net income(loss)	\$10,622,000	\$ (2,048,000)
Adjustments to reconcile net income(loss) to cash (used in)provided by operating activities:		
Depreciation and amortization	3,497,000	3,396,000
Net unrealized (gain)loss on marketable securities	(3,837,000)	5,288,000
Impairment loss on other investments	540,000	917,000
Net unrealized gain on other investments	(11,863,000)	(226,000)
Stock compensation expense	147,000	72,000
Changes in assets and liabilities:		
Investment in marketable securities	(10,297,000)	957,000
Other assets	(247,000)	(676,000)
Accounts payable and other liabilities	(630,000)	570,000
Due to securities broker	8,256,000	(3,353,000)
Obligation for securities sold	(1,698,000)	(405,000)
Deferred tax liability	5,031,000	(976,000)
Net cash (used in)provided by operating activities	(479,000)	3,516,000
Cash flows from investing activities:		
Investment in hotel	(1,008,000)	(926,000)
Investment in real estate	(755,000)	(178,000)
Proceeds (payments) other investments	103,000	(775,000)
Restricted cash	(414,000)	(171,000)
Net cash used in investing activities	(2,074,000)	(2,050,000)
Cash flows from financing activities:		
Borrowings from mortgage notes payable	3,838,000	-
Payments on mortgage notes payable	(1,117,000)	(1,058,000)
Payments on other notes payable	(95,000)	(201,000)
Draw on line of credit	-	689,000

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Net cash provided by(used in) financing activities	2,626,000	(570,000)
	-----	-----
Net increase in cash and cash equivalents	73,000	896,000
Cash and cash equivalents at beginning of period	1,140,000	1,024,000
	-----	-----
Cash and cash equivalents at end of period	\$ 1,213,000	\$ 1,920,000
	=====	=====
Supplemental information:		
Interest paid	\$ 3,464,000	\$ 3,374,000
	=====	=====
Assets acquired through capital lease	\$ -	\$ 700,000
	=====	=====

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

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. It is suggested that these financial statements be read in conjunction with the audited financial statements of InterGroup and the notes therein included in the Company's Annual Report on Form 10-K for the year ended June 30, 2010. The June 30, 2010 Condensed Consolidated Balance Sheet was obtained from the Company's Form 10-K for the year ended June 30, 2010.

The results of operations for the three and six months ended December 31, 2010 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2011.

As of December 31, 2010, the Company had the power to vote 80% 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

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stock of Portsmouth. Portsmouth has a 50.0% limited partnership interest in Justice 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 at which time Portsmouth assumed the role of managing general partner.

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 underground parking garage. The Hotel is operated by the partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. Justice also has a Management Agreement with Prism Hospitality L.P. ("Prism") to perform the day-to-day management functions of the Hotel.

Justice leased the parking garage to Evon through September 30, 2008. 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 Management, Inc. ("Ace Parking") for the

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management of the garage and any other liabilities related to the operation of the garage commencing October 1, 2008. The management agreement with Ace Parking was extended for another 62 months, effective November 1, 2010. The Partnership also leases a day spa on the lobby level to Tru Spa. 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.

Due to the temporary closing of the Hotel to undergo major renovations from May 2005 until January 2006 to transition and reposition the Hotel from a Holiday Inn to a Hilton, and the substantial depreciation and amortization expenses resulting from the renovations and operating losses incurred as the Hotel ramped up operations after reopening, Justice has recorded net losses. These losses were anticipated and planned for as part of the Partnership's renovation and repositioning plan for Hotel and management considers those net losses to be temporary. The Hotel has been generating positive cash flows from operations since June 2006 and net income is expected to improve in the future, especially since depreciation and amortization expenses attributable to the renovation will decrease substantially. Despite the significant downturn in the economy, management believes that the revenues expected to be generated from the Hotel, garage and the Partnership's leases will be sufficient to meet all of the Partnership's current and future obligations and financial requirements. Management also believes that there is significant equity in the Hotel to support additional borrowings, if necessary.

In addition to the operations of the Hotel, the Company also generates income from the ownership of real estate. Properties include apartment complexes, commercial real estate, and two single-family houses as strategic investments. The properties are located throughout the United States, but are concentrated in Texas and Southern California. The Company also has investments in unimproved real property. The Company's residential rental properties located in California are managed by a professional third party property management company.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, "Improving Disclosures About Fair Value Measurements." Effective January 1, 2010, ASU 2010-06 requires the separate disclosure of significant transfers into and out of the Level 1 and

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Level 2 categories and the reasons for such transfers, and also requires fair value measurement disclosures for each class of assets and liabilities as well as disclosures about valuation techniques and inputs used for recurring and nonrecurring Level 2 and Level 3 fair value measurements. Effective in fiscal years beginning after December 31, 2010, ASU 2010-06 also requires Level 3 disclosure of purchases, sales, issuances and settlements activity on a gross rather than a net basis. These amendments resulted in additional disclosures in the Company's condensed consolidated financial statements.

The Consolidation Topic of the FASB ASC 810 provides a new accounting provision regarding the consolidation of variable interest entities ("VIEs"). The new accounting provision modifies the existing quantitative guidance used in determining the primary beneficiary of a VIE by requiring entities to qualitatively assess whether an enterprise is a primary beneficiary, based on whether the entity has (i) power over the significant activities of the VIE, and (ii) an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. Additionally, the accounting provision requires an ongoing reconsideration of the primary beneficiary and provides a framework for the events that triggers a reassessment of whether an entity is a VIE. The new accounting update became effective for the Company on July 1, 2010. The adoption of this guidance did not have a material effect on the Company's condensed consolidated financial statements.

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The Company has evaluated subsequent events through the date the condensed consolidated financial statements were issued.

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 to the sale plan will be made or withdrawn. As of December 31, 2010, the Company had two properties classified as held for sale in accordance with ASC Topic 205-20 "Presentation of Financial Statements - Discontinued Operations, which requires that depreciation on these properties be stopped.

During the three and six months ended December 31, 2009, three properties were classified as held for sale. However, since then, one of the properties was no longer considered held for sale. Accordingly, the operations of this property for the three and six months ended December 31, 2009 was reclassified from discontinued operations to continuing operations to conform to current quarter presentation.

Under the provisions of the provisions of ASC Topic 205-20, 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, 2010 and 2009 and reported as income from discontinued operations in the consolidated statements of operations.

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

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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 and restricted stock units. For the three and six months ended December 31, 2010, the Company had a total of 108,668 and 90,944, stock options and restricted stock units, respectively, that were considered potential dilutive common shares. For the three and six months ended December 31, 2009, there were no potentially dilutive common shares as the Company had a net loss from continuing operations.

NOTE 2 - INVESTMENT IN HOTEL, NET

Hotel property and equipment consisted of the following:

As of December 31, 2010	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 2,738,000	\$ -	\$ 2,738,000
Furniture and equipment	19,031,000	(16,569,000)	2,462,000
Building and improvements	55,101,000	(19,851,000)	35,250,000
	-----	-----	-----
	\$ 76,870,000	\$(36,420,000)	\$ 40,450,000
	=====	=====	=====

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June 30, 2010	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 2,738,000	\$ -	\$ 2,738,000
Furniture and equipment	18,393,000	(14,710,000)	3,683,000
Building and improvements	54,782,000	(19,242,000)	35,540,000
	-----	-----	-----
	\$ 75,913,000	\$(33,952,000)	\$ 41,961,000
	=====	=====	=====

NOTE 3 - INVESTMENT IN REAL ESTATE, NET

Investment in real estate included the following:

	December 31, 2010	June 30, 2010
	-----	-----
Land	\$ 24,735,000	\$ 24,735,000
Buildings, improvements and equipment	61,392,000	60,758,000
Accumulated depreciation	(25,259,000)	(24,309,000)
	-----	-----
	\$ 60,868,000	\$ 61,184,000
	=====	=====

In November 2010, the Company refinanced its \$1,641,000 adjustable rate mortgage note payable on its 27-unit apartment building for a new 10-year fixed rate mortgage in the amount of \$3,260,000. The interest rate on the new loan is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. The Company received net proceeds of approximately \$1,507,000 from the refinancing.

In November 2010, the Company also refinanced its \$3,569,000 adjustable rate

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mortgage note payable on its 31-unit apartment building for a new 10-year fixed rate mortgage in the amount of \$5,787,000. The interest rate on the new loan is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. The Company received net proceeds of approximately \$2,078,000 from the refinancing.

NOTE 4 - PROPERTY HELD FOR SALE AND DISCONTINUED OPERATIONS

As of December 31, 2010, the Company had two properties located in Texas classified as held for sale. The revenues and expenses from the operation for these two properties have been reclassified from continuing operations and reported as income from discontinued operations in the condensed consolidated statements of operations for the respective periods.

The revenues and expenses from the operation of these two properties during the three and six months ended December 31, 2010 and 2009, are summarized as follows:

For the three months ended December 31,	2010	2009
	-----	-----
Revenues	\$ 642,000	\$ 606,000
Expenses	(532,000)	(512,000)
	-----	-----
Income	\$ 110,000	\$ 94,000
	=====	=====

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For the six months ended December 31,	2010	2009
	-----	-----
Revenues	\$1,245,000	\$ 1,209,000
Expenses	(1,057,000)	(1,062,000)
	-----	-----
Income	\$ 188,000	\$ 147,000
	=====	=====

In January 2011, the Company sold one of its held for sale properties, the 132-unit apartment complex located in San Antonio, Texas for \$5,500,000 and received net proceeds of approximately \$2,030,000 after the repayment of the related mortgage note payable of approximately \$3,218,000. The Company will realize an estimated gain on the sale of real estate of approximately \$3,200,000.

NOTE 5 - 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, 2010 and June 30, 2010, all of the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments are included in earnings. Trading securities are summarized as follows:

As of December 31, 2010

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Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Market Value
Corporate Equities	\$16,497,000	\$ 6,449,000	(\$1,100,000)	\$ 5,349,000	\$21,846,000

As of June 30, 2010

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Market Value
Corporate Equities	\$ 6,311,000	\$ 2,273,000	(\$872,000)	\$ 1,401,000	\$ 7,712,000

As of December 31, 2010 and June 30, 2010, the Company had unrealized losses of \$852,000 and \$679,000, 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, 2010 and 2009, respectively.

For the three months ended December 31,	2010	2009
Realized gain on marketable securities	\$ 334,000	\$ 4,000,000
Unrealized gain(loss) on marketable securities	3,369,000	(3,818,000)
Net gain on marketable securities	\$ 3,703,000	\$ 182,000

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For the six months ended December 31,	2010	2009
Realized gain on marketable securities	\$ 219,000	\$ 4,148,000
Unrealized gain(loss) on marketable securities	3,837,000	(5,288,000)
Net gain(loss) on marketable securities	\$ 4,056,000	\$ (1,140,000)

NOTE 6 - OTHER INVESTMENTS, NET

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

As of December 31, 2010 and June 30, 2010, the Company's other investments, net, is comprised of the following:

Type	December 31, 2010	June 30, 2010
Preferred stock - Comstock	\$ 13,231,000	\$ -
Private equity hedge fund	3,172,000	3,712,000

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Corporate debt & equity instruments	569,000	2,358,000
Warrants - at fair value	899,000	581,000
	-----	-----
	\$ 17,871,000	\$ 6,651,000
	=====	=====

On October 20, 2010, as part of a debt restructuring of one of its investments, the Company exchanged approximately \$13,231,000 in notes, convertible notes and debt instruments that it held in Comstock Mining, Inc. ("Comstock" - OTCBB: LODE)) for 13,231 shares (\$1,000 stated value) of newly created 7 1/2% Series A-1 Convertible Preferred Stock (the "A-1 Preferred") of Comstock. Prior to the exchange, those notes and convertible debt instruments had a carrying value of \$1,809,000, net of impairment adjustments. The Company accounted for the transaction as an exchange of its debt securities and recorded the new instruments (A-1 Preferred) received based on their fair value. The Company estimated the fair value of the A-1 Preferred at \$1,000 per share, which was the stated value of the instrument, for a total of \$13,231,000. The fair value of the A-1 Preferred had a similar value to the Series B preferred stock financing (stated value of \$1,000 per share) by which Comstock concurrently raised \$35.7 million in new capital from other investors in October 2010. The Company recorded an unrealized gain of \$11,422,000 related to the preferred stock received as part of the debt restructuring. This unrealized gain is included in the net unrealized gain on other investments in the Company's condensed consolidated statements of operations.

The Company's Chairman and President also exchanged approximately \$7,681,000 in notes and convertible notes held personally by him for 7,681 shares of A-1 Preferred. Together, the Company and Mr. Winfield will constitute all of the holders of the A-1 Preferred.

Each share of A-1 Preferred has a stated value of \$1,000 per share and a liquidation and change of control preference equal to the stated value plus accrued and unpaid dividends. Commencing January 1, 2011, the holders are entitled to semi-annual dividends at a rate of 7.5% per annum, payable in cash,

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common stock, preferred stock or any combination of the foregoing, at the election of Comstock. At the holder's election, each share of A-1 Preferred is convertible at a fixed conversion rate (subject to anti-dilution) into 1,536 shares of common stock of Comstock, therefore converting into common stock at a conversion price of \$0.6510. Each share of A-1 Preferred will entitle the holder to vote with the holders of common stock as a single class on all matters submitted to the vote of the common stock (on an as converted basis) and, for purposes of voting only, each share of A-1 Preferred shall be entitled to five times the number of votes per common share to which it would otherwise be entitled. Each share of A-1 Preferred shall entitle its holder to one (1) vote in any matter submitted to vote of holders of Preferred Stock, voting as a separate class. The A-1 Preferred, in conjunction with the other series of newly created Preferred Stock of Comstock, also has certain rights requiring consent of the Preferred Stock holders for Comstock to take certain corporate and business actions. The holders will have registration rights with respect to the shares of common stock underlying the A-1 Preferred and also preemptive rights. The foregoing description of the A-1 Preferred and the specific terms of the A-1 Preferred is qualified in its entirety by reference to the provisions of the Series A Securities Purchase Agreement, the Certificate of Designation of Preferences and Rights and Limitations of 7 1/2% Series A-1 Convertible Preferred Stock and the Registration Rights Agreement for the Series A Preferred Stock, which were filed as exhibits to the Company's Current Report on Form 8-K, dated October 20, 2010.

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As of December 31, 2010, the Company had investments in corporate debt and equity instruments which had attached warrants that were considered derivative instruments. These warrants have an allocated cost basis of \$400,000 and a fair market value of \$899,000. During the three and six months ended December 31, 2010, the Company had an unrealized gain of \$400,000 and \$441,000, respectively, related to these warrants.

NOTE 7 - FAIR VALUE MEASUREMENTS

The carrying values of the Company's non-financial instruments approximate fair value due to their short maturities (i.e., accounts receivable, other assets, accounts payable and other liabilities, due to securities broker, and obligations for securities sold) or the nature and terms of the obligation (i.e., other notes payable and mortgage note payable).

The assets measured at fair value on a recurring basis as of December 31, 2010 are as follows:

Assets:	Level 1	Level 2	Level 3	December 31, 2010
-----	-----	-----	-----	-----
Cash	\$ 1,213,000	\$ -	\$ -	\$ 1,213,000
Restricted cash	2,055,000	-	-	2,055,000
Other investments - warrants	-	899,000	-	899,000
Investment in marketable securities				
Basic material	5,005,000			5,005,000
REITs	3,240,000			3,240,000
Investment funds	3,012,000			3,012,000
Financial services	2,986,000			2,986,000
Services	2,194,000			2,194,000
Other	5,409,000			5,409,000
	21,846,000			21,846,000
	\$25,114,000	\$ 899,000	\$ -	\$26,013,000
	=====	=====	=====	=====

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The assets measured at fair value on a recurring basis as of June 30, 2010 are as follows:

Assets:	Level 1	Level 2	Level 3	June 30, 2010
-----	-----	-----	-----	-----
Cash	\$ 1,140,000	\$ -	\$ -	\$ 1,140,000
Restricted cash	1,641,000	-	-	1,641,000
Other investments - warrants	-	581,000	-	581,000
Investment in marketable securities				
Investment funds	3,271,000			3,271,000

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REITs	1,946,000			1,946,000
Healthcare	668,000			668,000
Financial services	551,000			551,000
Other	1,276,000			1,276,000
	-----			-----
	7,712,000			7,712,000
	-----	-----	-----	-----
	\$10,493,000	\$ 581,000	\$ -	\$11,074,000
	=====	=====	=====	=====

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

Financial assets that are measured at fair value on a non-recurring basis and are not included in the tables above include "Other investments in non-marketable securities," that were initially measured at cost and have been written down to fair value as a result of impairment. The following table shows the fair value hierarchy for these assets measured at fair value on a non-recurring basis are as follows:

Assets:	Level 1	Level 2	Level 3	December 31, 2010	Net g six m Decem
-----	-----	-----	-----	-----	-----
Other non-marketable investments	\$ -	\$ -	\$16,972,000	\$16,972,000	\$10

Assets:	Level 1	Level 2	Level 3	June 30, 2010	Los six m Decem
-----	-----	-----	-----	-----	-----
Other non-marketable investments	\$ -	\$ -	\$6,070,000	\$6,070,000	\$ (

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

NOTE 8 - STOCK BASED COMPENSATION PLANS

The Company follows the Statement of Financial Accounting Standards 123 (Revised), "Share-Based Payments" ("SFAS No. 123R"), which was primarily codified into ASC Topic 718 "Compensation - Stock Compensation", which addresses accounting for equity-based compensation arrangements, including employee stock options and restricted stock units.

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Please refer to NOTE 16 - STOCK-BASED COMPENSATION PLANS in the Company's Form 10-K for the year ended June 30, 2010 for more detail information on the Company's stock-based compensation plans.

During the six months ended December 31, 2010, the Company recorded stock option compensation cost of \$75,000 related to issuance of stock options. As of December 31, 2010, there was a total of \$191,000 of unamortized compensation related to stock options which is expected to be recognized over the weighted-average of 5 years.

The fair value of options is measured by applying the Black-Scholes model on grant date.

Expected volatility	51.6%
Expected term	7 years
Expected dividend yield	0%
Risk-free interest rate	2.36%

The following table summarizes the stock options outstanding as of December 31, 2010:

	Number of Shares	Weighted-average Exercise Price	Weighted Average Remaining Life	Aggreg Intrin Valu
	-----	-----	-----	-----
Outstanding at June 30, 2009	102,000	\$12.47	3.15 years	\$ 52,
Granted	105,000	10.30		
Exercised	(3,000)	12.00		
Forfeited	-	-		
Exchanged	(12,000)	12.00		
	-----	-----		
Outstanding at June 30, 2010	192,000	\$11.32	6.44 years	\$ 790,
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Exchanged	-	-		
	-----	-----		
Outstanding at December 31, 2010	192,000	\$11.32	5.94 years	\$1,976,
	=====	=====		=====
Exercisable at December 31, 2010	87,000	\$12.55	2.02 years	\$ 789,
	=====	=====		=====

The table below summarizes the RSUs granted and outstanding.

	Number of RSUs	Weighted Average Grant Date Fair Value
	-----	-----
RSUs outstanding as of June 30, 2009	95,215	\$12.46
Granted	2,564	\$15.26
Converted to common stock	(65,215)	\$ 8.42
	-----	-----
RSUs outstanding as of June 30, 2010	32,564	\$12.89
Granted	-	-
Converted to common stock	(17,564)	\$13.07
	-----	-----
RSUs outstanding as of December 31, 2010	15,000	\$12.69
	=====	=====

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On July 1 of every year, as part of the Stock Compensation Plan for Non-employee Directors, each non-employee director received an automatic grant of a number of shares of Company's Common Stock equal in value to \$18,000 (\$72,000 total recorded as stock compensation expense) based on 100% of the fair market value of the Company's stock on the day of grant. During the six months ended, December 31, 2010 and 2009, the four non-employee directors of the Company received a total grant of 4,716 and 6,004 shares of common stock.

NOTE 9 - SEGMENT INFORMATION

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

Information below represents reported segments for the three and six months ended December 31, 2010 and 2009. 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 investment transactions consist of net investment gain(loss) and dividend and interest income.

As of and for the Three months ended December 31, 2010	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Subtotal
Revenues	\$ 9,142,000	\$ 3,012,000	\$ -	\$ -	\$ 12,154,000
Operating expenses	(8,074,000)	(2,069,000)	-	(400,000)	(10,543,000)
Income(loss)from operations	1,068,000	943,000	-	(400,000)	1,611,000
Interest expense	(713,000)	(816,000)	-	-	(1,529,000)
Income from investments	-	-	15,363,000	-	15,363,000
Income tax expense	-	-	-	(4,965,000)	(4,965,000)
Net income(loss)	\$ 355,000	\$ 127,000	\$15,363,000	\$ (5,365,000)	\$ 10,480,000
Total Assets	\$40,450,000	\$60,868,000	\$39,717,000	\$ 8,133,000	\$149,168,000

As of and for the Three months ended December 31, 2009	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Subtotal
Operating income	\$ 8,368,000	\$ 3,077,000	\$ -	\$ -	\$ 11,445,000
Operating expenses	(7,791,000)	(1,978,000)	-	(451,000)	(10,220,000)
Income(loss)from operations	577,000	1,099,000	-	(451,000)	1,225,000
Interest expense	(729,000)	(804,000)	-	-	(1,533,000)

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Loss from investments	-	-	(806,000)	-	(806,000)
Income tax benefit (expense)	-	-	-	338,000	338,000
Net income (loss)	\$ (152,000)	\$ 295,000	\$ (806,000)	\$ (113,000)	\$ (776,000)
Total Assets	\$44,011,000	\$62,614,000	\$14,326,000	\$ 8,103,000	\$129,054,000

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As of and for the Six months ended December 31, 2010	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Subtotal
Revenues	\$18,668,000	\$ 6,102,000	\$ -	\$ -	\$ 24,770,000
Operating expenses	(16,679,000)	(4,113,000)	-	(872,000)	(21,664,000)
Income (loss) from operations	1,989,000	1,989,000	-	(872,000)	3,106,000
Interest expense	(1,416,000)	(1,588,000)	-	-	(3,004,000)
Income from investments	-	-	15,363,000	-	15,363,000
Income tax expense	-	-	-	(4,955,000)	(4,955,000)
Net income (loss)	\$ 573,000	\$ 401,000	\$15,363,000	\$ (5,827,000)	\$ 10,510,000
Total Assets	\$40,450,000	\$60,868,000	\$39,717,000	\$ 8,133,000	\$149,168,000

As of and for the Six months ended December 31, 2009	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Subtotal
Operating income	\$16,898,000	\$ 6,122,000	\$ -	\$ -	\$ 23,020,000
Operating expenses	(15,848,000)	(4,125,000)	-	(716,000)	(20,689,000)
Income (loss) from operations	1,050,000	1,997,000	-	(716,000)	2,331,000
Interest expense	(1,442,000)	(1,634,000)	-	-	(3,076,000)
Loss from investments	-	-	(2,427,000)	-	(2,427,000)
Income tax benefit (expense)	-	-	-	1,037,000	1,037,000
Net income (loss)	\$ (392,000)	\$ 363,000	\$ (2,427,000)	\$ 321,000	\$ (2,135,000)
Total Assets	\$44,011,000	\$62,614,000	\$14,326,000	\$ 8,103,000	\$129,054,000

NOTE 10 - RELATED PARTY TRANSACTIONS

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

During the three and six months ended December 31, 2010, the Company received management fees from Justice Investors totaling \$93,000 and \$172,000, respectively. These amounts were eliminated in consolidation.

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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.

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

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

The Company may from time to time make forward-looking statements and projections concerning future expectations. When used in this discussion, the words "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "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, actual and threatened pandemics such as swine flu, partnership distributions, the ability to obtain financing at favorable interest rates and terms, securities markets, regulatory factors, litigation and other factors discussed below in this Report and in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010, 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 sources of revenue continue to be derived from the investment of its 68.8% owned subsidiary, Portsmouth, in the Justice Investors limited partnership ("Justice" or the "Partnership"), rental income from its investments in multi-family real estate properties and income received from investment of its cash and securities assets. Portsmouth has a 50.0% limited partnership interest in Justice and serves as the managing general partner of Justice. Evon Corporation ("Evon") serves as the other general partner. 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.

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

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the Hotel.

Until September 30, 2008, the Partnership also derived income from the lease of the parking garage to Evon. 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, and assumed the contract with Ace Parking for the operations of the garage. 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 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 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 in California are managed by professional third party property management companies and the rental properties outside of California are managed by the Company. The commercial real estate in California is also managed by the Company.

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

On October 20, 2010, as part of a debt restructuring of one of its investments, the Company exchanged approximately \$13,231,000 in notes, convertible notes and debt instruments that it held in Comstock Mining, Inc. ("Comstock" - OTCBB: LODE) for 13,231 shares (\$1,000 stated value) of newly created 7 1/2% Series A-1 Convertible Preferred Stock (the "A-1 Preferred") of Comstock. Prior to the exchange, those notes and convertible debt instruments had a carrying value of \$1,809,000, net of impairment adjustments. The Company accounted for the transaction as an exchange of its debt securities and recorded the new instruments (A-1 Preferred) received based on their fair value. The Company estimated the fair value of the A-1 Preferred at \$1,000 per share, which was the stated value of the instrument, for a total of \$13,231,000. The fair value of the A-1 Preferred had a similar value to the Series B preferred stock financing (stated value of \$1,000 per share) by which Comstock concurrently raised \$35.7 million in new capital from other investors in October 2010. The Company recorded an unrealized gain of \$11,422,000 related to the preferred stock received as part of the debt restructuring.

On October 31, 2010, Justice Investors entered into an amendment to its Parking Facilities Management Agreement with Ace Parking to extend the term of the agreement for a period of sixty two (62) months, commencing on November 1, 2010 and terminating December 31, 2015, subject to either party's right to terminate the agreement without cause on ninety (90) days written notice. The amendment also modified how an "Excess Profit Fee" to be paid to Ace would be calculated. The amendment provides that, if net operating income ("NOI") from the garage operations exceeds \$1,800,000 but is less than \$2,000,000, then Ace will be entitled to an Excess Profit Fee of one percent (1%) of the total annual NOI. If the annual NOI is \$2,000,000 or higher, Ace will be entitled to an Excess Profit Fee equal to two percent (2%) of the total annual NOI. The prior Excess

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Profit Fee entitled Ace to receive three percent of NOI in excess of \$150,000.

Effective November 30, 2010, the general and limited partners of Justice Investors entered into an Amended and Restated Agreement of Limited Partnership, which was approved and ratified by more than 97% of the limited partnership interests of Justice. The Partnership Agreement was amended and restated in its entirety to comply with the new provisions of the California Corporations Code known as the "Uniform Limited Partnership Act of 2008". The amendment did not result in any material modifications of the rights or obligations of the general and limited partners.

In November 2010, the Company refinanced its \$1,641,000 adjustable rate mortgage note payable on its 27-unit apartment building for a new 10-year fixed rate mortgage in the amount of \$3,260,000. The interest rate on the new loan

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is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. The Company received net proceeds of approximately \$1,507,000 from the refinancing.

In November 2010, the Company also refinanced its \$3,569,000 adjustable rate mortgage note payable on its 31-unit apartment building for a new 10-year fixed rate mortgage in the amount of \$5,787,000. The interest rate on the new loan is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. The Company received net proceeds of approximately \$2,078,000 from the refinancing.

Three Months Ended December 31, 2010 Compared to the Three Months Ended December 31, 2009

The Company had net income of \$10,546,000 for the three months ended December 31, 2010 compared to a net loss of \$721,000 for the three months ended December 31, 2009. The change is primarily attributable to the significant income generated from investing activities and the increase in income from hotel operations.

The Company had income from hotel operations of \$355,000 for the three months ended December 31, 2010, compared to a loss of \$152,000 for the three months ended December 31, 2009. The following table sets forth a more detailed presentation of Hotel operations for the three months ended December 31, 2010 and 2009.

For the three months ended December 31,	2010	2009
Hotel revenues:		
Hotel rooms	\$ 6,701,000	\$ 6,474,000
Food and beverage	1,502,000	1,118,000
Garage	645,000	598,000
Other	294,000	178,000
	9,142,000	8,368,000
 Operating expenses, excluding interest, depreciation and amortization	 (6,816,000)	 (6,543,000)

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Operating income before interest, depreciation and amortization	2,326,000	1,825,000
Interest expense	(713,000)	(729,000)
Depreciation and amortization expense	(1,258,000)	(1,248,000)
Income (loss) from hotel operations	\$ 355,000	\$ (152,000)

For the three months ended December 31, 2010, the Hotel generated operating income of \$2,326,000 before interest, depreciation and amortization, on operating revenues of \$9,142,000 compared to operating income of \$1,825,000 before interest, depreciation and amortization, on operating revenues of \$8,368,000 for the three months ended December 31, 2009. The increase in income from Hotel operations is primarily attributable to increases in room, food and beverage, garage and other revenues in the current period, partially offset by an increase in operating expenses due to higher labor costs and increased staffing to improve guest satisfaction.

Room revenues increased by \$227,000 for the three months ended December 31, 2010 compared to the three months ended December 31, 2009 and food and beverage revenues increased by \$384,000 for the same period. The increase in room revenues was primarily attributable to a significant increase in average daily

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room rates during the three months ended December 31, 2010 as the Hotel continued to see an increase in higher rated corporate and group business travel, which also resulted in higher in food and beverage revenues. The increase in garage revenues was primarily attributable to increased demand in the area around the Hotel and a modest increase in transient parking rates. The increase in other revenues was primarily attributable group business that either canceled or was less than guaranteed, as well as greater revenues from Internet services.

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, 2010 and 2009.

Three Months Ended December 31,	Average Daily Rate	Average Occupancy%	RevPar
2010	\$186	82%	\$153
2009	\$164	86%	\$141

The operations of the Hotel continued to experience an increase in the higher rated business and group travel segments as the hospitality industry began to see some recovery. As a result, the Hotel's average daily rate increased by \$22 for the three months ended December 31, 2010 compared to the three months ended December 31, 2009. The modest decrease in occupancy of 4% was due to the Hotel being able to reduce the amount of discounted Internet business that it was forced to take in the prior period to maintain occupancy in a very competitive market. As a result, the Hotel was able to achieve a RevPar number that was \$12 higher than the prior period.

During the past year we have seen our management team guide our Hotel through a difficult economic period by taking bold steps to reduce expenses and implement innovative strategies in order to improve operations and enhance our competitiveness in the market. As a result, we believe that the Hotel is now well positioned to take advantage of a recovery in the hotel industry. We will

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continue in our efforts to upgrade our guest rooms and facilities and explore new and innovative ways to differentiate the Hotel from its competition. Moving forward, we will also focus on cultivating more international business, especially from China, and capturing a higher percentage of corporate and group travel. During the last quarter, we saw continued improvement in business travel. If that trend in the hotel industry continues, it should translate into an increase in room revenues and profitability.

While operating in a challenging economy, real estate operations remained relatively consistent. The Company had real estate revenues of \$3,012,000 for the three months ended December 31, 2010 compared with revenues of \$3,077,000 for the three months ended December 31, 2009. Real estate operating expenses were \$1,594,000 and \$1,499,000 for the comparative periods. Management continues to review and analyze the Company's real estate operations to improve occupancy and rental rates and to reduce expenses and improve efficiencies.

As of December 31, 2010, 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. 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. In January 2011, the Company sold one of its held for sale properties, the 132-unit apartment complex located in San Antonio, Texas for \$5,500,000 and received net proceeds of approximately \$2,030,000 after the repayment of the related mortgage note payable of approximately \$3,218,000. The Company will realize an estimated gain on the sale of real estate of approximately \$3,200,000.

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The Company had a net gain on marketable securities of \$3,703,000 for the three months ended December 31, 2010 compared to a net gain of \$182,000 for the three months ended December 31, 2009. For the three months ended December 31, 2010, the Company had a net realized gain of \$334,000 and a net unrealized gain of \$3,369,000. For the three months ended December 31, 2009, the Company had a net realized gain of \$4,000,000 and net unrealized loss of \$3,818,000. 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 Committee and other Company guidelines, in private investment equity funds and other unlisted securities, such as convertible notes through private placements. Those investments in non-marketable securities are carried at cost on the Company's balance sheet as part of other investments, net of other than temporary impairment losses. As of December 31, 2010, the Company had net other investments of \$17,871,000. On October 20, 2010, as part of a debt restructuring of one of its investments, the Company exchanged approximately \$13,231,000 in notes, convertible notes and debt instruments that it held in Comstock Mining, Inc. ("Comstock" - OTCBB: LODE) for 13,231 shares (\$1,000 stated value) of newly created 7 1/2% Series A-1 Convertible Preferred Stock (the "A-1 Preferred") of Comstock. Prior to the exchange, those notes and convertible debt instruments had a carrying value of \$1,809,000, net of impairment adjustments. The Company accounted for the transaction as an exchange of its debt securities and recorded the new instruments (A-1 Preferred) received based on their fair value. The Company estimated the fair value of the A-1 Preferred at \$1,000 per share, which was the stated value of

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the instrument, for a total of \$13,231,000. The fair value of the A-1 Preferred had a similar value to the Series B preferred stock financing (stated value of \$1,000 per share) by which Comstock concurrently raised \$35.7 million in new capital from other investors in October 2010. The Company recorded an unrealized gain of \$11,422,000 related to the preferred stock received as part of the debt restructuring. During the three months ended December 31, 2010 and 2009, the Company performed an impairment analysis of its other investments and determined that one of its investments had other than temporary impairment and recorded impairment losses of \$310,000 and \$917,000, for each respective period.

Dividend and interest income increased to \$472,000 for the quarter ended December 31, 2010 from \$55,000 for the quarter ended December 31, 2009 primarily as the result of receiving a dividend of \$348,000 from Comstock during the most recent quarter.

The provision for income tax (expense) benefit as a percentage of the income before taxes was lower for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009 primarily due to higher income from Santa Fe during the current period. Consistent with the comparable period, Santa Fe did not record a tax provision related the income as the result of history of net losses.

Six Months Ended December 31, 2010 Compared to the Six Months Ended December 31, 2009

The Company had net income of \$10,622,000 for the six months ended December 31, 2010 compared to a net loss of \$2,048,000 for the six months ended December 31, 2009. The change is primarily attributable to the significant income generated from investing activities and the increase in income from hotel operations.

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The Company had income from hotel operations of \$573,000 for the six months ended December 31, 2010, compared to a loss of \$392,000 for the six months ended December 31, 2009. The following table sets forth a more detailed presentation of Hotel operations for the six months ended December 31, 2010 and 2009.

For the six months ended December 31,	2010	2009
Hotel revenues:		
Hotel rooms	\$ 14,216,000	\$ 13,206,000
Food and beverage	2,683,000	2,069,000
Garage	1,281,000	1,266,000
Other	488,000	357,000
	18,668,000	16,898,000
Operating expenses, excluding interest, depreciation and amortization	(14,133,000)	(13,419,000)
	4,535,000	3,479,000
Interest expense	(1,416,000)	(1,442,000)
Depreciation and amortization expense	(2,546,000)	(2,429,000)

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Income (loss) from hotel operations	\$ 573,000	\$ (392,000)
	=====	=====

For the six months ended December 31, 2010, the Hotel generated operating income of \$4,535,000 before interest, depreciation and amortization, on operating revenues of \$18,668,000 compared to operating income of \$3,479,000 before interest, depreciation and amortization, on operating revenues of \$16,898,000 for the six months ended December 31, 2009. The increase in income from Hotel operations is primarily attributable to increases in room, food and beverage, and other revenues in the current period, partially offset by an increase in operating expenses due to higher labor costs and increased staffing to improve guest satisfaction.

Room revenues increased by \$1,010,000 for the six months ended December 31, 2010 compared to the six months ended December 31, 2009 and food and beverage revenues increased by \$614,000 for the same period. The increase in room revenues was primarily attributable to a significant increase in average daily room rates during the six months ended December 31, 2010 as the Hotel began to see an increase in higher rated corporate and group business travel, which also resulted in higher in food and beverage revenues. The increase in other revenues was primarily attributable group business in the last three months that either canceled or was less than guaranteed, as well as greater revenues from Internet services.

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, 2010 and 2009.

Six Months Ended December 31, -----	Average Daily Rate -----	Average Occupancy% -----	RevPar -----
2010	\$188	85%	\$161
2009	\$160	88%	\$143

The operations of the Hotel continued to experience an increase in the higher rated business and group travel segments as the hospitality industry began to see some recovery. As a result, the Hotel's average daily rate increased

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significantly by \$28 for the six months ended December 31, 2010 compared to the six months ended December 31, 2009. The modest decrease in occupancy of 3% was due to the Hotel being able to reduce the amount of discounted Internet business that it was forced to take in the prior period to maintain occupancy in a very competitive market. As a result, the Hotel was able to achieve a RevPar number that was \$18 higher than the prior six month period.

During the past year we have seen our management team guide our Hotel through a difficult economic period by taking bold steps to reduce expenses and implement innovative strategies in order to improve operations and enhance our competitiveness in the market. As a result, we believe that the Hotel is now well positioned to take advantage of a recovery in the hotel industry. We will continue in our efforts to upgrade our guest rooms and facilities and explore new and innovative ways to differentiate the Hotel from its competition. Moving forward, we will also focus on cultivating more international business, especially from China, and capturing a higher percentage of corporate and group travel. During the last six months, we have seen continued improvement in business travel. If that trend in the hotel industry continues, it should translate into an increase in room revenues and profitability.

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While operating in a challenging economy, real estate operations remained relatively consistent. The Company had real estate revenues of \$6,102,000 for the six months ended December 31, 2010 compared with revenues of \$6,122,000 for the six months ended December 31, 2009. Real estate operating expenses were \$3,162,000 and \$3,158,000 for the comparative periods. Management continues to review and analyze the Company's real estate operations to improve occupancy and rental rates and to reduce expenses and improve efficiencies.

As of December 31, 2010, 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. 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. In January 2011, the Company sold one of its held for sale properties, the 132-unit apartment complex located in San Antonio, Texas for \$5,500,000 and received net proceeds of approximately \$2,030,000 after the repayment of the related mortgage note payable of approximately \$3,218,000. The Company will realize an estimated gain on the sale of real estate of approximately \$3,200,000.

The Company had a net gain on marketable securities of \$4,056,000 for the six months ended December 31, 2010 compared to a net loss on marketable securities of \$1,140,000 for the six months ended December 31, 2009. For the six months ended December 31, 2010, the Company had a net realized gain of \$220,000 and a net unrealized gain of \$3,836,000. For the six months ended December 31, 2009, the Company had a net realized gain of \$4,148,000 and a net unrealized loss of \$5,288,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's results of operations. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities see the Marketable Securities section below.

The Company may also invest, with the approval of the Securities Investment Committee and other Company guidelines, in private investment equity funds and other unlisted securities, such as convertible notes through private placements. Those investments in non-marketable securities are carried at cost on the Company's balance sheet as part of other investments, net of other than temporary impairment losses. As of December 31, 2010, the Company had net

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other investments of \$17,871,000. On October 20, 2010, as part of a debt restructuring of one of its investments, the Company exchanged approximately \$13,231,000 in notes, convertible notes and debt instruments that it held in Comstock Mining, Inc. ("Comstock" - OTCBB: LODE) for 13,231 shares (\$1,000 stated value) of newly created 7 1/2% Series A-1 Convertible Preferred Stock (the "A-1 Preferred") of Comstock. Prior to the exchange, those notes and convertible debt instruments had a carrying value of \$1,809,000, net of impairment adjustments. The Company accounted for the transaction as an exchange of its debt securities and recorded the new instruments (A-1 Preferred) received based on their fair value. The Company estimated the fair value of the A-1 Preferred at \$1,000 per share, which was the stated value of the instrument, for a total of \$13,231,000. The fair value of the A-1 Preferred had a similar value to the Series B preferred stock financing (stated value of \$1,000 per share) by which Comstock concurrently raised \$35.7 million in new capital from other investors in October 2010. The Company recorded an unrealized gain of \$11,422,000 related to the preferred stock received as part of the debt restructuring. During the six months ended December 31, 2010 and 2009, the Company performed an impairment analysis of its other investments and

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determined that one of its investments had other than temporary impairment and recorded impairment losses of \$540,000 and \$917,000, for each respective period.

Dividend and interest income increased to \$611,000 for the six months ended December 31, 2010 from \$132,000 for the six months ended December 31, 2009 primarily as the result of receiving a dividend of \$348,000 from Comstock during the most recent period.

Margin interest and trading expenses decreased to \$627,000 for the six months ended December 31, 2009 from \$728,000 for the six months ended December 31, 2009 primarily as the result of the decrease in margin interest expense related to the decrease in the use of margin.

The provision for income tax (expense) benefit as a percentage of the income before taxes was lower for the six months ended December 31, 2010 as compared to the six months ended December 31, 2009 primarily due to significantly higher income from Santa Fe during the current period. Consistent with the comparable period, Santa Fe did not record a tax provision related the income as the result of history of net losses.

MARKETABLE SECURITIES AND OTHER INVESTMENTS

The Company's investment portfolio is diversified with 78 different equity positions. The portfolio contains three individual equity securities that are more than 5% of the equity value of the portfolio with the largest security being 19.5% of the value of the portfolio. The amount of the Company's investment in any particular issuer may increase or decrease, and additions or deletions to its securities portfolio may occur, at any time. While it is the internal policy of the Company to limit its initial investment in any single equity to less than 5% of its total portfolio value, that investment could eventually exceed 5% as a result of equity appreciation or reduction of other positions. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date.

As of December 31, 2010 and June 30, 2010, the Company had investments in marketable equity securities of \$21,846,000 and \$7,712,000, respectively. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as of December 31, 2010 and June 30, 2010.

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As of December 31, 2010

Industry Group	Fair Value	% of Total Investment Securities
-----	-----	-----
Basic materials	\$ 5,005,000	22.9%
REITs	3,240,000	14.8%
Investment funds	3,012,000	13.8%
Financial services	2,986,000	13.7%
Services	2,194,000	10.0%
Other	5,409,000	24.8%
	-----	-----
	\$ 21,846,000	100.0%
	=====	=====

June 30, 2010

% of Total
Investment

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Industry Group	Fair Value	Securities
-----	-----	-----
Investment funds	\$ 3,271,000	42.4%
REITs	1,946,000	25.2%
Healthcare	668,000	8.7%
Financial services	551,000	7.1%
Other	1,276,000	16.6%
	-----	-----
	\$ 7,712,000	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,	2010	2009
	-----	-----
Net gain on marketable securities	\$ 3,703,000	\$ 182,000
Net unrealized gain on other investments	11,822,000	226,000
Impairment loss on other investments	(310,000)	(917,000)
Dividend & interest income	472,000	55,000
Margin interest expense	(93,000)	(129,000)
Trading and management expenses	(231,000)	(223,000)
	-----	-----
	\$ 15,363,000	\$ (806,000)
	=====	=====

For the six months ended December 31,	2010	2009
	-----	-----
Net gain(loss) on marketable securities	\$ 4,056,000	\$ (1,140,000)
Net unrealized gain on other investments	11,863,000	226,000
Impairment loss on other investments	(540,000)	(917,000)
Dividend & interest income	611,000	132,000
Margin interest expense	(168,000)	(265,000)
Trading and management expenses	(459,000)	(463,000)
	-----	-----
	\$ 15,363,000	\$ (2,427,000)
	=====	=====

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FINANCIAL CONDITION AND LIQUIDITY

The Company's cash flows are primarily generated from its Hotel operations and general partner fees from Justice. The Company also receives revenues generated from the investment of its cash and marketable securities and other investments. 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 during that transition period.

The Hotel started to generate cash flows from its operations in June 2006. For the fiscal year ended June 30, 2009, Justice paid a total of \$850,000 in limited partnership distributions, of which the Company received \$425,000. The fiscal 2009 distributions were paid in September 2008, after which the San Francisco hotel market began to feel the full impact of the significant downturn in domestic and international economies that continued throughout fiscal 2009 and 2010. As a result, no Partnership distributions were paid in

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fiscal 2010. Since only a modest improvement in economic conditions is expected in the lodging industry in calendar 2011, no limited partnership distributions are anticipated in fiscal 2011. The general partners will continue to monitor and review the operations and financial results of the Hotel and to set the amount of any future distributions that may be appropriate based on operating results, cash flows and other factors, including establishment of reasonable reserves for debt payments and operating contingencies.

The new Justice Compensation Agreement that became effective on December 1, 2008, when Portsmouth assumed the role of managing general partner of Justice, has provided additional cash flows to the Company. Under the new Compensation Agreement, Portsmouth is now entitled to 80% of the minimum base fee to be paid to the general partners of \$285,000, while under the prior agreement, Portsmouth was entitled to receive only 20% of the minimum base fee. During the six months ended December 31, 2010 and 2009, the Company received management fees from Justice Investors totaling \$172,000 and \$151,000, respectively.

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 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. The principal balance of the Prudential Loan was \$27,453,000 as of December 31, 2010.

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

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and personal property thereon and an assignment of all present and future leases and rents. The Second Prudential Loan is also without recourse to the limited and general partners of Justice. The principal balance of the Second Prudential Loan was \$18,137,000 as of December 31, 2010.

Effective April 29, 2010, the Partnership obtained a modification of its \$2,500,000 unsecured revolving line of credit facility with East West Bank (formerly United Commercial Bank) that was to mature on April 30, 2010, and converted that line of credit facility to an unsecured term loan. The Partnership also obtained a waiver of any prior noncompliance with financial covenants and paid a loan modification fee of \$10,000.

The modification provides that Justice will pay the \$2,500,000 balance on its line of credit facility over a period of four years, to mature on April 30, 2014. This term loan calls for monthly principal and interest payments of \$41,000, calculated on a six-year amortization schedule, with interest only from May 1, 2010 to August 31, 2010. Pursuant to the modification, the annual floating interest rate was reduced by 0.5% to the WSJ Prime Rate plus 2.5%

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(with a minimum floor rate of 5.0% per annum). The modification includes financial covenants written to reflect financial conditions that all hotels are facing. The covenants include specific financial ratios and a return to minimum profitability by June 2011. Management believes that the Partnership has the ability to meet the specific covenants and the Partnership was in compliance with the covenants as of December 31, 2010. As of December 31, 2010 the outstanding balance was \$2,382,000.

Despite the downturns in the economy, the Hotel has continued to generate positive cash flows. While the debt service requirements related to the two Prudential loans, as well as the new term loan to pay off the 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 a 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 November 2010, the Company refinanced its \$1,641,000 adjustable rate mortgage note payable on its 27-unit apartment building for a new 10-year fixed rate mortgage in the amount of \$3,260,000. The interest rate on the new loan is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. The Company received net proceeds of approximately \$1,507,000 from the refinancing.

In November 2010, the Company also refinanced its \$3,569,000 adjustable rate mortgage note payable on its 31-unit apartment building for a new 10-year fixed rate mortgage in the amount of \$5,787,000. The interest rate on the new loan is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. The Company received net proceeds of approximately \$2,078,000 from the refinancing.

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.

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OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

MATERIAL CONTRACTUAL OBLIGATIONS

The following table provides a summary of the Company's material financial obligations and related interest.

Total	Year 1	Year 2	Year 3	Year 4
-------	--------	--------	--------	--------

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Mortgage notes payable	\$119,003,000	\$1,204,000	\$ 5,608,000	\$34,173,000	\$ 3,386,000
Other notes payable	3,593,000	784,000	651,000	569,000	1,557,000
Operating leases	557,000	45,000	93,000	87,000	107,000
Interest	34,923,000	3,369,000	6,475,000	5,962,000	4,358,000
	-----	-----	-----	-----	-----
Total	\$158,076,000	\$5,402,000	\$12,827,000	\$40,791,000	\$ 9,408,000
	=====	=====	=====	=====	=====

IMPACT OF INFLATION

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

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

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are most significant to the presentation of our financial position and results of operations and require judgments by management in order to make estimates about the effect of matters that are inherently uncertain. The preparation of these condensed financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to the consolidation of our subsidiaries, to our revenues, allowances for bad debts, accruals, asset impairments, other investments, income taxes and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

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Item 4. Controls and Procedures.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

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CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II OTHER INFORMATION

Item 6. Exhibits.

(a) Exhibits

- 10.1 Amended and Restated Agreement of Limited Partnership of Justice Investors, effective November 30, 2010.
- 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.

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SIGNATURES

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

THE INTERGROUP CORPORATION
(Registrant)

Date: February 11, 2011

by

/s/ John V. Winfield

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

Date: February 11, 2011

by

/s/ David Nguyen

David Nguyen, Treasurer
and Controller
(Principal Financial Officer)

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