INTERGROUP CORP
Form 10QSB
May 13, 2005

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2005

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

For the transition period from ______ to _____

Commission file number 1-10324

THE INTERGROUP CORPORATION
(Exact Name of Small Business Issuer as Specified in Its Charter)

DELAWARE	13-3293645
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

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

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

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

The number of shares outstanding of the issuer's Common Stock, $.01 par value, as of May 11, 2005 were 2,420,186 shares.

Transitional Small Business Disclosure Format: YES [ ] NO [X]

THE INTERGROUP CORPORATION
INDEX TO FORM 10-QSB

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements:	
Consolidated Balance Sheet (unaudited) As Of March 31, 2005	3
Consolidated Statements of Operations (unaudited) For the Three Months Ended March 31, 2005 and 2004	4
Consolidated Statements of Operations (unaudited) For the Nine Months Ended March 31, 2005 and 2004	5
Consolidated Statements of Cash Flows (unaudited) For the Nine Months Ended March 31, 2005 and 2004	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Controls and Procedures	22
Part II. OTHER INFORMATION	
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 4. Submission of Matters to a Vote of Shareholders	23
Item 6. Exhibits and Reports on Form 8-K	24
Signatures	24

THE INTERGROUP CORPORATION
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

As of March 31,	2005
ASSETS	
Investment in real estate, at cost:	
Land	$ 29,609,000
Buildings, improvements and equipment	74,655,000
Property held for development	1,008,000
	105,272,000
Less: accumulated depreciation	(19,855,000)
	85,417,000
Investment in Justice Investors	10,514,000

Cash and cash equivalents	2,065,000
Restricted cash	2,763,000
Investment in marketable securities	14,877,000
Prepaid expenses and other assets	4,746,000
Total assets	$120,382,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities	
Mortgage notes payable	$ 80,183,000
Obligation for securities sold	2,763,000
Line of credit	6,413,000
Accounts payable and other liabilities	2,783,000
Deferred income taxes	6,971,000
Total liabilities	99,113,000
Minority interest	7,864,000
Commitments and contingencies	
Shareholders' equity:	
Preferred stock, $.01 par value, 2,500,000 shares authorized; none issued	-
Common stock, $.01 par value, 4,000,000 shares authorized; 3,193,745 issued, 2,420,186 outstanding	21,000
Common stock, class A $.01 par value, 2,500,000 shares authorized; none issued	-
Additional paid-in capital	8,686,000
Retained earnings	12,543,000
Treasury stock, at cost, 773,559 shares	(7,845,000)
Total shareholders' equity	13,405,000
Total liabilities and shareholders' equity	$120,382,000

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

THE INTERGROUP CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

For the Three Months ended March 31,	2005	2004
Real estate operations:		
Rental income	$ 3,615,000	$ 2,756,000
Rental expenses:		
Property operating expense	(1,577,000)	(1,455,000)
Mortgage interest expense	(1,092,000)	(841,000)
Real estate taxes	(505,000)	(330,000)
Depreciation	(702,000)	(506,000)
Amortization - intangible asset	(167,000)	-

Loss from real estate operations	(428,000)	(376,000)
Equity in net income(loss) of Justice Investors	(509,000)	113,000
Investment transactions:		
Net investment gains(losses)	(8,203,000)	4,174,000
Dividend and interest income	166,000	224,000
Margin interest and trading expenses	(719,000)	(1,346,000)
Income(loss) from investment transactions	(8,756,000)	3,052,000
Other income(expense):		
General and administrative expense	(320,000)	(440,000)
Other, net	18,000	37,000
Other expense	(302,000)	(403,000)
Income(loss) before provision for income taxes and minority interest	(9,995,000)	2,386,000
Provision for income tax benefit(expense)	3,999,000	(954,000)
Income before minority interest	(5,996,000)	1,432,000
Minority interest benefit(expense), net of tax	1,081,000	(281,000)
Net income(loss) from continuing operations	$ (4,915,000)	$ 1,151,000
Discontinued operations:		
Net loss on discontinued operations	$ -	$ (48,000)
Gain on sale of real estate	-	-
Provision for income tax benefit	-	19,000
Loss from discontinued operations	$ -	$ (29,000)
Net income(loss)	$ (4,915,000)	$ 1,122,000
Income(loss) per share from continuing operations		
Basic	$ (2.02)	$ 0.46
Diluted	$ (2.02)	$ 0.40
Loss per share from discontinued operations		
Basic	$ -	$ (0.01)
Diluted	$ -	$ (0.01)
Net(loss) income per share		
Basic	$ (2.02)	$ 0.45
Diluted	$ (2.02)	$ 0.39
Weighted average number of shares outstanding	2,428,136	2,509,686
Diluted weighted average number of shares outstanding	2,795,636	2,842,686

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

THE INTERGROUP CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

For the Nine Months ended March 31,	2005	2004
Real estate operations:		
Rental income	$ 10,627,000	$ 8,102,000
Rental expenses:		
Property operating expense	(4,809,000)	(4,321,000)
Mortgage interest expense	(3,268,000)	(2,447,000)
Real estate taxes	(1,684,000)	(949,000)
Depreciation	(2,129,000)	(1,543,000)
Amortization - intangible asset	(500,000)	-
Loss on early termination of debt	(133,000)	-
Loss from real estate operations	(1,896,000)	(1,158,000)
Equity in net income(loss) of Justice Investors	(789,000)	557,000
Investment transactions:		
Net investment gains(losses)	(6,125,000)	12,785,000
Impairment on other investments	(258,000)	-
Dividend and interest income	657,000	598,000
Margin interest and trading expenses	(2,119,000)	(3,800,000)
Income(loss) from investment transactions	(7,845,000)	9,583,000
Other income(expense):		
General and administrative expense	(1,022,000)	(1,281,000)
Other, net	112,000	99,000
Other expense	(910,000)	(1,182,000)
Income(loss) before provision for income taxes and minority interest	(11,440,000)	7,800,000
Provision for income tax benefit(expense)	4,576,000	(3,120,000)
Income(loss) before minority interest	(6,864,000)	4,680,000
Minority interest benefit(expense), net of tax	1,130,000	(938,000)
Net income(loss) from continuing operations	$ (5,734,000)	$ 3,742,000
Discontinued operations:		
Net loss on discontinued operations	$ (100,000)	$ (105,000)
Gain on sale of real estate	6,006,000	-
Provision for income tax benefit(expense)	(2,362,000)	42,000
Income(loss) from discontinued operations	$ 3,544,000	$ (63,000)
Net income(loss)	$ (2,190,000)	$ 3,679,000
Income(loss) per share from continuing operations		
Basic	$ (2.33)	$ 1.48
Diluted	$ (2.33)	1.31
Income(loss) per share from discontinued operations		

Basic	$ 1.44	$ (0.02)
Diluted	$ 1.44	$ (0.02)
Net income(loss) per share		
Basic	$ (0.89)	$ 1.46
Diluted	$ (0.89)	$ 1.29
Weighted average number of shares outstanding	2,465,410	2,527,726
Diluted weighted average number of shares outstanding	2,832,910	2,860,726

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

THE INTEGROUP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the nine months ended March 31,	2005	2004
Cash flows from operating activities:		
Net income(loss)	$ (2,190,000)	$ 3,679,000
Adjustments to reconcile net income(loss) to cash provided by(cash used) in operating activities:		
Depreciation of real estate	2,212,000	1,965,000
Amortization of intangible asset	500,000	-
Loss on early termination of debt	133,000	-
Impairment loss on other investments	258,000	-
Gain on sale of real estate	(6,006,000)	-
Net unrealized losses(gains) on investments	9,368,000	(4,422,000)
Equity in net loss(income) from Justice Investors	789,000	(557,000)
Minority interest expense(benefit)	(1,130,000)	938,000
Changes in assets and liabilities:		
Restricted cash	790,000	672,000
Investment in marketable securities	41,953,000	(22,675,000)
Prepaid expenses and other assets	(1,088,000)	(2,848,000)
Accounts payable and other liabilities	(1,687,000)	(880,000)
Due to broker	(22,445,000)	4,536,000
Obligation for securities sold	(18,822,000)	15,639,000
Deferred income taxes	(363,000)	2,300,000
Net cash provided by(used in) operating activities	2,272,000	(1,653,000)
Cash flows from investing activities:		
Proceeds from sale of property	11,850,000	-
Investment in real estate	(1,467,000)	(700,000)
Additions to buildings, improvements and equipment	(2,016,000)	(1,283,000)
Distributions from Justice Investors	-	874,000

Purchase of Santa Fe stock	(197,000)	(923,000)
Net cash provided by(used in) investing activities	8,170,000	(2,032,000)
Cash flows from financing activities:		
Borrowings from mortgage notes payable	2,303,000	8,275,000
Principal payments on mortgage notes payable	(11,824,000)	(5,481,000)
Borrowings from line of credit	1,413,000	-
Purchase of treasury stock	(1,046,000)	(252,000)
Dividends paid to minority shareholders	-	(171,000)
Net cash (used in) provided by financing activities	(9,154,000)	2,371,000
Net increase(decrease) in cash and cash equivalents	1,288,000	(1,314,000)
Cash and cash equivalents at beginning of period	777,000	1,859,000
Cash and cash equivalents at end of period	$ 2,065,000	$ 545,000

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

THE INTERGROUP CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

The consolidated financial statements included herein are unaudited; however, in the opinion of The InterGroup Corporation ("InterGroup" or the "Company"), the interim financial information contains all adjustments, including normal recurring adjustments, necessary to present fairly the results for the interim period. These consolidated financial statements include the accounts of the Company and its subsidiaries and should be read in conjunction with the Company's June 30, 2004 audited consolidated financial statements and notes thereto.

As of March 31, 2005, the Company had the power to vote 76.5%, of the voting shares of Santa Fe Financial Corporation ("Santa Fe"), a public company (OTCBB: SFEF). Santa Fe's revenue is primarily generated through the management of its 68.9% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), a public company (OTCBB: PRSI), which derives its revenue primarily as a general partner and a 49.8% limited partner in Justice Investors, a California limited partnership ("Justice" or the "Partnership"). Justice owns the land, improvements and leaseholds commonly known as the Holiday Inn Select Downtown & Spa, a 565-room hotel in San Francisco, California (the "Hotel").

The results of operations for the three and nine months ended March 31, 2005 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2005.

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the weighted-average number of common shares is increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued. The Company's only potentially dilutive common shares are stock options. Stock options are included in diluted earnings per share by application of the treasury stock method. As of March 31, 2005, the Company had 367,500 stock options that were considered potentially dilutive common shares and 25,500 stock options that were considered anti-dilutive. As of March 31, 2004, the Company had 333,000 stock options that were considered potentially dilutive common shares and 45,000 stock options that were considered anti-dilutive. These amounts were included in the calculation for diluted earnings per share.

Stock-Based Compensation Plans

Effective December 15, 2002, the Company adopted Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 148). In accounting for its plans, the Company, as allowable under the provisions of SFAS 148, applies Accounting Principles Board Opinions No. 25, "Accounting for Stock issued to Employees." As a result of this election, the Company does not recognize compensation expense for its stock option plans. During the nine

months ended March 31, 2005 and March 31, 2004, the Company granted 16,500 and 15,000 stock options, respectively. Had the Company determined compensation cost based on the fair value for its stock options at grant date, net income and earnings per share would have been reduced to the pro forma amounts as follows:

	Nine Months Ended March 31, 2005	Nine Months Ended March 31, 2004
Net income(loss)	$(2,190,000)	$ 3,679,000
Stock based employee Compensation expense*	(87,000)	(57,000)
Pro forma net income(loss)	$(2,277,000)	$ 3,622,000
Income(loss) per share		
Basic as reported	$ (0.89)	$ 1.46
Basic pro forma	$ (0.92)	$ 1.43

*Determined based on the fair value method for awards net of related tax effects (40%).

The Black-Scholes option pricing model was used with the following weighted-average assumptions for the nine months ended March 31, 2005; risk-free interest rate of 3.42%; dividend yield of 0%; expected Common Stock market price volatility factor of 24.54; and a weighted-average expected life of the options of 10 years. The weighted-average fair value of options granted during the nine months ended March 31, 2005 was $8.78 per option. The aggregate fair value of the options granted in during the nine months ended March 31, 2005 was $145,000. For the nine months ended March 31, 2004, the following weighted-average assumptions for March 31, 2004; risk-free interest rate of 2.61%; dividend yield of 0%; expected Common Stock market price volatility factor of

36.4; and a expected life of the options of 10 years. The fair value of options granted in during the nine months ended March 31, 2004 were $6.30 per option. The aggregate fair value of the options granted during the nine months ended March 31, 2004, was $95,000.

The Company is currently evaluating the impact of Financial Accounting Standard 123R,"Share-Based Payments".

2. Investment in Real Estate

In September 2004, the Company sold its 442-unit multi-family apartment complex located in Houston, Texas for $11,850,000. The Company realized a gain of $6,006,000 and received net proceeds of $1,364,000 after repayment of the mortgage on the property, selling costs and attorneys' fees.

Under the provisions of the Statement of Financial Accounting Standards No.144, Accounting for Impairment or Disposal of Long-Lived Assets, the sale of the Houston, Texas property is required to be accounted for as a discontinued operation. The revenues and expenses from the operation of the property have been reclassified from continuing operations for the three and nine months ended March 31, 2005 and 2004 and reported as income from discontinued operations in the consolidated statements of operations. Revenues and expenses from the operation of the property for the three and nine months ended March 31, 2005 and 2004 are summarized as follows:

For three months ended March 31,	2005	2004
Revenues	$ -	$ 597,000
Expenses	-	(645,000)
Net loss	-	(48,000)

For nine months ended March 31,	2005	2004
Revenues	$ 361,000	$ 1,794,000
Expenses	(461,000)	(1,899,000)
Net loss	(100,000)	(105,000)

Depreciation expense for the three months ended March 31, 2005 and 2004, was $0 and $142,000, respectively. Depreciation expense for the nine months ended March 31, 2005 and 2004, was $83,000 and $422,000, respectively.

3. Marketable Securities:

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

At March 31, 2005, all of the Company's marketable securities are classified as trading securities. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the change in the unrealized gains and losses on these investments are included earnings. Trading securities are summarized as follows:

As of March 31, 2005

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Market Value
Corporate Equities	$14,343,000	$4,364,000	($3,830,000)	$534,000	$14,877,000

Of the gross unrealized loss of $3,830,000, $3,003,000 of the loss is related to securities held for over one year.

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

As part of the investment strategies, the Company may assume short positions in marketable securities. Short sales are used by the Company to potentially offset normal market risks undertaken in the course of its investing activities or to provide additional return opportunities. The Company has no naked short positions. As of March 31, 2005, the Company had obligations for securities sold(equities short) of $2,763,000.

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

Included in the net losses on marketable securities of $8,203,000 for the three months ended March 31, 2005 are net unrealized losses of $10,941,000 and net realized gains of $2,738,000. Included in the net gains on marketable securities of $4,174,000 for the three months ended March 31, 2004 are net unrealized losses of $897,000 and net realized gains of $5,071,000. There were no gross unrealized losses on any securities held which existed for more than one year.

Included in the net losses on marketable securities of $6,125,000 for the nine months ended March 31, 2005 are net unrealized losses of $9,368,000 and net realized gains of $3,243,000. Included in the net gains on marketable securities of $12,785,000 for the nine months ended March 31, 2004 are net unrealized gains of $4,422,000 and net realized gains of $8,363,000.

4. Investment in Justice Investors:

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

The Company amortizes the step up in the asset values allocable to the depreciable assets of its investment in Justice Investors over 40 years, which approximates the remaining life of the primary asset, the hotel building.

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

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

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

In May of 2004, a $5,000,000 settlement payment was made to Justice from the hotel lessee to resolve disputes regarding certain obligations of Felcor and

others under the terms of the Hotel Lease. That settlement payment is being held in a separate partnership account and will be applied towards the costs of capital repairs, replacements and improvements necessary to place the hotel in the condition required by the Hotel Lease at the end of its term. The Partnership expects to utilize all of the settlement proceeds for such during fiscal 2005, which may impact the Company's equity in net income of Justice Investors for fiscal 2005.

On December 10, 2004, Justice entered into a Franchise License Agreement for the right to operate the Hotel property as a Hilton brand hotel. Prior to operating the hotel as a Hilton, the Partnership is required to make substantial renovations to the hotel to meet Hilton standards in accordance with a product improvement plan agreed upon by Hilton and the Partnership, as well as complying with other brand standards. The Partnership currently estimates that the cost of the renovations will range from approximately $27 million to $28 million with an additional $3 million required for construction interest and estimated carrying costs of operations during the transition period. The Agreement requires that those renovations be complete and the Hotel commence operations as a Hilton hotel no later than June 1, 2006. The term of the Agreement is for a period of 15 years commencing on the opening date, with an option to extend the license term for another five years, subject to certain conditions.

On March 15, 2005, the Partnership announced its decision to close down its

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

Condensed financial statements for Justice Investors are as follows:

JUSTICE INVESTORS
CONDENSED BALANCE SHEET
(Unaudited)

As of March 31,	2005
Assets	
Cash	$ 1,536,000
Other current assets	1,109,000
Property, plant and equipment, net of accumulated depreciation of $13,638,000	7,091,000
Construction in progress	4,023,000
Land	1,124,000
Total assets	$14,883,000
Liabilities and partners' capital	
Total current liabilities	$ 3,087,000
Long-term debt	4,850,000
Other long-term liabilities	35,000
Partners' capital	6,911,000
Total liabilities and partners' capital	$14,883,000

JUSTICE INVESTORS
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

For the three months ended March 31,	2005	2004
Hotel revenue	$ 2,903,000	$ -
Hotel rent	-	625,000
Garage rent	245,000	296,000
Other income	60,000	42,000
Operating expenses	(4,067,000)	(615,000)
Net income(loss)	$ (859,000)	$ 348,000

For the nine months ended March 31,	2005	2004
Hotel revenue	$10,709,000	$ -
Hotel rent	-	1,875,000
Garage rent	794,000	970,000

Other income	189,000	435,000
Operating expenses	(12,916,000)	(1,801,000)
Net income(loss)	$(1,224,000)	$ 1,479,000

5. Mortgage Note Payable

In September 2004, the Company repaid a mortgage in the amount of $9,832,000 as a part of the sale of its 442-unit multi-family apartment located Houston, Texas.

In August 2004, the Company repaid a mortgage in the amount of $1,180,000 on its 54-unit multi-family apartment located in Irving, Texas. Related to the repayment of the mortgage, the Company incurred an early termination fee of $133,000.

In August 2004, to facilitate the purchase of the Kihei, Maui, Hawaii property, the Company obtained a loan in the amount of $750,000 with the balance of the purchase price paid in cash. The loan is for a term of three years at a floating interest rate equal to the bank's base rate (currently 4.5%) plus 1%. Interest only is payable monthly.

6. Related Parties

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

-12-

7. Segment Information

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

Information below represents reported segments for the three and nine months ended March 31, 2005 and 2004. Operating income for rental properties consists of rental income. Operating income from Justice Investors consists of the operations of the hotel and garage included in the equity in net income of Justice Investors. Operating income (loss) for investment transactions consist of net investment gains(losses)and dividend and interest income.

	Real Estate		
Three months ended	Rental	Justice	Investment

March 31, 2005	Properties	Investors	Transactions	Other	Subtotal
Operating income(loss)	$ 3,615,000	$ (509,000)	$(8,037,000)	$ -	$ (4,931,000)
Operating expenses	(1,577,000)	-	(719,000)	-	(2,296,000)
Real estate taxes	(505,000)	-	-	-	(505,000)
Net operating income(loss)	1,533,000	(509,000)	(8,756,000)	-	(7,732,000)
Mortgage interest expense	(1,092,000)	-	-	-	(1,092,000)
Depreciation	(702,000)	-	-	-	(702,000)
Amort. of intangible asset	(167,000)	-	-	-	(167,000)
General and administrative Expense	-	-	-	(320,000)	(320,000)
Other income	-	-	-	18,000	18,000
Income tax expense	-	-	-	3,999,000	3,999,000
Minority interest	-	-	-	1,081,000	1,081,000
Net income(loss)	$ (428,000)	$ (509,000)	$(8,756,000)	$ 4,778,000	$ (4,915,000)
Total Assets	$85,417,000	$10,514,000	$17,571,000	$ 6,880,000	$ 120,382,000

	Real Estate				
Three months ended March 31, 2004	Rental Properties	Justice Investors	Investment Transactions	Other	Subtotal
Operating income	$ 2,756,000	$ 113,000	$ 4,398,000	$ -	$ 7,267,000
Operating expenses	(1,455,000)	-	(1,346,000)	-	(2,801,000)
Real estate taxes	(330,000)	-	-	-	(330,000)
Net operating income	971,000	113,000	3,052,000	-	4,136,000
Mortgage interest expenses	(841,000)	-	-	-	(841,000)
Depreciation	(506,000)	-	-	-	(506,000)
General and administrative expenses	-	-	-	(440,000)	(440,000)
Other income	-	-	-	37,000	37,000
Income tax benefit(expense)	-	-	-	(954,000)	(954,000)
Minority interest	-	-	-	(281,000)	(281,000)
Net income(loss)	$ (376,000)	$ 113,000	$ 3,052,000	$(1,638,000)	$ 1,151,000
Total Assets	$62,988,000	$ 8,815,000	$84,646,000	$ 7,008,000	$ 163,457,000

	Real Estate		
Nine months ended	Rental	Justice	Investment

March 31, 2005	Properties	Investors	Transactions	Other	Subtotal
Operating income(loss)	$10,627,000	$ (789,000)	$(5,468,000	$ -	$ 4,370,000
Operating expenses	(4,809,000)	-	(2,377,000)	-	(7,186,000)
Real estate taxes	(1,684,000)	-	-	-	(1,684,000)
Net operating income(loss)	4,134,000	(789,000)	(7,845,000)	-	(4,500,000)
Gain on sale of RE	-	-	-	-	-
Loss on early term. of debt	(133,000)	-	-	-	(133,000)
Mortgage interest expense	(3,268,000)	-	-	-	(3,268,000)
Depreciation	(2,129,000)	-	-	-	(2,129,000)
Amort. of intangible asset	(500,000)	-	-	-	(500,000)
General and administrative Expense	-	-	-	(1,022,000)	(1,022,000)
Other income	-	-	-	112,000	112,000
Income tax expense	-	-	-	4,576,000	4,576,000
Minority interest	-	-	-	1,130,000	1,130,000
Net income(loss)	$(1,896,000)	$ (789,000)	$(7,845,000)	$ 4,796,000	$ (5,734,000)
Total Assets	$85,417,000	$10,514,000	$17,571,000	$ 6,880,000	$ 120,382,000

	Real Estate				
Nine months ended March 31, 2004	Rental Properties	Justice Investors	Investment Transactions	Other	Subtotal
Operating income(loss)	$ 8,102,000	$ 557,000	$13,383,000	$ -	$ 22,042,000
Operating expenses	(4,321,000)	-	(3,800,000)	-	(8,121,000)
Real estate taxes	(949,000)	-	-	-	(949,000)
Net operating income(loss)	2,832,000	557,000	9,583,000	-	12,972,000
Mortgage interest expenses	(2,447,000)	-	-	-	(2,447,000)
Depreciation	(1,543,000)	-	-	-	(1,543,000)
General and administrative expenses	-	-	-	(1,281,000)	(1,281,000)
Other income	-	-	-	99,000	99,000
Income tax expense	-	-	-	(3,120,000)	(3,120,000)
Minority interest	-	-	-	(938,000)	(938,000)
Net income(loss)	$(1,158,000)	$ 557,000	$ 9,583,000	$(5,240,000)	$ 3,742,000
Total Assets	$62,988,000	$ 8,815,000	$84,646,000	$ 7,008,000	$ 163,457,000

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

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

The discussion below and elsewhere in the Report includes forward-looking statements about the future business results and activities of the Company, which, by their very nature, involve a number of risks and uncertainties. When used in this discussion, the words "estimate", "project", "anticipate" and similar expressions, are subject to certain risks and uncertainties, such as the impact of terrorism and war on the national and international economies, including tourism and the securities markets, changes in general economic conditions, interest rates, local real estate markets, and competition, as well as uncertainties relating to uninsured losses, securities markets, and litigation, including those discussed below and in the Company's Form 10-KSB for the fiscal year ended June 30, 2004 that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RECENT DEVELOPMENTS

Effective May 1, 2005, the Company entered into third party management agreements (the "Agreements") with Morrison, Ekre & Bart Management Services, Inc. ("MEB") for property management services for five of its Texas apartment complexes, which are located in Austin, Irving and San Antonio. The Agreements provide for a management fee equal to two and one-half percent of the gross monthly receipts of each property and are for a term of two years, but can be terminated by either party upon thirty days written notice. Should the Company elect to terminate any of the Agreements, prior to the two year term, it would be obligated to pay to MEB a sum equal to a one month management fee.

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

RESULTS OF OPERATIONS

For the Three Months Ended March 31, 2005 Compared to the
Three Months Ended March 31, 2004

The Company had a net loss of $4,915,000 for the three months ended March 31, 2005 compared to net income of $1,122,000 for the three months ended March 31, 2004. As discussed below, the change was primarily due to the significant net losses on the Company's marketable securities portfolio and the change in net income(loss) of Justice Investors from income to a loss, partially offset by the decrease the margin interest and trading expenses and the decrease in the general and administrative expense.

Rental income increased to $3,615,000 for the three months ended March 31, 2005 from $2,756,000 for the three months ended March 31, 2004 primarily due to the inclusion of rental income in the current quarter of the Company's 358-unit apartment in Las Colinas, Texas that was acquired in April 2004. The increase in rental income was partially offset by the reduction in rental income from the Company's Austin and Irving, Texas properties. The reduction in rental income from these two properties was due to higher vacancies and higher rent concessions given to tenants as the result of the soft rental market. Property operating expenses increased to $1,577,000 from $1,455,000 primarily as the result of the inclusion of operating expenses related to the purchase of the Las Colinas, Texas property in the current quarter. Mortgage interest expense increased to $1,092,000 from $841,000 primarily due to the addition of the $20,000,000 mortgage related to the purchase of the new property, partially offset by the repayment of the $1,180,000 mortgage on the Irving, Texas property. Real estate taxes and depreciation expense also increased primarily as the result of the purchase of the Las Colinas, Texas property. The amortization expense of $167,000 was due to the amortization of the intangible asset acquired along with the purchase of the Las Colinas, Texas property. The revenues and expenses of the Houston, Texas property that was sold in September 2004 were excluded from the real estate operations for the comparative quarter and are presented under discontinued operations.

The equity in net income(loss) of Justice Investors changed to a loss of $509,000 from income of $113,000. Effective July 1, 2004, Justice became the owner-operator of the Hotel rather than a lessor. Thus, the Partnership net income for the three months ended March 31, 2005 includes the direct operating results of the Hotel, whereas in the prior year Justice received rental income from Felcor pursuant to a lease. The net operating loss from the Hotel for the three months ended March 31, 2005 was approximately $744,000 while the Partnership received approximately $625,000 in rent from the Hotel lease for the three months ended March 31, 2004. The overall decrease in Partnership net income was primarily attributable to the net operating loss from the Hotel, a decrease in garage rent to $245,000 from 296,000 and increased costs in the current quarter related to professional fees and other costs for the repositioning of the Hotel

Average daily room rates for the Hotel decreased to approximately $85 for the three months ended March 31, 2005, compared to approximately $91 for the three months ended March 31, 2004, while average occupancy rates remained relatively flat at approximately 60%. Those results primarily reflect the inability of the Hotel to currently meet its competition. The Hotel is facing more competition from new properties and from higher end properties that provide greater amenities to its guests, especially for the business traveler. The Partnership is committed to making the Hotel competitive in its market by undertaking a significant renovation of the property and entering into a new Franchise License Agreement to operate the Hotel as a Hilton Brand hotel after the renovation is complete. In addition, the hotel business in the San Francisco Bay Area has lagged behind the recovery seen in other major cities in the United States due to the continued weakness in the local economy and a decline in international travel.

Net investment gains(losses) on marketable securities changed to net losses of $8,203,000 for the three months ended March 31, 2005 from a net gains of $4,174,000 for the three months ended March 31, 2004. A significant portion of the losses in the current quarter was attributable to holdings in a company in the Pharmaceutical and Medical industry group whose stock significantly declined after one of its major drugs was unexpectedly pulled from the market. For the three months ended March 31, 2005, the Company had net unrealized losses of $10,941,000 and net realized gains of $2,738,000. For the three months ended March 31, 2004, the Company had net unrealized losses of $897,000 and net realized gains of $5,071,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's net income. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities please see the Marketable Securities section below.

Dividend and interest income decreased to $166,000 from $224,000 as the result of the reduction in the investment in dividend-yielding securities.

Margin interest and trading expenses decreased to $719,000 from $1,346,000 primarily due to a $757,000 performance-based compensation earned by the Company's CEO for his management of the Company's investment portfolio for the three months ended March 31, 2004. There was no such bonus earned by the Company's CEO for the three months ended March 31, 2005. Trading expenses also decreased to $406,000 from $787,000 as the result of the reduction of staff and the reduction of trading related expenses. The remaining difference is related to the decrease in margin interest expense to $313,000 from $388,000.

General and administrative expenses decreased to $320,000 from $440,000 primarily to due to the reduction of annual corporate tax preparation fees to $30,000 from $120,000 and the reduction of administrative staff. Management continues to make efforts to reduce general and administrative expenses across the board.

The provision for the income tax benefit(expense) changed to a benefit of $3,999,000 for the three months ended March 31, 2005 from an expense of $954,000 for the three months ended March 31, 2004 primarily due to the significant losses incurred during the current quarter.

Minority interest benefit(expense) changed to a benefit of $1,081,000 from an expense of $281,000 due to the significant losses incurred by the Company's subsidiary, Santa Fe, in the current quarter.

For the Nine Months Ended March 31, 2005 Compared to the
Nine Months Ended March 31, 2004

The Company had a net loss of $2,190,000 for the three months ended March 31, 2005 compared to net income of $3,679,000 for the three months ended March 31, 2004. As discussed below, the change was primarily due to the significant net losses on the Company's marketable securities portfolio, the increase in the loss from real estate operations and the change in net income(loss) of Justice Investors from income to a loss, partially offset by the gain on sale of real estate, the decrease the margin interest and trading expenses and the decrease in the general and administrative expense.

Rental income increased to $10,627,000 for the nine months ended March 31, 2005 from $8,102,000 for the nine months ended March 31, 2004 primarily due to the inclusion of rental income in the nine months ended March 31, 2005 of the Company's 358-unit apartment in Las Colinas, Texas that was acquired in April 2004. The increase in rental income was partially offset by the reduction in rental income from the Company's Austin and Irving, Texas properties. The reduction in rental income from these two properties was due to higher vacancies and higher rent concessions given to tenants as the result of the soft rental market. Property operating expenses increased to $4,809,000 from $4,321,000 as the result of the inclusion of operating expenses related to the newly acquired property in the nine months ended March 31, 2005. Mortgage interest expense increased to $3,268,000 from $2,447,000 primarily due to the addition of a $20,000,000 mortgage related to the purchase of the Las Colinas, Texas property, partially offset by the repayment of the $1,180,000 mortgage on the Irving, Texas property. Real estate taxes and depreciation expense also increased primarily as the result of the purchase of the Las Colinas, Texas property. The amortization expense of $500,000 was due to the amortization of the intangible asset acquired along with the purchase of the Las Colinas, Texas property. The revenues and expenses of the Houston, Texas property that was sold in September 2004 were excluded from the real estate operations for the nine months ended March 31, 2005 and 2004 and are presented under discontinued operations.

The Company incurred a loss on early termination of debt in the amount of $133,000 as the result of the repayment of the $1,180,000 mortgage on its property located in Irving, Texas in August 2004.

In September 2004, the Company sold its 442-unit multi-family apartment complex located in Houston, Texas for $11,850,000. The Company realized a gain of $6,006,000 on the sale. The gain on the sale on this property and its operating results for the nine months ended March 31, 2005 and 2004 are reported under discontinued operations on the Statement of Operations.

The equity in net income(loss) of Justice Investors changed to a loss of $789,000 from income of $557,000. Effective July 1, 2004, Justice became the owner-operator of the Hotel rather than a lessor. Thus, the Partnership net income for the first nine months of fiscal 2005 includes the direct operating results of the Hotel, whereas in the prior year Justice received rental income from Felcor pursuant to a lease. The net operating loss from the Hotel for the nine months ended March 31, 2005 was approximately $929,000, while the Partnership received approximately $1,875,000 in rent from the Hotel lease for the nine months ended March 31, 2004. The overall decrease in Partnership net income was primarily attributable to the net operating loss from the Hotel, a decrease in garage rent to $794,000 from $970,000 and increased costs in related to professional fees and other costs for the repositioning of the Hotel.

Average daily room rates for the Hotel decreased to approximately $89 for the nine months ended March 31, 2005, compared to approximately $91 for the nine months ended March 31, 2004, while average monthly occupancy rates decreased to approximately 64.6% compared to approximately 68% in the prior year. Those results primarily reflect the inability of the Hotel to currently meet its competition. The Hotel is facing more competition from new properties and from higher end properties that provide greater amenities to its guests, especially for the business traveler. The Partnership is committed to making the Hotel competitive in its market by undertaking a significant renovation of the property and by entering into a new Franchise License Agreement to operate the Hotel as a Hilton Brand hotel after the renovation is complete. In addition, the hotel business in the San Francisco Bay Area has lagged behind the recovery seen in other major cities in the United States due to the continued weakness in the local economy and a decline in international travel.

Net investment gains(losses) on marketable securities changed to net losses of $6,125,000 for the nine months ended March 31, 2005 from net gains of $12,785,000 for the nine months ended March 31, 2004. A significant portion of the losses was attributable to holdings in a company in the Pharmaceutical and Medical industry group whose stock significantly declined after one of its major drugs was unexpectedly pulled from the market. For the nine months ended March 31, 2005, the Company had net unrealized losses of $9,368,000 and net realized gains of $3,243,000. For the nine months ended March 31, 2004, the Company had net unrealized gains of $4,422,000 and net realized gains of $8,363,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's net income. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities please see the Marketable Securities section below.

During the nine months ended March 31, 2005, the Company recorded an impairment loss of $258,000 related to a private placement investment.

Margin interest and trading expenses decreased to $2,119,000 from $3,800,000 primarily due to the decrease in the performance-based compensation earned by the Company's CEO for his management of the Company's investment portfolio to $320,000 for the nine months ended March 31, 2005 from $1,949,000 for the nine months ended March 31, 2004.

General and administrative expenses decreased to $1,022,000 from $1,281,000 primarily to due to the reduction of annual corporate tax preparation fees to $30,000 from $120,000 and the reduction of administrative staff. Management continues to make efforts to reduce general and administrative expenses across the board.

The provision for income tax benefit(expense) changed to a tax benefit of $2,214,000 from a tax expense of $3,078,000 primarily due to the significant losses incurred in the nine months ended March 31, 2005.

Minority interest benefit(expense) changed to a benefit of $1,130,000 from an expense of $938,000 as a result of the significant loss incurred by the Company's subsidiary, Santa Fe during the nine months ended March 31, 2005.

MARKETABLE SECURITIES

The Company's investment portfolio is diversified with 54 different equity positions. Only three equity securities are more than 5% of the equity value of the portfolio, with the largest being 18.2%. 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 March 31, 2005, the Company had investments in marketable equity securities of $14,877,000. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as of March 31, 2005.

Industry Group	Market Value	% of Total Investment Securities
Banks and insurance	$ 3,848,000	25.9%
Real estate investment trusts	3,786,000	25.4%
Electric, pipelines, oil and gas	2,555,000	17.2%
Apparel, food and consumer goods	2,046,000	13.8%
Telecommunications and media	1,661,000	11.2%
Pharmaceutical and medical	374,000	2.5%

Other	607,000	4.0%
	$14,877,000	100.0%

The following table shows the investment income or loss on the Company's marketable securities and the associated margin interest and trading expenses for the three and nine months ended March 31, 2005 and 2004, respectively.

	Three months ended March 31, 2005	Three months ended March 31, 2004
Net gains(losses) on marketable securities	$ (8,203,000)	$ 4,174,000
Dividend & interest income	166,000	224,000
Margin interest expense	(313,000)	(388,000)
Trading and management expenses	(406,000)	(958,000)
Investment income(loss)	$ (8,756,000)	$ 3,052,000

	Nine months ended March 31, 2005	Nine months ended March 31, 2004
Net gains(losses) on marketable securities	$ (6,125,000)	$ 12,785,000
Impairment loss on other invest.	(258,000)	-
Dividend & interest income	657,000	598,000
Margin interest expense	(774,000)	(1,054,000)
Trading and management expenses	(1,345,000)	(2,746,000)
Investment income(loss)	$ (7,845,000)	$ 9,583,000

FINANCIAL CONDITION AND LIQUIDITY

The Company's cash flows are generated primarily from its real estate activities, sales of investment securities and borrowings related to both. During the nine months ended March 31, 2005, operating activities generated cash of $2,272,000, investing activities provided cash of $8,170,000 and financing activities used cash of $9,154,000.

During the nine months ended March 31, 2005, the Company made property improvements in the aggregate amount of $2,016,000. Management believes the improvements to its properties will enhance market values, maintain the competitiveness of the Company's properties and potentially enable the Company to obtain a higher yield through higher rents.

In September 2004, the Company sold its 442-unit multi-family apartment complex located in Houston, Texas for $11,850,000. The Company realized a gain of $6,006,000 and received net proceeds of $1,364,000 after repayment of the mortgage of $9,832,000 on the property, selling costs and attorneys' fees.

In August 2004, the Company repaid the mortgage in the amount of $1,180,000 on its 54-unit multi-family apartment located in Irving, Texas. Related to the repayment of the mortgage, the Company incurred an early termination fee of $133,000.

In August 2004, the Company purchased an approximately two acre parcel of unimproved land in Kihei, Maui, Hawaii for $1,450,000. The land will be held for sale or development. To facilitate the purchase of the property, the Company obtained a loan in the amount of $750,000 with the balance of the purchase price paid in cash. The loan is for a term of three years at a floating interest rate equal to the bank's base rate (currently 4.5%) plus 1%. Interest only is payable monthly.

-20-

As discussed above, Justice Investors has decided to close down its Hotel operations on or about June 1, 2005 to complete the renovations of the Hotel as required by the Hilton Agreement. The Partnership currently estimates that the actual cost of the renovations will be approximately $27 million to $28 million with an additional $3 million required for construction interest and estimated carrying costs of operations. It is anticipated that the Hotel will be closed for a period of six to eight months before a contemplated reopening as the "Hilton San Francisco Financial District" in the early part of 2006. The below ground parking garage and Tru Spa located on the lobby level of the Hotel, both of which are lessees of the Partnership, will remain open during the renovation work. During that transition period, income from the Hotel will be limited to rental income and the Partnership is expected incur losses during that time. Due to the losses from the operations of the Hotel expected during the transition period, and the substantial financial commitments the Partnership will have to make for the renovations, Justice discontinued Partnership distributions effective April 2004. Justice does not anticipate paying any further Partnership distributions until some time after operations commence under the Hilton brand and net income and capital requirements warrant such distributions.

To meet its substantial financial commitments, the Partnership will have to rely on additional borrowings to meet its obligations. Justice Investors believes that the value of the Hotel property will be adequate to serve as collateral to secure the necessary financing. That amount of leverage and the associated debt service will create additional risk for the Partnership and its ability to generate cash flows in the future since the Hotel asset has been virtually debt free for many years. Although the Partnership is not expected to see a significant improvement in cash flows until sometime in 2006, it believes that the renovations to the Hotel, the new management structure and a new brand will make the Hotel more competitive in the future.

The Company's Board of Directors has given the Company the authority to repurchase, from time to time, shares of its Common Stock. Such repurchases may be made at the discretion of management and depending on market conditions. During the nine months ended March 31, 2005, the Company purchased 76,500 shares of its stock for $1,046,000.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

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

IMPACT OF INFLATION

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

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

CRITICAL ACCOUNTING POLICIES

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

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

Item 3. Controls and Procedures

(a) Disclosure Controls and Procedures.

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

(b) Internal Control Over Financial Reporting.

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

PART II. OTHER INFORMATION

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

(a) None.

(b) Not applicable.

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

SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

2005 Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (Jan. 1- Jan. 31)	6,500	$15.00	6,500	106,441
Month #2 (Feb. 1- Feb. 28)	-	-	-	106,441
Month #3 (Mar. 1- Mar. 31)	10,000	$14.52	10,000	96,441
Total	16,500	$14.71	16,500	96,441

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

Item 4. Submission of Matters to a Vote of Shareholders.

The Annual Meeting of the Shareholders of the Company was held on February 23, 2005 at the Luxe Summit Hotel Bel-Air, 11461 Sunset Blvd., Los Angeles, California 90049. At that meeting, two Class B Directors, Gary N. Jacobs and William J. Nance, were elected to serve a three year term expiring at the Fiscal 2007 Annual Meeting. Each nominee received in excess of 99% of the shares voted. John V. Winfield, Josef A. Grunwald, John C. Love, and Mildred Bond Roxborough continue their terms as the Company's other directors. At the Annual Meeting, the shareholders also voted in favor of the ratification of the Audit Committee's selection of PricewaterhouseCoopers LLP as the independent auditors of the Company for the fiscal year ending June 30, 2005. A tabulation of the vote follows:

Proposal (1) - Directors:	Votes For	Withheld
Gary N. Jacobs	2,253,382	17,397
William J. Nance	2,263,188	7,591

Proposal (2) - Accountants:	Votes For	Against	Abstained
PricewaterhouseCoopers LLP	2,265,484	334	4,961

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

(a) Exhibits

31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).

31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

(b) Registrant did not file any reports on Form 8-K during the quarter covered by this Report:

SIGNATURES

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

THE INTERGROUP CORPORATION
(Registrant)

Date: May 12, 2005 by /s/ John V. Winfield

John V. Winfield, President,

Chairman of the Board and
Chief Executive Officer

Date: May 12, 2005 by /s/ David T. Nguyen

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