INTERGROUP CORP
Form 10QSB
November 15, 2004

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 September 30, 2004

[ ] 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 November 10, 2004 were 2,476,686 shares.

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

THE INTERGROUP CORPORATION
INDEX TO FORM 10-QSB

THE INTERGROUP CORPORATION
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

As of September 30,	2004
ASSETS	
Investment in real estate, at cost:	
Land	$ 29,609,000
Buildings, improvements and equipment	73,563,000
Property held for development	959,000
	104,131,000
Less: accumulated depreciation	(18,440,000)
	85,691,000
Investment in Justice Investors	11,405,000
Cash and cash equivalents	1,949,000
Restricted cash	4,580,000
Investment in marketable securities	42,837,000

Prepaid expenses and other assets	2,193,000
Property intangible asset net of accum. amort.	389,000
Total assets	$149,044,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities	
Mortgage notes payable	$ 79,983,000
Due to securities broker	19,629,000
Obligation for securities sold	6,485,000
Line of credit	5,000,000
Accounts payable and other liabilities	3,780,000
Deferred income taxes	8,008,000
Total liabilities	122,885,000
Minority interest	8,988,000
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, 2,476,686 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	15,531,000
Treasury stock, at cost, 717,059 shares	(7,067,000)
Total shareholders' equity	17,171,000
Total liabilities and shareholders' equity	$149,044,000

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 September 30,	2004	2003
Real estate operations:		
Rental income	$ 3,504,000	$ 2,879,000
Rental expenses:		
Property operating expenses	(1,533,000)	(1,418,000)
Mortgage interest expense	(1,065,000)	(743,000)
Real estate taxes	(412,000)	(318,000)
Depreciation	(716,000)	(537,000)
Amortization - intangible asset	(167,000)	-

Loss from real estate operations	(389,000)	(137,000)
Loss on early termination of debt	(133,000)	-
	(522,000)	(137,000)
Equity in net income of Justice Investors	77,000	208,000
Investment transactions:		
Net investment (losses)gains	(4,627,000)	2,028,000
Dividend and interest income	292,000	151,000
Margin interest and trading expenses	(576,000)	(522,000)
Income(loss) from investment transactions	(4,911,000)	1,657,000
Other income(expense):		
General and administrative expenses	(381,000)	(358,000)
Other, net	86,000	13,000
Other expense	(295,000)	(345,000)
Income before provision for income taxes and minority interest	(5,651,000)	1,383,000
Provision for income tax benefit(expense)	2,260,000	(553,000)
Income before minority interest	(3,391,000)	830,000
Minority interest (expense)benefit	645,000	(213,000)
Net (loss)income from continuing operations	$ (2,746,000)	$ 617,000
Discontinued operations:		
Net loss on discontinued operations	$ (100,000)	$ (27,000)
Gain on sale of real estate	6,006,000	-
Provision for income tax expense(benefit)	(2,362,000)	11,000
Income from discontinued operations	$ 3,544,000	$ (16,000)
Net income	$ 798,000	601,000
Income(loss) per share from continuing operations		
Basic	$ (1.10)	$ 0.24
Diluted	$ (0.96)	-
Income(loss) per share from discontinued operations		
Basic	$ 1.42	$ (0.01)
Diluted	$ 1.24	$ (0.01)
Net income per share		
Basic	$ 0.32	$ 0.24
Diluted	$ 0.28	$ 0.21
Weighted average number of shares outstanding	2,496,468	2,530,384
Diluted weighted average number of shares outstanding	2,862,468	2,863,384

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

THE INTEGROUP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the three months ended September 30,	2004	2003
Cash flows from operating activities:		
Net income	$ 798,000	$ 601,000
Adjustments to reconcile net income to cash provided by(cash used) in operating activities:		
Depreciation of real estate	799,000	675,000
Amortization of intangible asset	167,000	-
Loss on early termination of debt	133,000	-
Gain on sale of real estate	(6,006,000)	-
Net unrealized losses(gains) on investments	4,751,000	(2,408,000)
Equity in net income from Justice Investors	(77,000)	(208,000)
Minority interest (benefit)expense	(645,000)	213,000
Changes in assets and liabilities:		
Restricted cash	(1,027,000)	154,000
Investment in marketable securities	19,027,000	(5,089,000)
Prepaid expenses and other assets	1,665,000	(51,000)
Accounts payable and other liabilities	(690,000)	(1,355,000)
Due to broker	(2,816,000)	(3,131,000)
Obligation for securities sold	(15,100,000)	8,995,000
Deferred income taxes	674,000	(154,000)
Net cash provided by(used in) operating activities	1,653,000	(1,758,000)
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	(875,000)	(371,000)
Distributions from Justice Investors	-	397,000
Net cash provided by(used in) investing activities	9,508,000	(674,000)
Cash flows from financing activities:		
Borrowings from mortgage notes payable	1,675,000	4,215,000
Principal payments on mortgage notes payable	(11,396,000)	(2,400,000)
Purchase of treasury stock	(268,000)	-
Dividends paid to minority shareholders	-	(115,000)
Net cash (used in) provided by financing activities	(9,989,000)	1,700,000
Net increase(decrease) in cash and cash equivalents	1,172,000	(732,000)
Cash and cash equivalents at beginning of period	777,000	1,859,000
Cash and cash equivalents at end of period	$ 1,949,000	$ 1,127,000

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 September 30, 2004, the Company had the power to vote 75.2%, 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 months ended September 30, 2004 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 September 30, 2004, the Company had 366,000 stock options that were considered potentially dilutive common shares and 27,000 stock options that were considered anti-dilutive. These amounts were included in the calculation for diluted earnings per share.

Stock-Based Compensation Plans

Effective December 15, 2002, the Company adopted Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which amends Statement of Financial Accounting 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. Had the Company determined compensation cost based on the fair value for its stock options at grant date (based on 15,000 during the three months ended September 30, 2004), net income and earnings per share would have been reduced to the pro forma amounts as follows:

Net income	$ 827,000
Stock based employee	
Compensation expense*	(62,000)
Pro forma net income	$ 765,000
Earnings per share	
Basic as reported	$ 0.32
Basic pro forma	$ 0.30
Diluted as reported	$ 0.28
Diluted pro forma	$ 0.27

*Determined under fair value based on 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 three months ended September 30, 2004; risk-free interest rate of 2.60%; dividend yield of 0%; expected Common Stock market price volatility factor of 31.37; and a weighted-average expected life of the options of 10 years. The weighted-average fair value of options granted during the three months ended September 30, 2004 was $6.95 per option. The aggregate fair value of the options granted in during the three months ended September 30, 2004 was $104,000.

2. Investment in Real Estate

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.

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 months ended September 30, 2004 and 2003 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 months ended September 30, 2004 and 2003 are summarized as follows:

	2004	2003
Revenues	$ 361,000	$ 583,000
Expenses	(461,000)	(610,000)
Net loss	(100,000)	(27,000)

Depreciation expense for the three months ended September 30, 2004 and 2003 for this property was $83,000 and $138,000, 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 Septembr 30, 2004, all of the Company's marketable securities are classified as trading securities. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the change in the unrealized gains and losses on these investments are included earnings. Trading securities are summarized as follows:

As of September 30, 2004

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Market Value
Corporate Equities	$36,843,000	$10,237,000	($4,243,000)	$5,994,000	$42,837,000

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

As part of the investment strategies, the Company may assume short positions in marketable securities. Short sales are used by the Company to potentially offset normal market risks undertaken in the course of its investing activities or to provide additional return opportunities. The Company has no naked short positions. As of September 30, 2004, the Company had obligations for securities sold(equities short) of $6,485,000.

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 $4,627,000 for the three months ended September 30, 2004 are net unrealized losses of $4,751,000 and net realized gains of $124,000. Included in the net gains on marketable securities of $2,028,000 for the three months ended September 30, 2003 are net unrealized gains of $2,408,000 and net realized losses of $380,000. There were no gross unrealized losses on any securities held which existed for more than one year.

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 Garage Corporation, which recently changed its name to "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.

-8-

As a general and limited partner, Portsmouth has significant control over the management and operation of the assets of Justice. All significant partnership decisions require the active participation and approval of both general partners. The Portsmouth 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. Portsmouth is not entitled to any additional voting rights by virtue of its position as a general partner. The partnership agreement also provides that no portion of the partnership real property can be sold without the written consent of the general and limited partners entitled to more than 72% of the net profit.

Historically, Justice's most significant income source was a lease between the Partnership and Felcor Lodging Trust, Inc. ("Felcor") for the hotel portion of 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. Portsmouth also derives revenue from management fees from Justice for actively managing the Hotel as a general partner.

For the Company's investment in Justice, to the extent that projected future undiscounted cash flows from the operation of the Hotel property are less than the carrying value of the asset, the investment would be considered permanently impaired and the carrying value of the asset would be reduced to its fair value.

Condensed financial statements for Justice Investors are as follows:

JUSTICE INVESTORS
CONDENSED BALANCE SHEET

As of September 30,	2004
Assets	
Total current assets	$ 4,456,000
Loan fees and deferred lease costs, net of accumulated amortization of $6,000	266,000
Property, plant and equipment, net of accumulated depreciation of $13,339,000	6,871,000
Construction in progress	234,000
Land	1,124,000
Total assets	$12,951,000

Liabilities and partners' capital	
Total current liabilities	$ 77,000
Long-term debt	4,321,000
Other long-term debt	173,000
Partners' capital	8,380,000
Total liabilities and partners' capital	$12,951,000

JUSTICE INVESTORS
CONDENSED STATEMENTS OF OPERATIONS

For the three months ended September 30,	2004	2003
Revenues	$ 4,719,000	$ 1,012,000
Costs and expenses	(4,443,000)	(474,000)
Net income	$ 276,000	$ 538,000

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.

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 months ended September 30, 2004 and 2003. 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 (losses) for investment transactions consist of net investment gains(losses)and dividend and interest income.

Three months ended September 30, 2004	Real Estate: Rental Properties	Real Estate: Justice Investors	Investment Transactions	Other	Subtotal
Operating income(loss)	$ 3,504,000	$ 77,000	$(4,335,000)	$ -	$ (754,000)
Operating expenses	(1,533,000)	-	(576,000)	-	(2,109,000)
Real estate taxes	(412,000)	-	-	-	(412,000)
Net operating income(loss)	1,559,000	77,000	(4,911,000)	-	(3,275,000)
Gain on sale of RE	-	-	-	-	-
Loss on early term. of debt	(133,000)	-	-	-	(133,000)
Mortgage interest expenses	(1,065,000)	-	-	-	(1,065,000)
Depreciation	(716,000)	-	-	-	(716,000)
Amort. of intangible asset	(167,000)	-	-	-	(167,000)
General and administrative expenses	-	-	-	(381,000)	(381,000)
Other income	-	-	-	86,000	86,000
Income tax expense	-	-	-	2,260,000	2,260,000
Minority interest	-	-	-	645,000	645,000
Net income(loss)	$ (522,000)	$ 77,000	$(4,911,000)	$ 2,610,000	$ (2,746,000)
Total Assets	$85,691,000	$11,405,000	$43,254,000	$ 8,694,000	$ 149,044,000

Three months ended September 30, 2003	Real Estate: Rental Properties	Real Estate: Justice Investors	Investment Transactions	Other	Subtotal
Operating income(loss)	$ 2,879,000	$ 208,000	$ 2,179,000	$ -	$ 5,266,000
Operating expenses	(1,418,000)	-	(522,000)	-	(1,940,000)
Real estate taxes	(318,000)	-	-	-	(318,000)
Net operating income(loss)	1,143,000	208,000	1,657,000	-	3,008,000
Mortgage interest expenses	(743,000)	-	-	-	(743,000)
Depreciation	(537,000)	-	-	-	(537,000)
General and administrative					

expenses	-	-	-	(358,000)	(358,000)
Other income	-	-	-	13,000	13,000
Income tax expense	-	-	-	(553,000)	(553,000)
Minority interest	-	-	-	(213,000)	(213,000)
Net income(loss)	$ (137,000)	$ 208,000	$ 1,657,000	$(1,111,000)	$ 617,000
Total Assets	$63,366,000	$ 8,736,000	$62,435,000	$ 7,927,000	$ 142,464,000

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.

RESULTS OF OPERATIONS

For the Three Months Ended September 30, 2004 Compared to the Three Months Ended September 30, 2003

The Company had net income of $798,000 for the three months ended September 30, 2004 compared to net income of $601,000 for the three months ended September 30, 2003. The increase in net income was primarily due to the gain on sale of real estate, the increase in dividend and interest income and the change in minority interest income, offset by the net investment losses, the increase in the loss from real estate operations and the decrease in the equity in net income of Justice Investors.

Rental income increased to $3,504,000 for the three months ended September 30, 2004 from $2,879,000 for the three months ended September 30, 2003 primarily due to the inclusion of rental income the Company's 358-unit apartment in Las Colinas, Texas that was acquired in April 2004. The increase 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 $1,533,000 from $1,418,000 as the result the inclusion of operating expenses related to the new property in the current quarter. Mortgage interest expense increased to $1,065,000 from $743,000 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 $167,000 was due to the amortization of the intangible asset acquired along with the purchase of the Las Colinas, Texas property.

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 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 and the operations of the property for the three months ended September 20, 2004 and 2003 were required to be reported as discontinued operations on the Statement of Operations.

Equity in net income of Justice Investors decreased to $77,000 from $208,000. Effective July 1, 2004, the Justice became the owner-operator of the Hotel rather than a lessor. Thus, the Partnership net income for the first quarter of fiscal 2004 includes the direct operating results of the Hotel, whereas in the prior year Justice received rental income from Felcor pursuant to a lease. Net operating income from the Hotel for the three months ended September 30, 2004 was approximately $305,000. The overall decrease in Partnership net income was primarily attributable to a decrease in income from the Hotel and increased costs in the current quarter related to the repositioning of the Hotel and additional depreciation and interest costs related to the build-out of the new spa and meeting rooms in the Hotel and other capital improvements.

Average daily room rates for the Hotel increased to approximately $97 for the three months ended September 30, 2004, compared to approximately $90 for the three months ended September 30, 2003, while average monthly occupancy rates decreased to approximately 75% from approximately 79% in the prior period. Those results reflect the efforts of the Partnership and its hotel management company, Dow, to attract higher rated individual business travelers. Overall, 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. The Hotel has also faced 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 seeking a new, more upscale, brand for the Hotel.

Net investment gains(losses) on marketable securities changed to net losses of $4,627,000 for the three months ended September 30, 2004 from net gains of $2,028,000 for the three months ended September 30, 2003. For the three months ended September 30, 2004, the Company had net unrealized losses of $4,751,000 and net realized gains of $124,000. For the three months ended September 30, 2003, the Company had net unrealized gains of $2,408,000 and net realized losses of $380,000. 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 increased to $292,000 from $151,000 as a result of the increased investment in dividend yielding securities.

Other income increased to $86,000 from $13,000 primarily due to the receipt of $69,000 from Justice Investors for management's involvement in the positioning of the hotel.

Net income tax expense (from continuing and discontinued operations combined) decreased to $102,000 from $542,000 as the result of the significantly lower income before taxes generated in three months ended September 30, 2004 as compared to the three months ended September 30, 2003.

-13-

Minority interest benefit(expense) changed to a benefit of $645,000 from an expense of $213,000 due to the loss incurred by the Company's subsidiary, Santa Fe, in the current quarter ended September 30, 2004 as compared to income generated in the quarter ended September 30, 2003.

MARKETABLE SECURITIES

The Company's investment portfolio is diversified with 85 different equity positions. Only two equity securities are more than 5% of the equity value of the portfolio, with the largest being 7%. The amount of the Company's investment in any particular issuer may increase or decrease, and additions or deletions to its securities portfolio may occur, at any time. While it is the internal policy of the Company to limit its initial investment in any single equity to less than 5% of its total portfolio value, that investment could eventually exceed 5% as a result of equity appreciation or reduction of other positions. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date.

As of September 30, 2004, the Company had investments in marketable equity securities of $42,837,000. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as of September 30, 2004.

Industry Group	Market Value	% of Total Investment Securities
Electric, pipelines, oil and gas	$11,283,000	26.3%
REITs, Lodging, home builders, and Hotels	6,754,000	15.8%
Airlines and defense	6,628,000	15.5%
Pharmaceuticals and medical	5,494,000	12.8%
Insurance and banks	3,676,000	8.6%
Chemicals, materials, metals, and mining	2,950,000	6.9%
Telecommunications and media	2,810,000	6.6%
Apparel, food and consumer goods	2,443,000	5.7%
Other	799,000	1.8%
	$42,837,000	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 three months ended September 30, 2004 and September 30, 2003, respectively.

	Three months ended September 30, 2004	Three months ended September 30, 2003
Net (losses)gains on marketable securities	$ (4,627,000)	$ 2,028,000
Dividend & interest income	292,000	151,000
Margin interest expense	(252,000)	(318,000)
Trading and management expenses	(324,000)	(204,000)
Investment (loss)income	$ (4,911,000)	$ 1,657,000

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 three months ended September 30, 2004, operating activities generated cash of $1,653,000, investing activities provided cash of $9,508,000 and financing activities used cash of $9,989,000.

During the three months ended September 30, 2004, the Company made property improvements in the aggregate amount of $875,000. 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.

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 three months ended September 30, 2004, the Company purchased 20,000 shares of its stock for $268,000.

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.

-16-

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

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 (July 1- July 31)	-	-	-	22,941
Month #2 (Aug. 1- Aug. 31)	-	-	-	22,941
Month #3 (Sept. 1- Sept. 30)	20,000	$13.42	20,000	2,941
Total	20,000	$13.42	20,000	2,941

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

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

(a) Exhibits

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

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

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

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

(b) Registrant did not file any reports on Form 8-K during the period covered by this report.

SIGNATURES

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

THE INTERGROUP CORPORATION
(Registrant)

Date: November 12, 2004 by /s/ John V. Winfield

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

Date: November 12, 2004 by /s/ David T. Nguyen

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