

INTERGROUP CORP
Form 10-Q
October 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
X ACT OF 1934**

For the quarterly period ended September 30, 2015

or

**..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the transition period from _____ to _____

Commission File Number 1-10324

THE INTERGROUP CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE 13-3293645
(State or other jurisdiction of (I.R.S. Employer
Incorporation or organization) Identification No.)

10940 Wilshire Blvd., Suite 2150, Los Angeles, California 90024

(Address of principal executive offices) (Zip Code)

(310) 889-2500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):

Yes No

The number of shares outstanding of registrant's Common Stock, as of October 9, 2015 was 2,384,989.

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PART I**FINANCIAL INFORMATION****Item 1 - Condensed Consolidated Financial Statements**

THE INTERGROUP CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

As of	September 30, 2015 (Unaudited)	June 30, 2015
ASSETS		
Investment in Hotel, net	\$44,292,000	\$43,840,000
Investment in real estate, net	57,537,000	55,768,000
Investment in marketable securities	17,733,000	5,827,000
Other investments, net	1,778,000	15,082,000
Cash and cash equivalents	8,344,000	8,529,000
Restricted cash - mortgage impounds	3,043,000	2,868,000
Other assets, net	7,153,000	11,505,000
Total assets	\$139,880,000	\$143,419,000
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Liabilities:		
Accounts payable and other liabilities	\$3,792,000	\$5,268,000
Accounts payable and other liabilities - Hotel	11,259,000	13,615,000
Due to securities broker	-	345,000
Obligations for securities sold	-	22,000
Other notes payable	4,781,000	4,905,000
Mortgage notes payable - Hotel	117,000,000	117,000,000
Mortgage notes payable - real estate	65,892,000	66,233,000
Deferred income taxes	446,000	3,000
Total liabilities	203,170,000	207,391,000
Commitments and contingencies		
Shareholders' deficit:		
Preferred stock, \$.01 par value, 100,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 4,000,000 shares authorized; 3,395,616 and 3,391,096 issued; 2,384,989 and 2,386,029 outstanding, respectively	33,000	33,000

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Additional paid-in capital	10,413,000	10,494,000
Accumulated deficit	(35,990,000)	(36,459,000)
Treasury stock, at cost, 1,010,627 and 1,005,067 shares	(12,000,000)	(11,878,000)
Total InterGroup shareholders' deficit	(37,544,000)	(37,810,000)
Noncontrolling interest	(25,746,000)	(26,162,000)
Total shareholders' deficit	(63,290,000)	(63,972,000)
Total liabilities and shareholders' equity	\$ 139,880,000	\$ 143,419,000

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

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THE INTERGROUP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

For the three months ended September 30,	2015	2014
Revenues:		
Hotel	\$ 15,138,000	\$ 14,830,000
Real estate	3,582,000	4,197,000
Total revenues	18,720,000	19,027,000
Costs and operating expenses:		
Hotel operating expenses	(11,193,000)	(11,838,000)
Real estate operating expenses	(1,736,000)	(2,140,000)
Depreciation and amortization expense	(1,236,000)	(1,226,000)
General and administrative expense	(809,000)	(781,000)
Total costs and operating expenses	(14,974,000)	(15,985,000)
Income from operations	3,746,000	3,042,000
Other income (expense):		
Interest expense - mortgages	(2,464,000)	(2,658,000)
Disposal of other assets	(30,000)	-
Net gain (loss) on marketable securities	380,000	(1,490,000)
Net unrealized loss on other investments	(74,000)	(42,000)
Dividend and interest income	13,000	14,000
Trading and margin interest expense	(240,000)	(469,000)
Other real estate income	-	458,000
Other expense, net	(2,415,000)	(4,187,000)
Income (loss) before income taxes	1,331,000	(1,145,000)
Income tax (expense) benefit	(618,000)	241,000
Net income (loss)	713,000	(904,000)
Less: Net (income) loss attributable to the noncontrolling interest	(244,000)	141,000
Net income (loss) attributable to InterGroup	\$ 469,000	\$ (763,000)
Net income (loss) per share		
Basic	\$ 0.30	\$ (0.38)
Diluted	\$ 0.29	\$ (0.38)
Net income (loss) per share attributable to InterGroup		
Basic	\$ 0.20	\$ (0.32)
Diluted	\$ 0.19	\$ (0.32)
Weighted average number of basic common shares outstanding	2,387,296	2,386,146
Weighted average number of diluted common shares outstanding	2,485,584	2,386,146

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

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THE INTERGROUP CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

For the three months ended September 30,	2015	2014
Cash flows from operating activities:		
Net income (loss)	\$713,000	\$(904,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,236,000	1,226,000
Loss on disposal of assets	30,000	-
Net unrealized (gain) loss on marketable securities	(440,000)	1,646,000
Unrealized loss on other investments	74,000	42,000
Stock compensation expense	211,000	325,000
Changes in assets and liabilities:		
Investment in marketable securities	1,764,000	458,000
Other assets	4,399,000	(289,000)
Accounts payable and other liabilities	(3,832,000)	(3,468,000)
Due to securities broker	(345,000)	(2,009,000)
Obligations for securities sold	(22,000)	2,376,000
Deferred taxes	443,000	(241,000)
Net cash provided by (used in) operating activities	4,231,000	(838,000)
Cash flows from investing activities:		
Investment in hotel, net	(1,291,000)	(1,313,000)
Investment in real estate, net	(2,243,000)	(211,000)
Investment in Santa Fe	(120,000)	-
Net cash used in investing activities	(3,654,000)	(1,524,000)
Cash flows from financing activities:		
Restricted cash - (payments to) withdrawal of mortgage impounds	(175,000)	553,000
Net payments on mortgage and other notes payable	(465,000)	(276,000)
Purchase of treasury stock	(122,000)	-
Net cash (used in) provided by financing activities	(762,000)	277,000
Net decrease in cash and cash equivalents	(185,000)	(2,085,000)
Cash and cash equivalents at the beginning of the period	8,529,000	4,705,000
Cash and cash equivalents at the end of the period	\$8,344,000	\$2,620,000
Supplemental information:		
Interest paid	\$2,563,000	\$2,815,000
Non-cash transaction:		
Conversion of other investments to marketable securities	\$13,231,000	\$-

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

THE INTERGROUP CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements included herein have been prepared by The InterGroup Corporation (“InterGroup” or the “Company”), without audit, according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the condensed consolidated financial statements prepared in accordance with generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures that are made are adequate to make the information presented not misleading. Further, the condensed consolidated financial statements reflect, in the opinion of management, all adjustments (which included only normal recurring adjustments) necessary for a fair statement of the financial position, cash flows and results of operations as of and for the periods indicated. It is suggested that these financial statements be read in conjunction with the audited financial statements of InterGroup and the notes therein included in the Company's Annual Report on Form 10-K for the year ended June 30, 2015. The June 30, 2015 Condensed Consolidated Balance Sheet was derived from the Company’s Form 10-K for the year ended June 30, 2015.

The results of operations for the three months ended September 30, 2015 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2016.

For the three months ended September 30, 2015 and 2014, the Company had no components of comprehensive income other than net income (loss) itself.

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted income 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. For the three months ended September 30, 2015, there were 98,288 stock options that were considered dilutive. For the three months ended September 30, 2014, the Company did not have diluted earnings per share as the Company had a net loss for the respective periods.

As of September 30, 2015, the Company had the power to vote 85.6% of the voting shares of Santa Fe Financial Corporation (“Santa Fe”), a public company (OTCBB: SFEF). This percentage includes the power to vote an approximately 4% interest in the common stock in Santa Fe owned by the Company’s Chairman and President pursuant to a voting trust agreement entered into on June 30, 1998.

Santa Fe’s primary business is conducted through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. (“Portsmouth”), a public company (OTCBB: PRSI). Portsmouth’s primary business is conducted through its general and limited partnership interest in Justice Investors, a California limited partnership (“Justice” or the “Partnership”). Portsmouth controls approximately 93% of the voting interest in Justice and is the sole general partner. InterGroup also directly owns approximately 13.1% of the common stock of Portsmouth. The financial statements of Justice are consolidated with those of the Company.

Justice, through its subsidiaries Justice Holdings Company, LLC (“Holdings”), a Delaware limited liability Company, Justice Operating Company, LLC (“Operating”), a Delaware limited liability Company, and Justice Mezzanine Company, LLC (“Mezzanine”), a Delaware limited liability Company, owns a 543-room hotel property located at 750 Kearny Street, San Francisco California, known as the Hilton San Francisco Financial District (the “Hotel”) and related facilities including a five level underground parking garage. Holdings and Mezzanine are both wholly-owned subsidiaries of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the mezzanine borrower under certain indebtedness of Justice, and in December 2013, the Partnership conveyed ownership of the Hotel to Operating. See Recent Business Developments – Limited Partnership Redemption and Restructuring. The Hotel is operated by the Partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with HLT Franchise Holding LLC (Hilton). Justice also has entered into a Management Agreement with Prism Hospitality L.P. (“Prism”) to perform management functions for the Hotel. The management agreement with Prism had an original term of ten years and can be terminated at any time with or without cause by the Partnership owner. Effective January 2014, the management agreement with Prism was amended by the Partnership. The Owner and Manager desire to amend and restate the Existing Management Agreement to change the nature of the services provided by Manager and its compensation, among other things. Effective December 1, 2013, GMP Management, Inc., a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement, which is for a term of 3 years, but which can be terminated earlier by the Partnership for cause.

Management believes that the revenues expected to be generated from the operations of the hotel, garage and leases will be sufficient to meet all of the Partnership's current and future obligations and financial requirements. Management also believes that there is significant value in the Hotel to support additional borrowings, if necessary.

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

Recently Issued Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015 and early application is permitted. We are in the process of evaluating this guidance.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, which changes the consolidation analysis for both the variable interest model and for the voting model for limited partnerships and similar entities. ASU 2015-02 is effective for annual periods beginning after December 15, 2015 and for interim periods within those fiscal years, early application is permitted. ASU 2015-02 provides for one of two methods of transition: retrospective application to each prior period presented; or recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. We are in the process of evaluating this guidance and our method of adoption.

In April 2014, the FASB issued ASU 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)* ("ASU 2014-08"). The amendments in ASU 2014-08 provide guidance for the recognition of discontinued operations, change the requirements for reporting discontinued operations in ASC 205-20, "Discontinued Operations" ("ASC 205-20") and require additional disclosures about discontinued operations. ASU 2014-08 is effective for the Company for annual periods beginning after December 15, 2014. The Company adopted this standard in the quarter ended September 30, 2015 and it did not have an impact on its consolidated financial statements as it relates primarily to how items are presented in the financial statements.

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09") amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing,

and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted for annual and interim reporting periods beginning after December 15, 2016. The Company does not plan to early adopt. We are currently evaluating the impact ASU 2014-09 will have on the Company's consolidated financial statements.

In August 2014, the FASB issued Accounting Standard Update No. 2014-15, *Presentation of Financial Statements — Going Concern* ("ASU 2014-15"). The new guidance explicitly requires that management assess an entity's ability to continue as a going concern and may require additional detailed disclosures. ASU 2014-15 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Though permitted, the Company does not plan to early adopt. The Company does not believe that this standard will have a significant impact on its consolidated financial statements.

In July 2015, the FASB issued Accounting Standard Update No. 2015-11, *Simplifying the Measurement of Inventory* ("ASU 2015-11") which requires entities to measure most inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for annual and interim periods beginning after December 15, 2016. Though permitted, the Company does not plan to early adopt. We are currently evaluating the impact ASU 2015-11 will have on the Company's consolidated financial statements.

NOTE 2 – INVESTMENT IN HOTEL, NET

Investment in hotel consisted of the following as of:

September 30, 2015	Cost	Accumulated Depreciation	Net Book Value
Land	\$2,738,000	\$-	\$2,738,000
Furniture and equipment	26,197,000	(21,963,000)	4,234,000
Building and improvements	62,893,000	(25,573,000)	37,320,000
	\$91,828,000	\$(47,536,000)	\$44,292,000