INTERGROUP CORP
Form 10QSB
February 13, 2004

U.S. 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 December 31, 2003

[ ] 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 February 12, 2004 were 2,509,686 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 December 31,	2003
ASSETS	
Investment in real estate, at cost:	
Land	$ 26,124,000
Buildings, improvements and equipment	56,117,000
Property held for sale or development	928,000
	83,169,000
Less: accumulated depreciation	(20,013,000)
	63,156,000
Investment in Justice Investors	8,945,000
Cash and cash equivalents	1,929,000
Restricted cash	2,766,000
Investment in marketable securities	84,730,000
Prepaid expenses and other assets	3,123,000

Total assets	$164,649,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities	
Mortgage notes payable	$ 69,265,000
Due to securities broker	30,272,000
Obligation for securities sold	29,346,000
Accounts payable and other liabilities	3,986,000
Deferred income taxes	6,868,000
Total liabilities	139,737,000
Minority interest	8,628,000
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, 2,509,686 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	14,219,000
Treasury stock, at cost, 684,059 shares	(6,642,000)
Total shareholders' equity	16,284,000
Total liabilities and shareholders' equity	$164,649,000

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 December 31,	2003	2002
Real estate operations:		
Rental income	$ 3,081,000	$ 3,650,000
Rental expenses:		
Property operating expenses	(1,805,000)	(1,821,000)
Mortgage interest expense	(926,000)	(886,000)
Real estate taxes	(383,000)	(452,000)
Depreciation	(642,000)	(708,000)
Loss from real estate operations	(675,000)	(217,000)
Equity in net income of Justice Investors	236,000	372,000

Investment transactions:		
Net investment gains	6,583,000	578,000
Dividend and interest income	223,000	41,000
Margin interest and trading expenses	(1,932,000)	(244,000)
Income from investment transactions	4,874,000	375,000
Other income(expense):		
General and administrative expenses	(483,000)	(609,000)
Other income, net	49,000	42,000
Other expense	(434,000)	(567,000)
Income(loss) before provision for income taxes and minority interest	4,001,000	(37,000)
Provision for income tax (expense)benefit	(1,601,000)	33,000
Income(loss) before minority interest	2,400,000	(4,000)
Minority interest	(444,000)	(226,000)
Net income(loss)	$ 1,956,000	$ (230,000)
Basic income(loss) per share	$ 0.78	$ (0.08)
Weighted average number of shares outstanding	2,522,585	2,744,256
Diluted income(loss) per share	$ 0.68	$ (0.08)
Diluted weighted average number of shares outstanding	2,855,585	2,744,256

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

THE INTERGROUP CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

For the Six Months ended December 31,	2003	2002
Real estate operations:		
Rental income	$ 6,543,000	$ 6,988,000
Rental expenses:		
Property operating expenses	(3,552,000)	(3,358,000)
Mortgage interest expense	(1,754,000)	(1,723,000)
Real estate taxes	(759,000)	(793,000)
Depreciation	(1,317,000)	(1,364,000)
Loss from real estate operations	(839,000)	(250,000)

Equity in net income of Justice Investors	444,000	871,000
Investment transactions:		
Net investment gains(losses)	8,611,000	(711,000)
Dividend and interest income	374,000	141,000
Margin interest and trading expenses	(2,454,000)	(464,000)
Income(loss) from investment transactions	6,531,000	(1,034,000)
Other income(expense):		
General and administrative expenses	(841,000)	(976,000)
Other income, net	62,000	46,000
Other expense	(779,000)	(930,000)
Income(loss) before provision for income taxes and minority interest	5,357,000	(1,343,000)
Provision for income tax (expense)benefit	(2,143,000)	523,000
Income(loss) before minority interest	3,214,000	(820,000)
Minority interest	(657,000)	55,000
Net income(loss)	$ 2,557,000	$ (765,000)
Basic income(loss) per share	$ 1.01	$ (0.28)
Weighted average number of shares outstanding	2,526,442	2,754,215
Diluted income(loss) per share	$ 0.89	$ (0.28)
Diluted weighted average number of shares outstanding	2,859,442	2,754,215

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

THE INTEGROUP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

For the six months ended December 31,	2003	2002
Cash flows from operating activities:		
Net income(loss)	$ 2,557,000	$ (765,000)
Adjustments to reconcile net income(loss) to cash used in operating activities:		
Depreciation of real estate	1,317,000	1,364,000
Net unrealized gains on investments	(5,319,000)	(1,785,000)
Equity in net income from Justice Investors	(444,000)	(871,000)

Minority interest	657,000	(55,000)
Changes in assets and liabilities:		
Restricted cash	745,000	(236,000)
Investment in marketable securities	(24,472,000)	(6,598,000)
Prepaid expenses and other assets	269,000	(1,709,000)
Accounts payable and other liabilities	(437,000)	(427,000)
Due to broker	9,951,000	5,637,000
Obligations for securities sold	12,857,000	1,333,000
Deferred income taxes	1,397,000	1,708,000
Net cash used in operating activities	(922,000)	(2,404,000)
Cash flows from investing activities:		
Investment in real estate	(700,000)	(53,000)
Additions to buildings, improvements and equipment	(803,000)	(706,000)
Distributions from Justice Investors	636,000	1,004,000
Purchase of Santa Fe stock	(923,000)	-
Net cash (used in)provided by investing activities	(1,790,000)	245,000
Cash flows from financing activities:		
Borrowings from mortgage notes payable	8,275,000	10,118,000
Principal payments on mortgage notes payable	(5,126,000)	(3,934,000)
Repayment of line of credit	-	(4,000,000)
Purchase of treasury stock	(252,000)	(530,000)
Dividends paid to minority shareholders	(115,000)	(63,000)
Net cash provided by financing activities	2,782,000	1,591,000
Net increase(decrease) in cash and cash equivalents	70,000	(568,000)
Cash and cash equivalents at beginning of period	1,859,000	1,883,000
Cash and cash equivalents at end of period	$ 1,929,000	$ 1,315,000

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

-6-

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, 2003 audited consolidated financial statements and notes thereto.

As of December 31, 2003, the Company had the power to vote 74.5% of the voting shares of Santa Fe Financial Corporation ("Santa Fe"), a public company (Nasdaq SmallCap: SFEF). Santa Fe's revenue is primarily generated through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), which derives its revenue primarily as a general partner and a 49.8% limited partner in Justice Investors ("Justice"), a California limited partnership. Justice owns the land, improvements and leaseholds known as the Holiday Inn Financial District/Chinatown, a 566-room hotel in San Francisco, California.

The results of operations for the three and six months ended December 31, 2003 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2004.

Earnings Per Share

Basic earnings per share are 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 December 31, 2003, the Company had 333,000 stock options that were considered potentially dilutive common shares. These amounts were included in the calculation for diluted earnings per share.

Stock-Based Compensation Plans

Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No.25 (APB 25), Accounting for Stock Issued to Employees, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under the Company's stock option plan have no intrinsic value at the grant date, and under APB 25 no compensation cost is recognized.

The Company has elected to continue with the accounting methodology in APB 25 and, as a result, has provided pro forma disclosures of net income and earnings per share and other disclosures, as if the fair value based method of accounting had been applied.

As required by FAS 123, the Company has determined the pro-forma information as if the Company had accounted for stock options granted since January 1, 1998, under the fair value method of FAS 123. The Black-Scholes option pricing model was used with the following weighted-average assumptions for December 31, 2003; risk-free interest rate of 2.50%; dividend yield of 0%; expected Common Stock market price volatility factor of 33.81; and a expected life of the options of 10 years. The fair value of options granted in during the six months ended December 31, 2003 were $6.21 per share. The aggregate fair value of the options granted during the six months ended December 31, 2003, were $93,000.

Stock based compensation is accounted for under APB 25 and accordingly, no compensation cost has been recognized for stock options in the financial statements. Had compensation cost been determined based upon the fair value of the stock options at grant date and consistent with FAS 123, the Company's pro forma net income and net income per share (based on 15,000 options vesting during the six months ended December 31, 2003) are as follows:

Net income - as reported	$ 2,557,000
Net income - pro forma	$ 2,464,000
Income per share - as reported	$ 1.01
Income per share - pro forma	$ 0.98

2. Investment in Real Estate

In October 2003, the Company obtained a new mortgage loan on one of its unencumbered properties in the amount of $525,000. The interest rate on the loan is fixed at 5.75% for the first five years and is adjustable thru maturity on October 1, 2033.

In November 2003, the Company refinanced four mortgage loans totaling $2,141,000 and obtained four new mortgage loans totaling $3,535,000. All four loans share a fixed interest rate of 6.38% for the first ten years of the loan. After ten years, the interest rate is adjustable thru maturity on December 1, 2018.

3. Marketable Securities:

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 December 31, 2003, the Company had obligations for securities sold(equities short) of $29,346,000.

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 gains on marketable securities of $6,583,000 for the three months ended December 31, 2003 are net unrealized gains of $2,911,000 and net realized gains of $3,672,000. Included in the net gains on marketable securities of $578,000 for the three months ended December 31, 2002 are net unrealized gains of $1,268,000 and net realized losses of $690,000.

Included in the net gains on marketable securities of $8,611,000 for the six months ended December 31, 2003 are net unrealized gains of $5,319,000 and net realized gains of $3,292,000. Included in the net losses on marketable securities of $711,000 for the six months ended December 31, 2002 are net unrealized gains of $1,785,000 and net realized losses of $2,496,000.

4. Investment in Justice Investors:

The consolidated accounts include a 49.8% interest in Justice Investors, a California limited partnership ("the partnership"), in which Portsmouth serves as one of the two general partners. The other general partner, Evon Garage Corporation ("Evon"), serves as the managing 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.

The partnership derives most of its income from a lease of its San Francisco, California hotel property to Felcor Lodging Trust, Inc. ("Felcor") and from a lease of the garage portion of the property to Evon. As a general partner, the Company and its subsidiaries are active in monitoring and overseeing the operations of the hotel and parking garage.

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.

The Company amortizes the difference between the cost basis of its investment in Justice Investors and its share of the net assets allocable to depreciable assets of Justice Investors over 40 yrs.

For the Company's investment in Justice, to the extent that projected future undiscounted cash flows from the operation of the Company's 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.

-9-

Condensed financial statements for Justice Investors are as follows:

JUSTICE INVESTORS
CONDENSED BALANCE SHEET

As of December 31,	2003
Assets	
Total current assets	$ 170,315
Loan fees and deferred lease costs, net of accumulated amortization of $272,362	38,050

Property, plant and equipment, net of accumulated depreciation of $12,951,516	5,873,328
Construction in progress	138,788
Land	1,124,128
Total assets	$ 7,344,609
Liabilities and partners' capital	
Total current liabilities	$ 399,774
Long term debt	3,902,200
Partners' capital	3,042,635
Total liabilities and partners' capital	$ 7,344,609

JUSTICE INVESTORS
CONDENSED STATEMENTS OF OPERATIONS

For the three months ended December 31,	2003	2002
Revenues	$ 1,305,260	$ 901,594
Costs and expenses	(712,211)	(155,722)
Net income	$ 593,049	$ 745,872

For the six months ended December 31,	2003	2002
Revenues	$ 2,317,141	$ 2,093,067
Costs and expenses	(1,186,419)	(344,610)
Net income	$ 1,130,722	$ 1,748,457

5. 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.

6. 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 six months ended December 31, 2003 and the three and six months ended December 31, 2002. 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 December 31, 2003	Real Estate: Rental Properties	Real Estate: Justice Investors	Investment Transactions	Other	Total
Operating income	$ 3,081,000	$ 236,000	$ 6,806,000	$ -	$ 10,123,000
Operating expenses	(1,805,000)	-	(1,932,000)	-	(3,737,000)
Real estate taxes	(383,000)	-	-	-	(383,000)
Net operating income	893,000	236,000	4,874,000	-	6,003,000
Mortgage interest expenses	(926,000)	-	-	-	(926,000)
Depreciation	(642,000)	-	-	-	(642,000)
General and administrative expenses	-	-	-	(483,000)	(483,000)
Other income	-	-	-	49,000	49,000
Income tax expense	-	-	-	(1,601,000)	(1,601,000)
Minority interest	-	-	-	(444,000)	(444,000)
Net income(loss)	$ (675,000)	$ 236,000	$ 4,874,000	$(2,479,000)	$ 1,956,000
Total Assets	$63,156,000	$ 8,945,000	$84,730,000	$ 7,818,000	$164,649,000

Three months ended December 31, 2002	Real Estate: Rental Properties	Real Estate: Justice Investors	Investment Transactions	Other	Total
Operating income(loss)	$ 3,650,000	$ 372,000	$ 619,000	$ -	$ 4,641,000
Operating expenses	(1,821,000)	-	(244,000)	-	(2,065,000)
Real estate taxes	(452,000)	-		-	(452,000)
	1,377,000	372,000	375,000	-	2,124,000
Mortgage interest expenses	(886,000)	-	-	-	(886,000)
Depreciation	(708,000)	-	-	-	(708,000)
General and administrative expenses	-	-	-	(609,000)	(609,000)
Other income	-	-	-	42,000	42,000
Income tax benefit	-	-	-	33,000	33,000
Minority interest	-	-	-	(226,000)	(226,000)
Net income (loss)	$ (217,000)	$ 372,000	$ 375,000	$ (760,000)	$ (230,000)
Total Assets	$63,348,000	$ 9,615,000	$16,077,000	$ 5,140,000	$ 94,180,000

-11-

Six months ended December 31, 2003	Real Estate: Rental Properties	Real Estate: Justice Investors	Investment Transactions	Other	Total
Operating income	$ 6,543,000	$ 444,000	$ 8,985,000	$ -	$ 15,972,000
Operating expenses	(3,552,000)	-	(2,454,000)	-	(6,006,000)
Real estate taxes	(759,000)	-	-	-	(759,000)
Net operating income	2,232,000	444,000	6,531,000	-	9,207,000
Mortgage interest expenses	(1,754,000)	-	-	-	(1,754,000)
Depreciation	(1,317,000)	-	-	-	(1,317,000)
General and administrative expenses	-	-	-	(841,000)	(841,000)
Other income	-	-	-	62,000	62,000
Income tax expense	-	-	-	(2,143,000)	(2,143,000)
Minority interest	-	-	-	(657,000)	(657,000)
Net income(loss)	$ (839,000)	$ 444,000	$ 6,531,000	$(3,579,000)	$ 2,557,000
Total Assets	$63,156,000	$ 8,945,000	$84,730,000	$ 7,818,000	$164,649,000

Six months ended December 31, 2002	Real Estate: Rental Properties	Real Estate: Justice Investors	Investment Transactions	Other	Total
Operating income(loss)	$ 6,988,000	$ 871,000	$ (570,000)	$ -	$ 7,289,000
Operating expenses	(3,358,000)	-	(464,000)	-	(3,822,000)
Real estate taxes	(793,000)	-		-	(793,000)
	2,837,000	871,000	(1,034,000)	-	2,674,000
Mortgage interest expenses	(1,723,000)	-	-	-	(1,723,000)
Depreciation	(1,364,000)	-	-	-	(1,364,000)
General and administrative expenses	-	-	-	(976,000)	(976,000)
Other income	-	-	-	46,000	46,000
Income tax benefit	-	-	-	523,000	523,000
Minority interest	-	-	-	55,000	55,000
Net income (loss)	$ (250,000)	$ 871,000	$(1,034,000)	$ (352,000)	$ (765,000)
Total Assets	$63,348,000	$ 9,615,000	$16,077,000	$ 5,140,000	$ 94,180,000

-12-

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, 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, 2003 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 December 31, 2003 Compared to the Three Months Ended December 31, 2002

The Company had a net income of $1,956,000 for the three months ended December 31, 2003 compared to net loss of $230,000 for the three months ended December 31, 2002. The change was primarily due to the increase in gains on marketable securities, an increase in dividend and interest income and the decrease in general and administrative expenses partially offset by a higher loss from real estate operations, a decrease in equity in net income from Justice Investors, and an increase in margin and trading expenses.

Rental income decreased to $3,081,000 from $3,650,000 due to reduced income of 5% from our non-California properties and a 28% decrease in rental income from our California properties. The reduction in rental income was due to higher vacancies and higher rent concessions given to tenants due to a soft rental market. The decrease was partially offset by the increase in rental income from our St. Louis, Missouri property and to a lesser extent, the rental income derived from the leasing of a commercial building in Los Angeles, California.

The equity in net income of Justice Investors decreased to $236,000 from $372,000. That decrease was primarily attributable to increased partnership costs in the current quarter for consultants, experts and legal services relating to the partnership's enforcement of the lessee's obligations under the lease 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.

Although partnership revenues increased to approximately $1,305,000 for the three months ended December 31, 2003 from $902,000 for the three months ended, December 31, 2002, that increase was primarily attributable to a $296,000 payment by the hotel lessee in December 2003, for part of the replacement of the sloped window system of the hotel, which amount was recorded as other income by Justice Investors. Absent that additional nonrecurring payment, partnership revenues increased about $100,000. Many of the factors identified in fiscal 2003 continued to significantly impact the hotel operations in fiscal 2004. Unlike other areas in California, the Bay Area has been especially slow to recover from the devastating impact that the terrorist attacks of September 11, 2001, had on tourism and the hospitality industry. The continued weakness in the Bay Area due to the failure of numerous internet and technology companies, has also resulted in a decrease in business travel and a reduction by airlines in the number of flights into San Francisco. 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. These properties have also reduced room rates as hotel operators struggle to obtain occupancy. Average daily room rates for the three months ended December 31, 2003 increased modestly to approximately $92, compared to $89 for the three months ended December 31, 2002 and average monthly occupancy rates increased to approximately 64% compared to 62% during the same three month period of fiscal 2002. Based on industry reports, management is expecting a slow recovery in the San Francisco hotel marketplace.

Net gains on marketable securities increased to gains of $6,583,000 for the three months ended December 31, 2003 from $578,000 for the three months ended December 31, 2002. For the three months ended December 31, 2003, the Company had net unrealized gains of $2,911,000 and net realized gains of $3,672,000. For the three months ended December 31, 2002, the Company had net unrealized gains of $1,268,000 and net realized losses of $690,000. 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 $223,000 from $41,000 as a result of the increased investment in dividend yielding securities.

Margin interest and trading expenses increased to $1,932,000 from $244,000 primarily due to a $1,192,000 in performance-based compensation earned by the Company's CEO for his management of the Company's investment portfolio for the six months ended December 31, 2003. The remaining increase was due the maintenance of higher margin balances and increased trading activity. Margin interest expense increased to $348,000 from $153,000. Trading related expenses increased to $392,000 from $91,000.

General and administrative expenses decreased to $483,000 from $609,000 primarily as the result of management's efforts to reduce general and administrative expenses across the board.

Income tax (expense)benefit changed to a tax expense of $1,601,000 from a tax benefit of $33,000 as the result of income generated in the current quarter ended December 31, 2003 versus a loss in the quarter ended December 31, 2002.

Minority interest increased to $444,000 from $226,000 due to higher income generated by the Company's subsidiary in the current quarter ended December 31, 2003.

For the Six Months Ended December 31, 2003 Compared to the
Six Months Ended December 31, 2002

The Company had a net income of $2,557,000 for the six months ended December 31, 2003 compared to net loss of $765,000 for the six months ended December 31, 2002. The change was primarily due to the increase in gains on marketable securities, an increase in dividend and interest income and the decrease in general and administrative expenses partially offset by a higher loss from real estate operations, a decrease in equity in net income from Justice Investors, and an increase in margin and trading expenses.

Rental income decreased to $6,543,000 from $6,988,000 due to reduced rental income of 3% from the non-California properties and a 23% decrease in rental income from California properties. The reduction in rental income was due to higher vacancies and higher rent concessions given to tenants due to a soft rental market. The decrease was partially offset by the increase in rental income from our St. Louis, Missouri property and to a lesser extent, the rental income derived from the leasing of a commercial building in Los Angeles, California.

The equity in net income of Justice Investors decreased to $444,000 from $871,000. That decrease was primarily attributable to increased partnership costs in the current quarter for consultants, experts and legal services relating to the partnership's enforcement of the lessee's obligations under the lease 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.

Although partnership revenues increased to approximately $2,317,000 for the six months ended December 31, 2003 from $2,093,000 for the six months ended, December 31, 2002, that increase was attributable to a to a $296,000 payment by the hotel lessee in December 2003, for part of the replacement of the sloped window system of the hotel, which amount was recorded as other income by Justice Investors. Absent that nonrecurring payment, partnership revenues would have been down approximately $72,000. Many of the factors identified in fiscal 2003 continued to significantly impact the hotel operations in fiscal 2004. Unlike other areas in California, the Bay Area has been especially slow to recover from the devastating impact that the terrorist attacks of September 11, 2001, had on tourism and the hospitality industry. The continued weakness in the Bay Area due to the failure of numerous internet and technology companies, has also resulted in a decrease in business travel and a reduction by airlines in the number of flights into San Francisco. 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. These properties have also reduced room rates as hotel operators struggle to obtain occupancy. Average daily room rates declined slightly to approximately $91 for the six months ended December 31, 2003 from approximately $92 for the six months ended December 31, 2002 and average monthly occupancy rates remained the same at approximately 71%. Based on industry reports, management is expecting a slow recovery in the San Francisco hotel marketplace.

Net gains(losses) on marketable securities changed to net gains of $8,611,000 for the six months ended December 31, 2003 from net losses $711,000 for the six months ended December 31, 2002. For the six months ended December 31, 2003, the Company had net unrealized gains of $5,319,000 and net realized gains of $3,292,000. For the six months ended December 31, 2002, the Company had net unrealized gains of $1,785,000 and net realized losses of $2,496,000. 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 $374,000 from $141,000 as a result of the increased investment in dividend yielding securities.

Margin interest and trading expenses increased to $2,454,000 from $464,000 primarily due to a $1,192,000 in performance-based compensation earned by the Company's CEO for his management of the Company's investment portfolio for the six months ended December 31, 2003. The remaining increase was due the maintenance of higher margin balances and increased trading activity. Margin interest expense increased to $666,000 from $196,000. Trading related expenses increased to $596,000 from $268,000.

General and administrative expenses decreased to $841,000 from $976,000 primarily as the result of management's efforts to reduce general and administrative expenses across the board.

Income tax (expense)benefit changed to a tax expense of $2,143,000 from a tax benefit of $523,000 as the result of income generated in the six months ended December 31, 2003 versus a loss in the six months ended December 31, 2002.

Minority interest (expense)benefit changed to an expense of $657,000 from a benefit of $55,000 due to income generated by the Company's subsidiary in during the six months ended December 31, 2003 as compared to a loss during the six months ended December 31, 2002.

MARKETABLE SECURITIES

The Company's investment portfolio is diversified with 206 different equity positions. Only one equity security was more than 5% of the equity value of the portfolio. This security is 5.2% of the total value of the portfolio. The amount of the Company's investment in any particular issuer may increase or decrease, and additions or deletions to its securities portfolio may occur, at any time. While it is the internal policy of the Company to limit its initial investment in any single equity to less than 5% of its total portfolio value, that investment could eventually exceed 5% as a result of equity appreciation or reduction of other positions. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date.

As of December 31, 2003, the Company had investments in marketable equity securities of $84,730,000. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as of December 31, 2003.

Industry Group	Market Value	% of Total Investment Securities
Electric, pipelines, oil and gas	$22,015,000	26.0%
Telecommunications and media	13,653,000	16.1%
Semiconductor, software, internet, and computer	10,286,000	12.1%
REITs, Lodging, home builders, and Hotels	8,428,000	9.9%
Insurance and banks	7,940,000	9.4%
Apparel, food and consumer goods	5,320,000	6.3%
Chemicals, materials, metals,		

and mining	5,234,000	6.2%
Pharmaceuticals and medical	5,230,000	6.2%
Airlines and defense	4,451,000	5.3%
Other	2,173,000	2.5%
	$84,730,000	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 and six months ended December 31, 2003 and December 31, 2002, respectively.

	Three months ended December 31, 2003	Three month ended December 31, 2002
Net gains on marketable securities	$ 6,583,000	$ 578,000
Dividend & interest income	223,000	41,000
Margin interest expense	(348,000)	(153,000)
Trading and management expenses	(1,584,000)	(91,000)
Investment income	$ 4,874,000	$ 375,000

	Six months ended December 31, 2003	Six month ended December 31, 2002
Net gains(losses) on marketable securities	$ 8,611,000	$ (711,000)
Dividend & interest income	374,000	141,000
Margin interest expense	(666,000)	(196,000)
Trading and management expenses	(1,788,000)	(268,000)
Investment income (loss)	$ 6,531,000	$ (1,034,000)

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 six months ended December 31, 2003, the Company used net cash flow of $922,000 from operating activities, used net cash flow of $1,790,000 from investing activities, and generated net cash flow of $2,782,000 from financing activities.

During the six months ended December 31, 2003, the Company made property improvements in the aggregate amount of $803,000. 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 July 2003, the Company refinanced a $2,141,000 real estate loan and obtained a new $4,215,000 loan on one of its Los Angeles, California properties. The interest rate on the loan is fixed at 4.35% for the first five years and is adjustable through maturity on July 1, 2033.

In October 2003, the Company obtained a new mortgage loan on one of its unencumbered properties in the amount of $525,000. The interest rate on the loan is fixed at 5.75% for the first five years and is adjustable through maturity on October 1, 2033.

In November 2003, the Company refinanced four mortgage loans totaling $2,141,000 and obtained four new mortgage loans totaling $3,535,000. All four loans share a fixed interest rate of 6.38% for the first ten years of the loan. After ten years, the interest rate is adjustable through maturity on December 1, 2018.

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 six months ended December 31, 2003, the Company purchased 20,698 shares of its stock for $252,000.

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.

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 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) The Company did not file any Reports on Form 8-K - During the quarter ended December 31, 2003.

SIGNATURES

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

THE INTERGROUP CORPORATION
(Registrant)

Date: February 13, 2004 by /s/ John V. Winfield

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

Date: February 13, 2004 by /s/ David T. Nguyen

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