INTERGROUP CORP
Form 10-Q
February 18, 2014

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

FORM 10-Q

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

For the quarterly period ended December 31, 2013
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 Incorporation or organization)	(I.R.S. Employer Identification No.)

10940 Wilshire Blvd., Suite 2150, Los Angeles, California 90024
(Address of principal executive offices) (Zip Code)

(310) 889-2500
(Registrant's telephone number, 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. x 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).
x 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 x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):
¨ Yes x No

The number of shares outstanding of registrant's Common Stock, as of February 3, 2014 was 2,369,927.

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PART I
FINANCIAL INFORMATION

Item 1 - Condensed Consolidated Financial Statements

THE INTERGROUP CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

As of	December 31, 2013 (Unaudited)	June 30, 2013
ASSETS		
Investment in hotel, net	$ 40,800,000	$ 41,728,000
Investment in real estate, net	64,581,000	65,262,000
Investment in marketable securities	13,099,000	12,624,000
Other investments, net	15,274,000	15,280,000
Cash and cash equivalents	2,925,000	1,453,000
Restricted cash - redemption	19,091,000	-
Restricted cash - mortgage impounds	3,459,000	2,448,000
Other assets, net	7,469,000	5,891,000
Total assets	$ 166,698,000	$ 144,686,000
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY		
Liabilities:		
Accounts payable and other liabilities	$ 3,504,000	$ 3,666,000
Accounts payable and other liabilities - hotel	13,884,000	8,804,000
Redemption payble	19,091,000	-
Due to securities broker	2,417,000	2,762,000
Obligations for securities sold	2,357,000	2,565,000
Other notes payable - hotel	730,000	1,595,000
Mortgage notes and subordinated debt - hotel	117,000,000	43,413,000
Mortgage notes payable - real estate	72,804,000	73,512,000
Deferred income taxes	2,600,000	4,617,000
Total liabilities	234,387,000	140,934,000
Commitments and contingencies		
Shareholders' (deficit) equity:		
Preferred stock, $.01 par value, 100,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 4,000,000 shares authorized; 3,371,653 and 3,363,361 issued; 2,369,927 and 2,361,835 outstanding, respectively	33,000	33,000
Additional paid-in capital	8,989,000	9,714,000
Retained earnings (accumulated deficit)	(38,990,000)	9,899,000
Treasury stock, at cost, 1,001,726 and 1,001,526 shares	(11,818,000)	(11,813,000)
Total InterGroup shareholders' (deficit) equity	(41,786,000)	7,833,000
Noncontrolling interest	(25,903,000)	(4,081,000)
Total shareholders' (deficit) equity	(67,689,000)	3,752,000
Total liabilities and shareholders' (deficit) equity	$ 166,698,000	$ 144,686,000

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

THE INTERGROUP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

For the three months ended December 31,	2013	2012
Revenues:		
Hotel	$ 12,274,000	$ 10,970,000
Real estate	4,158,000	4,078,000
Total revenues	16,432,000	15,048,000
Costs and operating expenses:		
Hotel operating expenses	(9,493,000)	(9,398,000)
Hotel restructuring costs	(7,295,000)	-
Hotel occupancy tax - penalty fees	(1,084,000)	-
Real estate operating expenses	(2,266,000)	(2,197,000)
Depreciation and amortization expense	(1,284,000)	(1,145,000)
General and administrative expense	(484,000)	(472,000)
Total costs and operating expenses	(21,906,000)	(13,212,000)
Income (loss) from operations	(5,474,000)	1,836,000
Other income (expense):		
Interest expense - mortgage	(1,529,000)	(1,644,000)
Interest expense - occupancy tax	(328,000)	-
Loss on extinguishment of debt	(3,910,000)	-
Loss on disposal of assets	(1,092,000)	-
Net gain (loss) on marketable securities	615,000	(2,108,000)
Net unrealized loss on other investments and derivative instruments	(6,000)	(48,000)
Dividend and interest income	501,000	541,000
Trading and margin interest expense	(422,000)	(432,000)
Other expense, net	(6,171,000)	(3,691,000)
Loss before income taxes	(11,645,000)	(1,855,000)
Income tax benefit	2,477,000	568,000
Net loss	(9,168,000)	(1,287,000)
Less: Net loss attributable to the noncontrolling interest	3,697,000	107,000
Net loss attributable to InterGroup	$ (5,471,000)	$ (1,180,000)
Net loss per share from operations		
Basic	$ (3.87)	$ (0.55)
Diluted	$ (3.87)	$ (0.55)
Net loss per share attributable to InterGroup		
Basic	$ (2.31)	$ (0.50)
Diluted	$ (2.31)	$ (0.50)
Weighted average number of basic common shares outstanding	2,367,855	2,355,204
Weighted average number of diluted common shares outstanding	2,367,855	2,355,204

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

THE INTERGROUP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

For the six months ended December 31,	2013		2012	
Revenues:				
Hotel	$	25,579,000	$	23,106,000
Real estate		8,236,000		7,753,000
Total revenues		33,815,000		30,859,000
Costs and operating expenses:				
Hotel operating expenses		(19,025,000)		(18,562,000)
Hotel restructuring costs		(7,295,000)		-
Hotel occupancy tax - penalty fees		(1,084,000)		-
Real estate operating expenses		(4,544,000)		(4,359,000)
Depreciation and amortization expense		(2,468,000)		(2,277,000)
General and administrative expense		(1,011,000)		(1,035,000)
Total costs and operating expenses		(35,427,000)		(26,233,000)
Income (loss) from operations		(1,612,000)		4,626,000
Other income (expense):				
Interest expense - mortgage		(2,936,000)		(3,343,000)
Interest expense - occupancy tax		(328,000)		-
Loss on extinguishment of debt		(3,910,000)		-
Loss on disposal of assets		(1,092,000)		-
Net (loss) gain on marketable securities		768,000		(583,000)
Net unrealized loss on other investments and derivative instruments		(6,000)		(238,000)
Dividend and interest income		515,000		569,000
Trading and margin interest expense		(892,000)		(825,000)
Other expense, net		(7,881,000)		(4,420,000)
Income (loss) before income taxes		(9,493,000)		206,000
Income tax benefit		2,017,000		194,000
Net (loss) income		(7,476,000)		400,000
Less: Net loss (income) attributable to the noncontrolling interest		2,287,000		(991,000)
Net loss attributable to InterGroup	$	(5,189,000)	$	(591,000)
Net (loss) income per share from operations				
Basic	$	(3.16)	$	0.17
Diluted	$	(3.16)	$	0.17
Net loss per share attributable to InterGroup				
Basic	$	(2.19)	$	(0.25)
Diluted	$	(2.19)	$	(0.25)
Weighted average number of common shares outstanding		2,367,812		2,353,126
Weighted average number of diluted common shares outstanding		2,367,812		2,399,502

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

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

For the six months ended December 31,	2013		2012	
Cash flows from operating activities:				
Net (loss) income	$	(7,476,000)	$	400,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation and amortization		2,468,000		2,277,000
Net unrealized (gain) loss on marketable securities		(629,000)		364,000
Gain on insurance recovery		(249,000)		-
Unrealized loss on other investments and derivative instruments		6,000		238,000
Loss on extinguishment of debt		3,910,000		-
Loss on disposal of assets		1,092,000		-
Stock compensation expense		191,000		279,000
Changes in assets and liabilities:				
Investment in marketable securities		154,000		(3,417,000)
Other assets		(1,545,000)		(1,234,000)
Accounts payable and other liabilities		4,918,000		116,000
Due to securities broker		(345,000)		2,252,000
Obligations for securities sold		(208,000)		(563,000)
Deferred taxes		(2,017,000)		(194,000)
Net cash provided by operating activities		270,000		518,000
Cash flows from investing activities:				
Investment in hotel		(1,592,000)		(1,381,000)
Investment in real estate		(142,000)		(1,769,000)
Proceeds from other investments		-		28,000
Investment in Santa Fe		-		(40,000)
Restricted cash		(1,011,000)		348,000
Net cash used in investing activities	$	(2,745,000)		(2,814,000)
Cash flows from financing activities:				
Restricted cash - redemption and mortgage impounds		(19,091,000)		-
Redemption payments and dividends to noncontrolling interest		(45,061,000)		(638,000)
Borrowings from mortgage notes payable, net		68,969,000		2,771,000
Borrowings from (payments on) other notes payable		(865,000)		25,000
Purchase of treasury stock		(5,000)		-
Net cash provided by financing activities		3,947,000		2,158,000
Net increase (decrease) in cash and cash equivalents		1,472,000		(138,000)
Cash and cash equivalents at the beginning of the period		1,453,000		2,100,000
Cash and cash equivalents at the end of the period	$	2,925,000	$	1,962,000
Supplemental information:				
Interest paid	$	3,622,000	$	3,636,000

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

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THE INTERGROUP CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The 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, 2013. The June 30, 2013 Condensed Consolidated Balance Sheet was derived from the Company's Form 10-K for the year ended June 30, 2013.

The results of operations for the three and six months ended December 31, 2013 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2014.

For the three and six months ended December 31, 2013 and 2012, the Company had no components of comprehensive income other than net income itself.

Certain reclassifications have been made to the 2013 consolidated financial statement presentation to correspond to the current year's format. Total equity, net assets, and revenues over expenses are unchanged due to these reclassifications.

OWNERSHIP AND PROPERTIES

As of December 31, 2013, the Company had the power to vote approximately 84.5% 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 Portsmouth's general and limited partnership interest in Justice Investors, a California limited partnership ("Justice" or the "Partnership"). Portsmouth has a 93% limited partnership interest in Justice and is the sole general partner. The financial statements of Justice are consolidated with those of the Company.

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

Portsmouth also receives management fees as a general partner of Justice for its services in overseeing and managing the Partnership's assets. Those fees are eliminated in consolidation.

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

Earnings Per Share

Basic income per share is computed by dividing net (loss) income 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 and restricted stock units (RSUs). For the three and six months ended December 31, 2013 and the three months ended December 31, 2012, the Company did not have diluted earnings per share as the Company had a net loss from continuing operations for the respective periods.

JUSTICE PARTNERSHIP REDEMPTION AND RESTRUCTURING

On December 18, 2013, Justice Investors, a California limited partnership (“Justice” or the “Partnership”), completed its Offer to Redeem any and all limited partnership interests not held by Portsmouth Square, Inc. (the “Company”), and the Loan Agreements, as defined below. In addition, the requisite approval of amendments to its Amended and Restated Agreement of Limited Partnership became effective upon the completion of the Offer to Redeem and the consummation of the Loan Agreements. Such amendments are described below. As a result, Portsmouth is now the sole General Partner of Justice and controls 93% of Justice.

Justice has accepted tenders, for cash, of approximately 29.173% of the limited partnership interests outstanding prior to the Offer to Redeem, and payments to the holders of such interests, in the amount of $1,385,000 for each 1% tendered, are in the process of being distributed. In addition, Justice has accepted the election of holders of approximately 17.146% of the limited partnership interests outstanding prior to the Offer to Redeem to participate in the alternate redemption structure, which allows them to redeem their limited partnership interests at some time within the next 12 months for certain property or cash or a combination of property and cash. The current and deferred payments to holders or limited partnership interests are classified as restricted cash and, together with the expenses discussed below, totals $19,091,000 and is classified on the balance sheet as redemption payable. Portsmouth, which prior to the Offer to Redeem owned 50% of the then outstanding limited partnership interests, now owns approximately 93% of the limited partnership interests of Justice.

Justice incurred approximately $7,295,000 in hotel restructuring costs relating to the Offer to Redeem and related financing transactions, including a one-time management fee of $1,550,000, approximately $745,000 in legal, accounting and other professional expenses, and a Documentary Transfer Tax fee of approximately $5 million paid to the City of San Francisco. The Documentary Transfer Tax fee was assessed as a condition to recording the transfer of Justice Investors' principal asset to a subsidiary to consummate the redemption. While Justice believes the assessment of the Documentary Transfer tax was inappropriate, the tax was paid, under protest, on advice of Justice’s counsel to allow for the consummation of the redemption. Justice intends to challenge the calculation of the tax. No prediction can be made as to whether the tax will be upheld, or whether any portion of the tax will be refunded. Justice allocated a portion of the Documentary Transfer Tax to certain former limited partners of Justice Investors as a cost of the transaction. Certain of these limited partners have objected to the allocation, and Justice and the limited partners are pursuing non-binding mediation in an attempt to resolve the dispute. No prediction can be given as to the outcome of the dispute.

Justice utilized the book value method to record the redemption of the limited partners. Under book value (bonus) method the remaining partners continue the existing partnership, recording no changes to the book values of the partnership's assets and liabilities. As a result, any revaluation of the existing partnership's assets or liabilities that might be undertaken is solely to determine the settlement price to the outgoing partner. The partner's withdrawal from the partnership is recorded by adjusting the remaining partners' capital accounts with the amount of the bonus, which is allocated according to their income-sharing ratio. The amount of adjustment is equal to the difference between the settlement price paid to the withdrawing partner and the book value of his share of total partnership capital at the time he withdraws. Justice Partner's capital was reduced by approximately $64.1 million for the redemption.

In connection with the Offer to Redeem, Justice retired existing debt and replaced it with lower-yielding loans, the proceeds of which were used to fund the Offer to Redeem and to provide for additional working capital for the Hotel. Justice incurred a loss on the extinguishment of debt of $3,910,000 which included a yield maintenance (prepayment penalty) expense of $3,808,000 and a write-off of capitalized loan costs on the refinanced debt of approximately $102,000.

The City of San Francisco's Tax Collector's office has claimed that Justice owes the City of San Francisco $2.1 million based on the Tax Collector's interpretation of the San Francisco Business and Tax Regulations Code relating to Transient Occupancy Tax and Tourist Improvement District Assessment. This amount exceeds Justice's estimate of the taxes owed, and Justice has disputed the claim and is seeking to discharge all penalties and interest charges imposed by the Tax Collector. No prediction can be given at this time as to the outcome of this dispute.

In December 2013, Justice determined to substantially demolish the Hotel's ground-level Spa (with the exception of the ceilings and certain mechanical systems) to build out additional meeting rooms, a technology lounge and re-locate Hotel offices. Justice believes this will result in a greater guest experience and increases in operating revenues. Justice recorded a loss of approximately $738,000 as a disposal of assets on the closure of the Hotel's Spa on the lobby level.

Justice Loan Agreements

On December 18, 2013: (i) Justice Operating Company, LLC, a Delaware limited liability company ("Operating"), entered into a loan agreement ("Mortgage Loan Agreement") with Bank of America ("Mortgage Lender"); and (ii) Justice Mezzanine Company, a Delaware limited liability company ("Mezzanine"), entered into a mezzanine loan agreement ("Mezzanine Loan Agreement" and, together with the Mortgage Loan Agreement, the "Loan Agreements") with ISBI San Francisco Mezz Lender LLC ("Mezzanine Lender" and, together with Mortgage Lender, the "Lenders"). Justice is the sole member of Mezzanine, and Mezzanine is the sole member of Operating.

The Loan Agreements provide for a $97,000,000 Mortgage Loan and a $20,000,000 Mezzanine Loan. The proceeds of the Loan Agreements were used to fund the redemption of limited partnership interests described above and the pay-off of the prior mortgage.

The Mortgage Loan is secured by the Partnership's principal asset, the Hilton San Francisco-Financial District (the "Property"). The Mortgage Loan initially bears an interest rate of 5.28% per annum and matures in January 2024. The term of the loan is 10 years with interest only due in the first three years and principle and interest on the remaining seven years of the loan. The Mortgage Loan also requires payments for impounds related to property tax, insurance and capital improvement reserves. As additional security for the Mortgage Loan, there is a limited guaranty ("Mortgage Guaranty") executed by the Company in favor of Mortgage Lender.

The Mezzanine Loan is secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The Mezzanine Loan initially bears interest at 9.75% per annum and matures in January, 2024. Interest only is payable monthly. As additional security for the Mezzanine Loan, there is a limited guaranty executed by the Company in favor of Mezzanine Lender (the "Mezzanine Guaranty" and, together with the Mortgage Guaranty, the "Guaranties").

The Guaranties are limited to what are commonly referred to as "bad boy" acts, including: (i) fraud or intentional misrepresentations; (ii) gross negligence or willful misconduct; (iii) misapplication or misappropriation of rents, security deposits, insurance or condemnation proceeds; and (iv) failure to pay taxes or insurance. The Guaranties will be full recourse guaranties under identified circumstances, including failure to maintain "single purpose" status, transfer of the Property in violation of the applicable loan documents and the Property becoming subject to a bankruptcy proceeding. Pursuant to the Guaranties, Portsmouth is required to maintain a certain minimum net worth and liquidity. As of December 31, 2013, the Company is in compliance with both requirements.

Each of the Loan Agreements contains customary representations and warranties, events of default, reporting requirements, affirmative covenants and negative covenants, which impose restrictions on, among other things, organizational changes of the respective borrower, operations of the Property, agreements with affiliates and third parties. Each of the Loan Agreements also provides for mandatory prepayments under certain circumstances (including casualty or condemnation events) and voluntary prepayments, subject to satisfaction of prescribed conditions set forth in the Loan Agreements.

Limited Partnership Agreement Amendments

In conjunction with the Offer to Redeem, the Partnership solicited and obtained consents from holders of the requisite limited partnership interests to amendments to the Justice Amended and Restated Agreement of Limited Partnership, which became effective upon the completion of the Offer to Redeem and the consummation of the Loan Agreements. The amendments included the following changes to the Justice Amended and Restated Agreement of Limited Partnership:

- Providing for a single general partner;
- Providing for Class B limited partnership interests, which, if issued, would represent interests in the Partnership; and
- Permitting the General Partner to admit additional limited partners, subject to certain restrictions.

NOTE 2 INVESTMENT IN HOTEL, NET

Investment in hotel consisted of the following as of:

December 31, 2013	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,738,000	$ -	$ 2,738,000
Furniture and equipment	22,162,000	(21,294,000)	868,000
Building and improvements	59,112,000	(21,918,000)	37,194,000
	$ 84,012,000	$ (43,212,000)	$ 40,800,000

June 30, 2013	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,738,000	$ -	$ 2,738,000
Furniture and equipment	22,271,000	(19,310,000)	2,961,000
Building and improvements	58,875,000	(22,846,000)	36,029,000
	$ 83,884,000	$ (42,156,000)	$ 41,728,000

NOTE 3 INVESTMENT IN REAL ESTATE, NET

Investment in real estate consisted of the following:

As of	December 31, 2013	June 30, 2013
Land	$ 25,781,000	$ 25,781,000
Buildings, improvements and equipment	73,845,000	73,453,000
Accumulated depreciation	(35,045,000)	(33,972,000)
Investment in real estate, net	$ 64,581,000	$ 65,262,000

In July 2013, the Company refinanced its $466,000 adjustable rate mortgage note payable on its 8-unit apartment located in Los Angeles, California for a new 30-year mortgage in the amount of $500,000. The interest rate on the new loan is fixed at 3.50% per annum for the first five years and variable for the remaining of the term. The note matures in July 2043.

In February 2014, the Company entered into a contract to sell its 249 unit apartment complex located in Austin, Texas and the adjacent unimproved land for $15,800,000. The purchase/sale agreement provides that purchaser can terminate the agreement with or without cause within 45 days the date of the contract.

NOTE 4 INVESTMENT IN MARKETABLE SECURITIES

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

At December 31, 2013 and June 30, 2013, all of the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments are included in earnings. Trading securities are summarized as follows:

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Fair Value
As of December 31, 2013					
Corporate Equities	$ 10,725,000	$ 4,115,000	$ (1,741,000)	$ 2,374,000	$ 13,099,000
As of June 30, 2013					
Corporate Equities	$ 11,314,000	$ 3,391,000	$ (2,081,000)	$ 1,310,000	$ 12,624,000

As of December 31, 2013 and June 30, 2013, the Company had unrealized losses of $1,552,000 and $1,670,000, respectively, related to securities held for over one year.

Net gain on marketable securities on the statement of operations is comprised of realized and unrealized gains (losses). Below is the composition of the two components for the respective periods:

	2013		2012	
For the three months ended December 31,				
Realized gain (loss) on marketable securities	$	410,000	$	(428,000)
Unrealized gain (loss) on marketable securities		205,000		(1,680,000)
Net gain (loss) on marketable securities	$	615,000	$	(2,108,000)

	2013		2012	
For the six months ended December 31,				
Realized gain (loss) on marketable securities	$	138,000	$	(219,000)
Unrealized gain (loss) on marketable securities		630,000		(364,000)
Net gain (loss) on marketable securities	$	768,000	$	(583,000)

NOTE 5 OTHER INVESTMENTS, NET

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

Other investments, net consist of the following:

Type	December 31, 2013		June 30, 2013	
Preferred stock - Comstock, at cost	$	13,231,000	$	13,231,000
Private equity hedge fund, at cost		1,774,000		1,774,000
Corporate debt and equity instruments, at cost		269,000		269,000
Warrants - at fair value		-		6,000
	$	15,274,000	$	15,280,000

NOTE 6 - FAIR VALUE MEASUREMENTS

The carrying values of the Company's financial instruments not required to be carried at fair value on a recurring basis approximate fair value due to their short maturities (i.e., accounts receivable, other assets, accounts payable and other liabilities, due to securities broker and obligations for securities sold) or the nature and terms of the obligation (i.e., other notes payable and mortgage notes payable).

The assets measured at fair value on a recurring basis are as follows:

As of December 31, 2013				
Assets:	Level 1	Level 2	Level 3	Total
Restricted cash - mortgage impounds	$ 3,459,000	$ -	$ -	$ 3,459,000
Restricted cash - redemption	19,091,000	-	-	19,091,000
Investment in marketable securities:				
Basic materials	6,499,000	-	-	6,499,000
Financial services	2,468,000	-	-	2,468,000
Technology	1,231,000	-	-	1,231,000
REITs and real estate companies	945,000	-	-	945,000
Other	1,956,000	-	-	1,956,000
	13,099,000	-	-	13,099,000
	$ 35,649,000	$ -	$ -	$ 35,649,000

As of June 30, 2013				
Assets:	Level 1	Level 2	Level 3	Total
Cash equivalents - money market	$ 3,000	$ -	$ -	$ 3,000
Restricted cash - mortgage impounds	2,448,000	-	-	2,448,000
Other investments - warrants		-	6,000	6,000
Investment in marketable securities:				
Basic materials	4,733,000	-	-	4,733,000
Technology	2,698,000	-	-	2,698,000
Financial services	2,261,000	-	-	2,261,000
REITs and real estate companies	878,000	-	-	878,000
Other	2,054,000	-	-	2,054,000
	12,624,000	-	-	12,624,000
	$ 15,075,000	$ -	$ 6,000	$ 15,081,000

The fair values of investments in marketable securities are determined by the most recently traded price of each security at the balance sheet date. The fair value of the warrants was determined based upon a Black-Scholes option valuation model. The value of the interest rate swap is measured at fair value and recorded as a liability on the balance sheet.

Financial assets that are measured at fair value on a non-recurring basis and are not included in the tables above include “Other investments in non-marketable securities,” that were initially measured at cost and have been written down to fair value as a result of impairment or adjusted to record the fair value of new instruments received (i.e., preferred shares) in exchange for old instruments (i.e., debt instruments). The following table shows the fair value hierarchy for these assets measured at fair value on a non-recurring basis as follows:

Assets	Level 1	Level 2	Level 3	December 31, 2013	Net loss for the three months ended December 31, 2013
Other non-marketable investments	$ -	$ -	$ 15,274,000	$ 15,274,000	$ -

Assets	Level 1	Level 2	Level 3	December 31, 2012	Net loss for the six months ended December 31, 2012
Other non-marketable investments	$ -	$ -	$ 15,379,000	$ 15,379,000	$ -

Other investments in non-marketable securities are carried at cost net of any impairment loss. The Company has no significant influence or control over the entities that issue these investments and holds less than 20% ownership in each of the investments. These investments are reviewed on a periodic basis for other-than-temporary impairment. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (i) the length of time an investment is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near term prospects of the issuer and (iv) our ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 7 STOCK BASED COMPENSATION PLANS

The Company follows Accounting Standard Codification (ASC) Topic 718 "Compensation Stock Compensation", which addresses accounting for equity-based compensation arrangements, including employee stock options and restricted stock units.

Please refer to Note 17 Stock Based Compensation Plans in the Company's Form 10-K for the year ended June 30, 2013 for more detail information on the Company's stock-based compensation plans.

During the three months ended December 31, 2013 and 2012, the Company recorded stock option compensation cost of $52,000 and $91,000, respectively, related to stock options that were previously issued. During the six months ended December 31, 2013 and 2012, the Company recorded stock option compensation cost of $103,000 and $191,000, respectively, related to stock options that were previously issued. As of December 31, 2013, there was a total of $233,000 of unamortized compensation related to stock options which is expected to be recognized over the weighted-average period of 2.75 years.

Option-pricing models require the input of various subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility is based on analysis of the Company's stock price history. The Company has selected to use the simplified method for estimating the expected term. The risk-free interest rate is based on the U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. No dividend yield is included as the Company has not issued any dividends and does not anticipate issuing any dividends in the future.

The following table summarizes the stock options activity from June 30, 2012 through December 31, 2013:

		Number of Shares	Weighted Average Exercise Price		Weighted Average Remaining Life	Aggregate Intrinsic Value	
Oustanding at	June 30, 2012	242,000	$	14.55	7.46 years	$	2,050,000
Granted		-		-	-		-
Exercised		(5,000)		10.30	-		-
Forfeited		-		-			
Exchanged		(15,000)		9.52	-		-
Oustanding at	June 30, 2013	222,000	$	14.98	6.89 years	$	1,353,000
Exercisable at	June 30, 2013	105,000	$	13.01	5.69 years	$	838,000
Vested and Expected to vest at	June 30, 2013	222,000	$	14.98	6.89 years	$	1,353,000
Oustanding at	June 30, 2013	222,000	$	14.98	6.89 years	$	1,353,000
Granted		-		-	-		-
Exercised		-		-	-		-
Forfeited		-		-	-		-
Exchanged		-		-	-		-
Oustanding at	December 31, 2013	222,000	$	14.98	6.39	$	926,000
Exercisable at	December 31, 2013	105,000	$	13.01	5.19	$	598,000
Vested and Expected to vest at	December 31, 2013	222,000	$	14.98	6.39	$	926,000

The table below summarizes the restricted stock units (RSUs) granted and outstanding.

		Number of RSUs	Weighted Average Grant Date Fair Value	
RSUs outstanding as of	June 30, 2012	8,245	$	24.94
Granted		8,195		20.99
Converted to common stock		(8,245)		24.94
RSUs outstanding as of	June 30, 2013	8,195		20.99
Granted		-		-
Converted to common stock		(4,100)		20.99
RSUs outstanding as of	December 31, 2013	4,095	$	20.99

On July 1 of every year, as part of the Stock Compensation Plan for Non-employee Directors, each non-employee director received an automatic grant of a number of shares of Company's Common Stock equal in value to $22,000 ($88,000 total recorded as stock compensation expense) based on 100% of the fair market value of the Company's stock on the day of grant. During the three months ended December 31, 2013 and 2012, the four non-employee directors of the Company received a total grant of 4,100 and 3,528 shares of common stock.

NOTE 8 SEGMENT INFORMATION

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

Information below represents reported segments for the three and six months ended December 31, 2013 and 2012. Operating income from hotel operations consist of the operation of the hotel and operation of the garage. Operating income for rental properties consist of rental income. Operating loss for investment transactions consist of net investment gain (loss) and dividend and interest income.

As of and for the three months ended December 31, 2013	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Total
Revenues	$ 12,274,000	$ 4,158,000	$ -	$ -	$