INTERGROUP CORP
Form 10-Q
May 10, 2013

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 March 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 (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.

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 May 3, 2013 was 2,359,369.

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PART I
FINANCIAL INFORMATION

Item 1 - Condensed Consolidated Financial Statements

THE INTERGROUP CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

As of	March 31, 2013 (Unaudited)		June 30, 2012	
ASSETS				
Investment in hotel, net	$	41,458,000	$	40,678,000
Investment in real estate, net		65,513,000		65,051,000
Investment in marketable securities		12,963,000		8,981,000
Other investments, net		15,396,000		15,661,000
Cash and cash equivalents		1,023,000		2,100,000
Restricted cash		1,731,000		1,977,000
Other assets, net		6,430,000		5,373,000
Total assets	$	144,514,000	$	139,821,000
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities:				
Accounts payable and other liabilities	$	3,372,000	$	3,628,000
Accounts payable and other liabilities - hotel		9,316,000		8,119,000
Due to securities broker		4,584,000		1,729,000
Obligations for securities sold		725,000		731,000
Other notes payable - hotel		1,646,000		2,072,000
Mortgage notes payable - hotel		43,645,000		44,321,000
Mortgage notes payable - real estate		73,497,000		70,654,000
Deferred income taxes		4,727,000		4,981,000
Total liabilities		141,512,000		136,235,000
Commitments and contingencies				
Shareholders' equity:				
Preferred stock, $.01 par value, 100,000 shares authorized; none issued		-		-
Common stock, $.01 par value, 4,000,000 shares authorized; 3,354,241 and 3,346,588 issued; 2,355,249 and 2,347,596 outstanding, respectively		33,000		33,000
Additional paid-in capital		9,616,000		9,417,000
Retained earnings		9,824,000		10,614,000
Treasury stock, at cost, 998,992 shares		(11,757,000)		(11,757,000)
Total InterGroup shareholders' equity		7,716,000		8,307,000
Noncontrolling interest		(4,714,000)		(4,721,000)
Total shareholders' equity		3,002,000		3,586,000

Total liabilities and shareholders' equity	$	144,514,000	$	139,821,000

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 March 31,	2013		2012	
Revenues:				
Hotel	$	10,475,000	$	10,154,000
Real estate		3,904,000		3,649,000
Total revenues		14,379,000		13,803,000
Costs and operating expenses:				
Hotel operating expenses		(9,563,000)		(8,572,000)
Real estate operating expenses		(2,101,000)		(2,013,000)
Depreciation and amortization expense		(1,144,000)		(1,115,000)
General and administrative expense		(549,000)		(502,000)
Total costs and operating expenses		(13,357,000)		(12,202,000)
Income from operations		1,022,000		1,601,000
Other income (expense):				
Interest expense		(1,418,000)		(1,535,000)
Net gain on marketable securities		257,000		1,454,000
Net unrealized gain (loss) on other investments and derivative instruments		17,000		(40,000)
Impairment loss on other investments		-		(52,000)
Dividend and interest income		13,000		63,000
Trading and margin interest expense		(435,000)		(442,000)
Other expense, net		(1,566,000)		(552,000)
Income (loss) before income taxes		(544,000)		1,049,000
Income tax benefit (expense)		60,000		(287,000)
Income (loss) from continuing operations		(484,000)		762,000
Discontinued operations:				
Income from discontinued operations		-		12,000
Gain on sale of real estate		-		1,710,000
Income tax expense		-		(720,000)
Income from discontinued operations		-		1,002,000
Net (loss) income		(484,000)		1,764,000
Less: Net loss (income) attributable to the noncontrolling interest		285,000		(245,000)
Net (loss) income attributable to InterGroup	$	(199,000)	$	1,519,000
Net (loss) income per share from continuing operations				
Basic	$	(0.21)	$	0.32
Diluted	$	(0.21)	$	0.31
Net income per share from discontinued operations				
Basic	$	-	$	0.42
Diluted	$	-	$	0.40
Net (loss) income per share attributable to InterGroup				
Basic	$	(0.08)	$	0.63
Diluted	$	(0.08)	$	0.61

Weighted average number of basic common shares outstanding	2,355,249	2,404,844
Weighted average number of diluted common shares outstanding	2,355,249	2,476,185

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

THE INTERGROUP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

For the nine months ended March 31,	2013		2012	
Revenues:				
Hotel	$	33,581,000	$	31,675,000
Real estate		11,657,000		10,789,000
Total revenues		45,238,000		42,464,000
Costs and operating expenses:				
Hotel operating expenses		(28,125,000)		(24,513,000)
Real estate operating expenses		(6,460,000)		(5,925,000)
Depreciation and amortization expense		(3,421,000)		(3,304,000)
General and administrative expense		(1,584,000)		(1,400,000)
Total costs and operating expenses		(39,590,000)		(35,142,000)
Income from operations		5,648,000		7,322,000
Other income (expense):				
Interest expense		(4,761,000)		(4,692,000)
Net loss on marketable securities		(326,000)		(3,387,000)
Net unrealized loss on other investments and derivative instruments		(221,000)		(457,000)
Impairment loss on other investments		-		(684,000)
Dividend and interest income		582,000		662,000
Trading and margin interest expense		(1,260,000)		(1,248,000)
Other expense, net		(5,986,000)		(9,806,000)
Loss before income taxes		(338,000)		(2,484,000)
Income tax benefit		254,000		1,290,000
Loss from continuing operations		(84,000)		(1,194,000)
Discontinued operations:				
Income from discontinued operations		-		59,000
Gain on sale of real estate				1,710,000
Income tax expense		-		(739,000)
Income from discontinued operations		-		1,030,000
Net loss		(84,000)		(164,000)
Less: Net income attributable to the noncontrolling interest		(706,000)		(1,391,000)
Net loss attributable to InterGroup	$	(790,000)	$	(1,555,000)
Net loss per share from continuing operations				
Basic	$	(0.04)	$	(0.50)
Diluted	$	(0.04)	$	(0.50)
Net income per share from discontinued operations				
Basic	$	-	$	0.43
Diluted	$	-	$	0.43
Net loss per share attributable to InterGroup				
Basic	$	(0.34)	$	(0.65)
Diluted	$	(0.34)	$	(0.65)

Weighted average number of basic common shares outstanding	2,353,846	2,403,621
Weighted average number of diluted common shares outstanding	2,353,846	2,403,621

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

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

For the nine months ended March 31,	2013		2012	
Cash flows from operating activities:				
Net loss	$	(84,000)	$	(164,000)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Gain on sale of real estate		-		(1,710,000)
Depreciation and amortization		3,421,000		3,329,000
Net unrealized loss on marketable securities		591,000		2,273,000
Unrealized loss on other investments and derivative instruments		221,000		457,000
Impairment loss on other investments		-		684,000
Stock compensation expense		359,000		241,000
Changes in assets and liabilities:				
Investment in marketable securities		(4,573,000)		(608,000)
Other assets		(1,075,000)		(502,000)
Accounts payable and other liabilities		941,000		(612,000)
Due to securities broker		2,855,000		(1,183,000)
Obligations for securities sold		(6,000)		951,000
Deferred taxes		(254,000)		(551,000)
Net cash provided by operating activities		2,396,000		2,605,000
Cash flows from investing activities:				
Net proceeds from sale of real estate		-		4,111,000
Investment in hotel		(2,596,000)		(2,132,000)
Investment in real estate		(2,049,000)		(236,000)
Proceeds from other investments		44,000		257,000
Investment in Santa Fe		(146,000)		(471,000)
Investment in Portsmouth		(75,000)		(145,000)
Restricted cash		246,000		516,000
Net cash (used in) provided by investing activities		(4,576,000)		1,900,000
Cash flows from financing activities:				
Distributions and dividends to noncontrolling interest		(638,000)		(500,000)
Borrowings from mortgage notes payable		33,195,000		2,095,000
Principal payments on mortgage notes payable		(31,028,000)		(4,158,000)
Payments on other notes payable		(426,000)		(349,000)
Purchase of treasury stock		-		(1,458,000)
Net cash provided by (used in) financing activities		1,103,000		(4,370,000)
Net (decrease) increase in cash and cash equivalents		(1,077,000)		135,000
Cash and cash equivalents at the beginning of the period		2,100,000		1,364,000
Cash and cash equivalents at the end of the period	$	1,023,000	$	1,499,000
Supplemental information:				
Interest paid	$	5,226,000	$	5,154,000

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, 2012. The June 30, 2012 Condensed Consolidated Balance Sheet was derived from the Company's Form 10-K for the year ended June 30, 2012.

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

As of March 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 revenue is primarily generated through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), a public company (OTCBB: PRSI). InterGroup also directly owns approximately 12.9% of the common stock of Portsmouth. Portsmouth has a 50.0% limited partnership interest in Justice Investors ("Justice", "the Partnership" or "the Hotel") and serves as one of the two general partners. The other general partner, Evon Corporation ("Evon"), served as the managing general partner until December 1, 2008 at which time Portsmouth assumed the role of managing general partner.

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. Justice also leases a portion of the lobby level of the Hotel to a day spa operator. 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. The Company's residential rental properties located in California are managed by a professional third party property management company.

Certain prior comparable quarter balances have been reclassified to conform to the current quarter presentation.

In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income." ASU 2011-05 changes the way other comprehensive income ("OCI") appears within the financial statements. Companies will be required to show net income, OCI and total comprehensive income in one continuous statement or in two separate but consecutive statements. Components of OCI may no longer be presented solely in the statement of changes in shareholders' deficit. ASU 2011-05 was effective for the Company beginning July 1, 2012. For the three and nine months ended March 31, 2013 and 2012, the Company had no components of Comprehensive Income other than Net Income itself.

The Company has evaluated subsequent events through the date the condensed consolidated financial statements were issued.

Earnings Per Share

Basic income (loss) per share is computed by dividing net income (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 and restricted stock units (RSUs).

NOTE 2 INVESTMENT IN HOTEL, NET

Investment in hotel consisted of the following as of:

March 31, 2013	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,738,000	$ -	$ 2,738,000
Furniture and equipment	21,955,000	(19,036,000)	2,919,000
Building and improvements	58,343,000	(22,542,000)	35,801,000
	$ 83,036,000	$ (41,578,000)	$ 41,458,000

June 30, 2012	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,738,000	$ -	$ 2,738,000
Furniture and equipment	20,856,000	(18,185,000)	2,671,000
Building and improvements	56,909,000	(21,640,000)	35,269,000
	$ 80,503,000	$ (39,825,000)	$ 40,678,000

NOTE 3 INVESTMENT IN REAL ESTATE, NET

Investment in real estate consisted of the following:

As of	March 31, 2013		June 30, 2012	
Land	$	25,781,000	$	25,781,000
Buildings, improvements and equipment		73,167,000		71,119,000
Accumulated depreciation		(33,435,000)		(31,849,000)
Investment in real estate, net	$	65,513,000	$	65,051,000

In November 2012, the Company refinanced its $17,509,000 mortgage note payable on its 358-unit apartment building located in Las Colinas, Texas for a new 10-year mortgage in the amount of $19,500,000. The interest rate on the new loan is fixed at 3.73% per annum for ten years, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2022. The Company received net proceeds of approximately $1,085,000 from the refinancing.

In July 2012, the Company refinanced its $9,010,000 mortgage note payable on its 151-unit apartment building located in Morris County, New Jersey for a new 10-year mortgage in the amount of $10,780,000. The interest rate on the new loan is fixed at 3.51% per annum for ten years, with monthly principal and interest payments based on a 25-year amortization schedule. The note matures in August 2022. The Company received net proceeds of approximately $1,513,000 from the refinancing.

In August 2012, the Company refinanced two mortgages on two properties located in Los Angeles, California with mortgage note payable balances totaling $1,583,000 for two new 30-year mortgages totaling $1,650,000. The interest rate on the two loans is fixed at 3.85% for the first five years and variable thereafter, with monthly principal and interest payments based on a 30-year amortization schedule. The notes mature in September 2042.

In August 2012, the Company refinanced four mortgages on four properties located in Los Angeles, California with mortgage note payable balances totaling $1,628,000 for four new 30-year mortgages totaling $1,685,000. The interest rate on the two loans is fixed at 4.25% for the first five years and variable thereafter, with monthly principal and interest payments based on a 30-year amortization schedule. The notes mature in September 2042.

NOTE 4 PROPERTY HELD FOR SALE AND DISCONTINUED OPERATIONS

As of December 31, 2011, the Company had listed for sale a 24-unit apartment complex located in Los Angeles, California . In January 2012, this property was sold for $4,370,000. The Company realized a gain on the sale of real estate of approximately $1,700,000, which was reported in the quarter ended March 31, 2012. The Company paid off the related mortgage note payable balance of $1,504,000 and received net proceeds of $2,564,000 after selling related costs.

The revenues and expenses from the operation of the held for sale property for respective periods are summarized as follows:

For the three months ended March 31,	2012	
Revenues	$	28,000
Expenses		(16,000)
Income from discontinued operations	$	12,000

For the nine months ended March 31,	2012

Revenues	$	208,000
Expenses		(149,000)
Income from discontinued operations	$	59,000

NOTE 5 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 March 31, 2013 and June 30, 2012, 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 March 31, 2013					
Corporate Equities	$ 11,677,000	$ 3,349,000	$ (2,063,000)	$ 1,286,000	$ 12,963,000
As of June 30, 2012					
Corporate Equities	$ 7,181,000	$ 3,797,000	$ (1,997,000)	$ 1,800,000	$ 8,981,000

As of March 31, 2013 and June 30, 2012, the Company had unrealized losses of $1,889,000 and $1,507,000, respectively, related to securities held for over one year.

Net (loss) 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:

For the three months ended March 31,	2013	2012
Realized gain on marketable securities	$ 484,000	$ 722,000
Unrealized (loss) gain on marketable securities	(227,000)	732,000
Net gain on marketable securities	$ 257,000	$ 1,454,000

For the nine months ended March 31,	2013	2012
Realized gain (loss) on marketable securities	$ 265,000	$ (1,114,000)
Unrealized loss on marketable securities	(591,000)	(2,273,000)
Net loss on marketable securities	$ (326,000)	$ (3,387,000)

NOTE 6 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	March 31, 2013	June 30, 2012
Preferred stock - Comstock, at cost	$ 13,231,000	$ 13,231,000
Private equity hedge fund, at cost	1,879,000	1,879,000
Corporate debt and equity instruments, at cost	269,000	269,000
Warrants - at fair value	17,000	282,000
	$ 15,396,000	$ 15,661,000

NOTE 7 - FAIR VALUE MEASUREMENTS

The carrying values of the Company’s non-financial instruments 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 March 31, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents - money market	$ 3,000	$ -	$ -	$ 3,000
Restricted cash - mortgage escrow	1,731,000	-	-	1,731,000
Other investments - warrants	-	-	17,000	17,000
Investment in marketable securities:				
Basic materials	4,425,000	-	-	4,425,000
Technology	3,293,000	-	-	3,293,000
Financial services	1,722,000	-	-	1,722,000
REITs and real estate companies	569,000	-	-	569,000
Other	2,954,000	-	-	2,954,000
	12,963,000	-	-	12,963,000
	$ 14,697,000	$ -	$ 17,000	$ 14,714,000
Liabilities:				
Interest rate swap	$ -	$ 16,000	$ -	$ 16,000

As of June 30, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents - money market	$ 3,000	$ -	$ -	$ 3,000
Restricted cash - mortgage escrow	1,977,000	-	-	1,977,000
Other investments - warrants		-	282,000	282,000
Investment in marketable securities:				
Basic materials	4,706,000	-	-	4,706,000
Technology	1,203,000	-	-	1,203,000
REITs and real estate companies	866,000	-	-	866,000
Financial services	743,000	-	-	743,000
Other	1,463,000	-	-	1,463,000
	8,981,000	-	-	8,981,000
	$ 10,961,000	$ -	$ 282,000	$ 11,243,000
Liabilities:				
Interest rate swap	$ -	$ 60,000	$ -	$ 60,000

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	March 31, 2013	Net loss for the nine months ended March 31, 2013
Other non-marketable investments	$ -	$ -	$ 15,396,000	$ 15,396,000	$ -

Assets	Level 1	Level 2	Level 3	June 30, 2012	Net loss for the nine months ended March 31, 2012
Other non-marketable investments	$ -	$ -	$ 15,379,000	$ 15,379,000	$ (684,000)

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 8 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 16 Stock Based Compensation Plans in the Company's Form 10-K for the year ended June 30, 2012 for more detail information on the Company’s stock-based compensation plans.

During the three months ended March 31, 2013 and 2012, the Company recorded stock option compensation cost of $80,000 and $55,000, respectively, related to the issuance of stock options. During the nine months ended March 31, 2013 and 2012, the Company recorded stock option compensation cost of $271,000 and $153,000, respectively, related to the issuance of stock options. As of March 31, 2013, there was a total of $390,000 of unamortized compensation related to stock options which is expected to be recognized over the weighted-average period of 5 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, 2011 through March 31, 2013:

		Number of Shares	Weighted Average Exercise Price		Weighted Average Remaining Life	Aggregate Intrinsic Value	
Oustanding at	June 30, 2011	162,000	$	11.02	6.48 years	$	2,252,000
Granted		95,000		20.04			
Exercised		-		-			
Forfeited		-		-			
Exchanged		(15,000)		13.72			
Oustanding at	June 30, 2012	242,000	$	14.55	7.46 years	$	2,050,000
Exercisable at	June 30, 2012	87,000	$	11.48	4.92 years	$	1,046,000
Vested and Expected to vest at	June 30, 2012	242,000	$	14.55	7.46 years	$	2,050,000