INTERGROUP CORP
Form 10-K
September 22, 2011

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2011
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 (State or other jurisdiction of Incorporation or organization)	13-3293645 (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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock $.01 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
¨ Yes x No

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).

¨ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. x

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 aggregate market value of the Common Stock, no par value, held by non-affiliates computed by reference to the average bid and asked price on December 31, 2010 (the last business day of registrant’s most recently completed second fiscal quarter) was $16,384,902

The number of shares outstanding of registrant’s Common Stock, as of September 13, 2011, was 2,416,970.

DOCUMENTS INCORPORATED BY REFERENCE: None

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PART IV

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation reform Act of 1995. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They contain words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” “may,” “could,” “might” words or phrases of similar meaning in connection with any discussion of future operating or financial performance. From time to time we also provide forward-looking statements in our Forms 10-Q and 8-K, Annual Reports to Shareholders, press releases and other materials we may release to the public. Forward looking statements reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause actual results or outcomes to differ materially from those expressed in any forward looking statement. Consequently, no forward looking statement can be guaranteed and our actual future results may differ materially.

Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

- risks associated with the lodging industry, including competition, increases in wages, labor relations, energy and fuel costs, actual and threatened pandemics, actual and threatened terrorist attacks, and downturns in domestic and international economic and market conditions, particularly in the San Francisco Bay area;
- risks associated with the real estate industry, including changes in real estate and zoning laws or regulations, increases in real property taxes, rising insurance premiums, costs of compliance with environmental laws and other governmental regulations;
- the availability and terms of financing and capital and the general volatility of securities markets;
- changes in the competitive environment in the hotel industry;
- risks related to natural disasters;
- litigation; and
- other risk factors discussed below in this Report.

We caution you not to place undue reliance on these forward-looking statements, which speak only as to the date hereof. We undertake no obligation to publicly update any forward looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects on our Forms 10-K, 10-Q, and 8-K reports to the Securities and Exchange Commission.

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PART I

Item 1. Business.

GENERAL

The InterGroup Corporation (“InterGroup” or the “Company” and may also be referred to as “we” “us” or “our” in this report) a Delaware corporation formed in 1985, as the successor to Mutual Real Estate Investment Trust ("M-REIT"), a New York real estate investment trust created in 1965. The Company has been a publicly-held company since M-REIT's first public offering of shares in 1966.

The Company was organized to buy, develop, operate, rehabilitate and dispose of real property of various types and descriptions, and to engage in such other business and investment activities as would benefit the Company and its shareholders. The Company was founded upon, and remains committed to, social responsibility. Such social responsibility was originally defined as providing decent and affordable housing to people without regard to race. In 1985, after examining the impact of federal, state and local equal housing laws, the Company determined to broaden its definition of social responsibility. The Company changed its form from a REIT to a corporation so that it could pursue a variety of investments beyond real estate and broaden its social impact to engage in any opportunity which would offer the potential to increase shareholder value within the Company's underlying commitment to social responsibility.

As of June 30, 2011, the Company owned approximately 77% of the common shares of Santa Fe Financial Corporation (“Santa Fe”), a public company (OTCBB: SFEF). Santa Fe’s revenue is primarily generated through its 68.8% owned subsidiary, Portsmouth Square, Inc. (“Portsmouth”), a public company (OTCBB: PRSI). InterGroup also directly owns approximately 11.7% of Portsmouth. Portsmouth’s principal business is conducted through its general and limited partnership interest in the Justice Investors limited partnership (“Justice” or the “Partnership”). Portsmouth has a 50.0% limited partnership interest in Justice and serves as one of the general partners. Justice owns a 544 room hotel property located at 750 Kearny Street, San Francisco, California94108, known as the “Hilton San Francisco Financial District” (the “Hotel”) and related facilities, including a five level underground parking garage. The financial statements of Justice are consolidated with those of the Company. See Note 2 to the consolidated financial statements.

The other general partner, Evon Corporation (“Evon”), served as the managing general partner of Justice until December 1, 2008. As discussed below, the Limited Partnership Agreement was amended, effective December 1, 2008, to provide for a change in the respective roles of the general partners. Pursuant to that amendment, Portsmouth became the Managing General Partner of Justice while Evon assumed the role of Co-General Partner of Justice.

Most significant partnership decisions require the active participation and approval of both general partners. Pursuant to the terms of the partnership agreement, voting rights of the partners are determined according to the partners’ entitlement to share in the net profit and loss of the partnership. 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. As of June 30, 2011, there were 113 limited partners in Justice, including Portsmouth and Evon.

Historically, the Partnership’s most significant source of income was a lease between Justice and Holiday Inn for the Hotel portion of the property. That lease was amended in 1995, and ultimately assumed by Felcor Lodging Trust, Inc. (“Felcor”) in 1998. The lease of the Hotel to Felcor was terminated effective June 30, 2004. With the termination of the Hotel lease, Justice assumed the role of an owner/operator with the assistance of a third party management company. Effective July 1, 2004, the Hotel was operated as a Holiday Inn Select brand hotel pursuant to a short term franchise agreement until it was temporarily closed for major renovations on May 31, 2005. The Hotel was reopened on January 12, 2006 to operate as a full service Hilton 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.

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Until September 30, 2008, the Partnership also derived income from the lease of the parking garage to Evon. As discussed below, effective October 1, 2008, Justice entered into an installment sale agreement with Evon to purchase the remaining term of the garage lease and related garage assets at which time the garage became a part of the Partnership's operations. 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.

In addition to the operations of the Hotel, the Company also generates income from the ownership, management and, when appropriate, sale of real estate. Properties include eighteenapartment complexes, two commercial real estate properties and two single-family houses. 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 properties in California are managed by professional third party property management companies and the rental properties outside of California are managed by the Company. The commercial real estate in California is also managed by the Company.

The Company acquires its investments in real estate and other investments utilizing cash, securities or debt, subject to approval or guidelines of the Board of Directors and its Real Estate Investment Committee. The Company may also look for new real estate investment opportunities in hotels, apartments, office buildings and development properties. The acquisition of any new real estate investments will depend on the Company's ability to find suitable investment opportunities and the availability of sufficient financing to acquire such investments. To help fund any such acquisition, the Company may borrow funds to leverage its investment capital. The amount of any such debt will depend on a number of factors including, but not limited to, the availability of financing and the sufficiency of the acquisition property's projected cash flows to support the operations and debt service.

The Company also derives income from the investment of its cash and investment securities assets. The Company has invested in income-producing instruments, equity and debt securities and will consider other investments if such investments offer growth or profit potential. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the Company's marketable securities and other investments.

RECENT BUSINESS DEVELOPMENTS

Garage Installment Sale Agreement and Parking Facilities Management Agreement

Effective October 1, 2008, Justice and Evon entered into an Installment Sale Agreement whereby the Partnership purchased all of Evon's right title and interest in the remaining term of its lease of the parking garage, which was to expire on November 30, 2010, and other related assets. The partnership also agreed to assume Evon's contract with Ace Parking Management, Inc. ("Ace Parking") for the management of the garage and any other liabilities related to the operation of the garage commencing October 1, 2008. The purchase price for the garage lease and related assets was approximately $755,000, payable in one down payment of approximately $28,000 and 26 equal monthly installments of approximately $29,000, which included interest at the rate of 2.4% per annum. The Note was fully paid as of November 2010. See Note 9 to the Consolidated Financial Statements.

On October 31, 2010, Justice Investors and Ace Parking entered into an amendment of the Parking Agreement to extend the term for a period of sixty two (62) months, commencing on November 1, 2010 and terminating December 31, 2015, subject to either party's right to terminate the agreement without cause on ninety (90) days written notice. The monthly management fee of $2,000 and the accounting fee of $250 remain the same, but the amendment modified how the Excess Profit Fee to be paid to Ace would be calculated. The amendment provides that, if net operating income ("NOI") from the garage operations exceeds $1,800,000 but is less than $2,000,000, Ace will be entitled to an Excess Profit Fee of one percent (1%) of the total annual NOI. If the annual NOI is $2,000,000 or higher, Ace will be entitled to an Excess Profit Fee equal to two percent (2%) of the total annual NOI. The prior Excess Profit Fee entitled Ace to receive three percent of NOI in excess of $150,000.

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Amendments to Justice Investors Limited Partnership Agreement

On December 1, 2008, Portsmouth and Evon, as the two general partners of Justice, entered into a 2008 Amendment to the Limited Partnership Agreement (the "Amendment") that provides for a change in the respective roles of the general partners. Pursuant to the Amendment, Portsmouth assumed the role of Managing General Partner and Evon continued on as the Co-General Partner of Justice. The Amendment was ratified by approximately 98% of the limited partnership interests. The Amendment also provides that future amendments to the Limited Partnership Agreement may be made only upon the consent of the general partners and at least seventy five percent (75%) of the interests of the limited partners. Consent of at least 75% of the interests of the limited partners will also be required to remove a general partner pursuant to the Amendment.

Effective November 30, 2010, the general and limited partners of Justice Investors entered into an Amended and Restated Agreement of Limited Partnership, which was approved and ratified by more than 98% of the limited partnership interests of Justice. The Partnership Agreement was amended and restated in its entirety to comply with the new provisions of the California Corporations Code known as the "Uniform Limited Partnership Act of 2008". The amendment did not result in any material modifications of the rights or obligations of the general and limited partners.

New General Partner Compensation Agreement

Concurrent with the December 2008 Amendment to the Limited Partnership Agreement, a new General Partner Compensation Agreement (the "Compensation Agreement") was entered into on December 1, 2008, among Justice, Portsmouth and Evon to terminate and supersede all prior compensation agreement for the general partners. Pursuant to the Compensation Agreement, the general partners of Justice are entitled to receive an amount equal to 1.5% of the gross annual revenues of the Partnership (as defined), less $75,000 to be used as a contribution toward the cost of Justice engaging an asset manager. In no event shall the annual compensation be less than a minimum base of approximately $285,000, with eighty percent (80%) of that amount being allocated to Portsmouth for itsservices as managing general partner and twenty percent (20%) allocated to Evon as the co-general partner. Compensation earned by the general partners in each calendar year in excess of the minimum base, will be payable in equal fifty percent (50%) shares to Portsmouth and Evon. During the years ended June 30, 2011 and 2010, the general partners were paid approximately $468,000 and $417,000 respectively, under the applicable compensation agreements. Of those amounts, approximately $323,000 and $264,000 was paid to Portsmouth for fiscal 2011 and 2010.

Comstock Mining, Inc. Debt Restructuring

On October 20, 2010, as part of a debt restructuring of one of its investments, the Company exchanged approximately $13,231,000 in notes, convertible notes and debt instruments that it held in Comstock Mining, Inc. ("Comstock" – OTCBB: LODE)) for 13,231 shares ($1,000 stated value) of newly created 7 1/2% Series A-1 Convertible Preferred Stock (the "A-1 Preferred") of Comstock. Prior to the exchange, those notes and convertible debt instruments had a carrying value of $1,809,000, net of impairment adjustments. The Company accounted for the transaction as an exchange of its debt securities and recorded the new instruments (A-1 Preferred) received based on their fair value. The Company estimated the fair value of the A-1 Preferred at $1,000 per share, which was the stated value of the instrument, for a total of $13,231,000. The fair value of the A-1 Preferred had a similar value to the Series B preferred stock financing (stated value of $1,000 per share) by which Comstock concurrently raised $35.7 million in new capital from other investors in October 2010. For the fiscal year ended June 30, 2011, the Company recorded an unrealized gain of $11,422,000 related to the preferred stock received as part of the debt restructuring.

Sales and Purchases of Properties

In January 2011, the Company sold its 132-unit apartment complex located in San Antonio, Texas for $5,500,000 and recognized a gain on the sale of real estate of $3,290,000. The Company received net proceeds of $2,030,000 after selling costs and the pay-off of the related outstanding mortgage note payable of $3,215,000. The proceeds were placed with a third party accommodator for the purpose of executing a Section 1031 tax-deferred exchange for another property. In April 2011, the Company purchased a 9-unit beachside apartment complex located in Marina Del Rey, California for $4,000,000 to effectuate that exchange. As part of the purchase, the Company obtained a mortgage note payable in the amount of $1,487,000. The interest rate on the loan is fixed at 5.60% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in May 2021.

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HILTON HOTELS FRANCHISE LICENSE AGREEMENT

On December 10, 2004, the Partnership entered into a Franchise License Agreement with Hilton Hotels Corporation (the “Franchise Agreement”) for the right to operate the Hotel as a Hilton brand hotel. The term of the Franchise Agreement is for 15 years commencing on the opening date of the Hotel, January 12, 2006, with an option to extend that Agreement for another five years, subject to certain conditions.

Pursuant to the Franchise Agreement, the Partnership paid monthly royalty fees for the first two years of three percent (3%) of the Hotel’s gross room revenue, as defined, for the preceding calendar month; the third year was at four percent (4%) of the Hotel’s gross room revenue; and the fourth year until the end of the term will be five percent (5%) of the Hotel’s gross room revenue. Justice also pays a monthly program fee of four percent (4%) of the Hotel’s gross room revenue. The amount of the monthly program fee is subject to change; however, the increase cannot exceed one percent (1%) of the Hotel gross room revenue in any calendar year, and the cumulative increases in the monthly fees will not exceed five percent (5%) of gross room revenue. The Partnership also pays a monthly information technology recapture charge of 0.75% of the Hotel’s gross revenue. Due to the difficult economic environment, Hilton agreed to reduce its information technology fees to 0.65% for the 2010 calendar year.

Prior to operating the Hotel as a Hilton hotel, the Partnership was required to make substantial renovations to the Hotel to meet Hilton standards in accordance with a product improvement plan (“PIP”) agreed upon by Hilton and the Partnership, as well as comply with other brand standards. That project included a complete renovation and upgrade of all of the Hotel’s guestrooms, meeting rooms, common areas and restaurant and bar. As of January 12, 2006, the Hotel renovation work was substantially completed, at which time Justice obtained approval from Hilton to open the Hotel as the “Hilton San Francisco Financial District”. The Hotel opened with a limited number of rooms available to rent, which increased as the Hotel transitioned into full operations by the end of February 2006.

The total cost of the construction-renovation project of the Hotel was approximately $37,030,000, which includes approximately $630,000 in interest costs incurred during the construction phase that were capitalized. To meet those substantial financial commitments, and the costs of operations during the renovation period and for the first five months when the Hotel ramped up its operations, the Partnership has relied on additional borrowings to meet its obligations. As discussed in Item 2. Properties, the Partnership was able to secure adequate financing, collateralized by the Hotel, to meet those commitments.

HOTEL MANAGEMENT COMPANY AGREEMENT

In February 2007, the Partnership terminated its prior hotel management agreement with Dow Hotel Company and entered into a management agreement with Prism Hospitality (“Prism”) to manage and operate the Hotel as its agent, effective February 10, 2007. Prism is an experienced Hilton approved operator of upscale and luxury hotels throughout the Americas. The agreement is effective for a term of ten years, unless the agreement is extended as provided in the agreement, and the Partnership has the right to terminate the agreement upon ninety days written notice without further obligation. Under the management agreement, the Partnership is to pay base management fees of 2.5% of gross operating revenues for the fiscal year. However, 0.75% of the stated management fee is due only if the partially adjusted net operating income for the subject fiscal year exceeds the amount of a minimum Partnership’s return ($7 million) for that fiscal year. Prism is also entitled to an incentive management fee if certain milestones are accomplished. No incentive fees were earned during the fiscal years ended June 30, 2011 and 2010. In support of the Partnership’s efforts to reduce costs in this difficult economic environment, Prism agreed to reduce its management fees by fifty percent from January 1, 2009 through December 31, 2010, after which the original fee provision went back into effect. Management fees paid to Prism during the years ended June 30, 2011 and 2010 were $469,000 and $246,000, respectively.

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GARAGE OPERATIONS

As discussed above, until September 30, 2008, the garage portion of the Hotel property was leased by the Partnership to Evon. Effective October 1, 2008, Justice and Evon entered into an Installment Sale Agreement whereby the Partnership purchased all of Evon’s right title and interest in the remaining term of its lease of the parking garage, which was to expire on November 30, 2010, and other related assets. The Partnership also agreed to assume Evon’s contract with Ace Parking Management, Inc. (“Ace Parking”) for the management of the garage and any other liabilities related to the operation of the garage commencing October 1, 2008.

The garage is currently operated by Ace Parking for the Partnership pursuant to a Parking Facilities Management Agreement (the “Parking Agreement”). The initial term of the Parking Agreement was to expire on October 31, 2010, with an option to renew for another five-year term. Pursuant to that agreement, the Partnership paid Ace Parking a management fee of $2,000 per month, an accounting fee equal to $250 per month, plus “Excess Profit Fee” equal to three percent (3%) of annual net profits in excess of $150,000.

On October 31, 2010, Justice Investors and Ace Parking entered into an amendment of the Parking Agreement to extend the term for a period of sixty two (62) months, commencing on November 1, 2010 and terminating December 31, 2015, subject to either party’s right to terminate the agreement without cause on ninety (90) days written notice. The monthly management fee of $2,000 and the accounting fee of $250 remain the same, but the amendment modified how the Excess Profit Fee to be paid to Ace would be calculated. The amendment provides that, if net operating income (“NOI”) from the garage operations exceeds $1,800,000 but is less than $2,000,000, Ace will be entitled to an Excess Profit Fee of one percent (1%) of the total annual NOI. If the annual NOI is $2,000,000 or higher, Ace will be entitled to an Excess Profit Fee equal to two percent (2%) of the total annual NOI.

TRUSPA LEASE

Approximately 5,400 square feet of space on the lobby level of the Hotel is leased to Tru Spa for the operation of a health and beauty spa. The lease expires in May 2013, with a five year option to extend the term. The spa lease provides for minimum monthly rent of $14,000. Minimum rental amounts are subject to adjustment every three years based on increases in the Consumer Price Index.

CHINESE CULTURE FOUNDATION LEASE

On March 15, 2005, the Partnership entered into an amended lease with the Chinese Culture Foundation of San Francisco (the “Foundation”) for the third floor space of the Hotel commonly known as the Chinese Cultural Center, which the Foundation had right to occupy pursuant to a 50-year nominal rent lease.

The amended lease requires the Partnership to pay to the Foundation a monthly event space fee in the amount of $5,000, adjusted annually based on the local Consumer Price Index. The term of the amended lease expires on October 17, 2023, with an automatic extension for another 10 year term if the property continues to be operated as a hotel. This amendment allowed Justice to incorporate the third floor into the renovation of the Hotel resulting in a new ballroom for the joint use of the Hotel and new offices and a gallery for the Chinese Culture Center.

RENTAL PROPERTIES

At June 30, 2011, the Company's investment in real estate consisted of properties located throughout the United States, with a concentration in Texas and Southern California. These properties include eighteen apartment complexes, two single-family houses as strategic investments and two commercial real estate properties. All properties are operating properties.   In addition to the properties, the Company owns approximately 4.1 acres of unimproved real estate in Texas and 2 acres of unimproved land in Maui, Hawaii.

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MANAGEMENT OF RENTAL PROPERTIES

The Company may engage third party management companies as agents to manage certain of Company's residential rental properties.

The Company entered into a Management Agreement with Century West Properties, Inc. ("Century West") to act as an agent of the Company to rent and manage all of the Company's residential rental properties in the Los Angeles, California area. The Management Agreement with Century West was for an original term of twelve months ending on July 31, 2006 and continues on a month-to-month basis, until terminated upon 30 days prior written notice. The Management Agreement provides for a monthly fee equal to 4% of the monthly gross receipts from the properties with resident managers and a fee of 4 1/2% of monthly gross receipts for properties without resident managers. During the years ended June 30, 2011 and 2010, the management fees were $161,000 and $142,000, respectively.

The Company's five remaining properties located outside of California are managed directly by the Company

MARKETABLE SECURITIES INVESTMENT POLICIES

In addition to its Hotel and real estate operations, the Company also invests from time to time in income producing instruments, corporate debt and equity securities, publically traded investment funds, mortgage backed securities, securities issued by REIT's and other companies which invest primarily in real estate.

The Company's securities investments are made under the supervision of a Securities Investment Committee of the Board of Directors. The Committee currently has three members and is chaired by the Company's Chairman of the Board and President, John V. Winfield. The Committee has delegated authority to manage the portfolio to the Company's Chairman and President together with such assistants and management committees he may engage. The Committee has established investment guidelines for the Company's investments. These guidelines presently include: (i) corporate equity securities should be listed on the New York Stock Exchange (NYSE), NYSE ARCA, American Stock Exchange (AMEX) or the Nasdaq Stock Market (NASDAQ); (ii) securities should be priced above $5.00 per share; and (iii) investment in a particular issuer should not exceed 5% of the market value of the total portfolio. The investment policies do not require the Company to divest itself of investments, which initially meet these guidelines but subsequently fail to meet one or more of the investment criteria. Non-conforming investments require the approval of the Securities Investment Committee. The Committee has in the past approved non-conforming investments and may in the future approve non-conforming investments. The Securities Investment Committee may modify these guidelines from time to time.

The Company may also invest, with the approval of the Securities Investment Committee, in unlisted securities, such as convertible notes, through private placements including private equity investment funds. Those investments in non-marketable securities are carried at cost on the Company's balance sheet as part of other investments and reviewed for impairment on a periodic basis. As of June 30, 2011, the Company had other investments of $17,285,000.

As part of its 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. As of June 30, 2011, the Company had obligations for securities sold (equities short) of $674,000.

In addition, 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 and is subject to any internal investment guidelines, which may be imposed by the Securities

Investment Committee. The margin used by the Company may fluctuate depending on market conditions. The use of leverage could be viewed as risky and the market values of the portfolio may be subject to large fluctuations. As of June 30, 2011, the Company had a margin balance of $9,454,000 and incurred $547,000 and $435,000 in margin interest expense during the year ended June 30, 2011 and 2010, respectively.

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As Chairman of the Securities Investment Committee, the Company's President and Chief Executive officer, John V. Winfield, directs the investment activity of the Company in public and private markets pursuant to authority granted by the Board of Directors. Mr. Winfield also serves as Chief Executive Officer and Chairman of Santa Fe and Portsmouth and oversees the investment activity of those companies. Depending on certain market conditions and various risk factors, the Chief Executive Officer, his family, Santa Fe and Portsmouth 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 Santa Fe and Portsmouth, at risk in connection with investment decisions made on behalf of the Company.

Further information with respect to investment in marketable securities and other investments of the Company is set forth in Management Discussion and Analysis of Financial Condition and Results of Operations section and Notes 6 and 7 of the Notes to Consolidated Financial Statements.

Seasonality

Hotel's operations historically have been seasonal. Like most hotels in the San Francisco area, the Hotel generally maintains higher occupancy and room rates during the first and second quarters of its fiscal year (July 1 through December 31) than it does in the third and fourth quarters (January 1 through June 30). These seasonal patterns can be expected to cause fluctuations in the quarterly revenues from the Hotel.

Competition - Hotel

The hotel industry is highly competitive. Competition is based on a number of factors, most notably convenience of location, brand affiliation, price, range of services and guest amenities or accommodations offered and quality of customer service. Competition is often specific to the individual market in which properties are located.

The Hotel is located in an area of intense competition from other hotels in the Financial District and San Francisco in general. After being closed for more than seven months for a substantial renovation project in fiscal year 2006, it has taken some time for the Hotel, now operating as a Hilton, to gain recognition as a totally upgraded and higher level property after being under the Holiday Inn brand for almost 35 years. The Hotel is also somewhat limited by having only 15,000 square feet of meeting room space. Other hotels, with greater meeting room space, may have a competitive advantage by being able to attract larger groups and small conventions. Increased competition from new hotels, or hotels that have been recently undergone substantial renovation, could have an adverse effect on occupancy, average daily rate ("ADR") and room revenue per available room ("RevPar") and put pressure on the Partnership to make additional capital improvements to the Hotel to keep pace with the competition.

The Hotel's target market is business travelers, leisure customers and tourists, and small to medium size groups. Since the Hotel operates in an upper scale segment of the market, we also face increased competition from providers of less expensive accommodations, such as limited service hotels, during periods of economic downturn when leisure and business travelers become more sensitive to room rates. Like other hotels, we have experienced a decrease in some higher rated corporate and business travel as many companies have cut their travel and entertainment budgets in response to economic conditions. As a result, there is added pressure on all hotels in the San Francisco market to lower room rates in an effort to maintain occupancy levels during such periods. Although we have seen some signs of recovery in the San Francisco market during the 2011 fiscal year, like all hotels, we will remain subject to the uncertain domestic and global economic environment.

In this highly competitive market, management has continued to focus on ways to enhance the guest experience as well as improve operating efficiencies. During the last two fiscal years, the Hotel has upgraded its guest rooms with newer flat panel televisions systems that provide guests with greater entertainment options. The Hotel has also installed many energy saving controls and devices as part of its efforts to become greener and reduce operating costs. Currently, we are working on a new executive lounge on the 26th floor of the Hotel that is expected to open in early October 2011. We have also taken steps to improve out internet connectivity throughout the Hotel and will be providing more technological amenities for our guests. Management will continue to explore new and innovative ways to improve operations and to attract new guests to the Hotel at higher room rates.

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The Hotel is also subject to certain operating risks common to all of the hotel industry, which could adversely impact performance. These risks include:

- Competition for guests and meetings from other hotels including competition and pricing pressure from internet wholesalers and distributors;
- increases in operating costs, including wages, benefits, insurance, property taxes and energy, due to inflation and other factors, which may not be offset in the future by increased room rates;
- labor strikes, disruptions or lock outs;
- dependence on demand from business and leisure travelers, which may fluctuate and is seasonal;
- increases in energy costs, cost of fuel, airline fares and other expenses related to travel, which may negatively affect traveling;
- terrorism, terrorism alerts and warnings, wars and other military actions, pandemics or other medical events or warnings which may result in decreases in business and leisure travel; and
- adverse effects of downturns and recessionary conditions in international, national and/or local economies and market conditions.

Competition – Rental Properties

The ownership, operation and leasing of multifamily rental properties are highly competitive. The Company competes with domestic and foreign financial institutions, other REITs, life insurance companies, pension trusts, trust funds, partnerships and individual investors. In addition, The Company competes for tenants in markets primarily on the basis of property location, rent charged, services provided and the design and condition of improvements. The Company also competes with other quality apartment owned by public and private companies. The number of competitive multifamily properties in a particular market could adversely affect the Company's ability to lease its multifamily properties, as well as the rents it is able to charge. In addition, other forms of residential properties, including single family housing and town homes, provide housing alternatives to potential residents of quality apartment communities or potential purchasers of for-sale condominium units. The Company competes for residents in its apartment communities based on resident service and amenity offerings and the desirability of the Company's locations. Resident leases at the Company's apartment communities are priced competitively based on market conditions, supply and demand characteristics, and the quality and resident service offerings of its communities.

Environmental Matters

In connection with the ownership of the Hotel, the Company is subject to various federal, state and local laws, ordinances and regulations relating to environmental protection. Under these laws, a current or previous owner or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on, under or in such property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous or toxic substances.

Environmental consultants retained by the Partnership or its lenders conducted updated Phase I environmental site assessments in fiscal year ended June 30, 2008 on the Hotel property. These Phase I assessments relied, in part, on Phase I environmental assessments prepared in connection with the Partnership's first mortgage loan obtained in July 2005. Phase I assessments are designed to evaluate the potential for environmental contamination on properties based generally upon site inspections, facility personnel interviews, historical information and certain publicly-available databases; however, Phase I assessments will not necessarily reveal the existence or extent of all environmental conditions, liabilities or compliance concerns at the properties.

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Although the Phase I assessments and other environmental reports we have reviewed disclose certain conditions on our properties and the use of hazardous substances in operation and maintenance activities that could pose a risk of environmental contamination or liability, we are not aware of any environmental liability that we believe would have a material adverse effect on our business, financial position, results of operations or cash flows.

The Company believes that the Hotel and its rental properties are in compliance, in all material respects, with all federal, state and local environmental ordinances and regulations regarding hazardous or toxic substances and other environmental matters, the violation of which could have a material adverse effect on the Company. The Company has not received written notice from any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of its present properties.

EMPLOYEES

As of June 30, 2011, the Company had a total of 8 full-time employees in its corporate office. Effective July 2002, the Company entered into a client service agreement with Insperity, formerly Administaff Companies II, L.P. ("Insperity"), a professional employer organization serving as an off-site, full service human resource department for its corporate office. Insperity personnel management services are delivered by entering into a co-employment relationship with the Company's employees. There are also approximately 31 employees at the Company's properties outside of the State of California that are subject to similar co-employment relationships with Insperity. The employees and the Company are not party to any collective bargaining agreement, and the Company believes that its employee relations are satisfactory.

Employees of Justice and management of the Hotel are not unionized and the Company believes that their relationships with the Hotel are satisfactory and consistent with the market in San Francisco. Most of the non-management employees of the Hotel are part of Local 2 of the Hotel Employees and Restaurant Employees Union ("UNITE HERE"); Stationary Engineers, Local 39; and the Teamsters Local 856. The Hotel's contract with Local 2 expired on August 14, 2009. While Local 2 has sent a statutory letter to the Hotel to open negotiations, limited substantive discussions between the Hotel and union representatives have commenced to date. At this time, no disruptions to the operations of the Hotel have occurred and/or are expected resulting from the expired union contract and the unresolved contract negotiations. We expect substantive negotiations to begin in the near future.

The Hotel has two other labor agreements. An extension agreement with Stationary Engineers, Local 39 was tentatively agreed to in May 2011 with an effective date retroactive to January 11, 2011, and an expiration date of July 31, 2013. A new contract with Teamsters Local 856 was reached on March 10, 2011 with an effective date retroactive to January 1, 2011, and an expiration date of December 31, 2012.

ADDITIONAL INFORMATION

The Company files annual and quarterly reports on Forms 10-K and 10-Q, current reports on Form 8-K and other information with the Securities and Exchange Commission ("SEC" or the "Commission"). The public may read and copy any materials that we file with the Commission at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC20549, on official business days during the hours of 10:00 a.m. to 3:00 p.m. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission also maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission.

Other information about the Company can be found its website www.intgla.com. Reference in this document to that website address does not constitute incorporation by reference of the information contained on the website.

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Item 1A. Risk Factors.

Not required for smaller reporting companies.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

SAN FRANCISCO HOTEL PROPERTY

The Hotel is owned directly by the Partnership. The Hotel is centrally located near the Financial District in San Francisco, one block from the Transamerica Pyramid. The EmbarcaderoCenter is within walking distance and NorthBeach is two blocks away. Chinatown is directly across the bridge that runs from the Hotel to PortsmouthSquarePark. The Hotel is a 31-story (including parking garage), steel and concrete, A-frame building, built in 1970. The Hotel has 544 well-appointed guest rooms and luxury suites situated on 22 floors as well as a 5,400 square foot Tru Spa health and beauty spa on the lobby level. The third floor houses the ChineseCultureCenter and grand ballroom. The Hotel has approximately 15,000 square feet of meeting room space, including the grand ballroom. Other features of the Hotel include a 5-level underground parking garage and pedestrian bridge across Kearny Street connecting the Hotel and the ChineseCultureCenter with PortsmouthSquarePark in Chinatown. The bridge, built and owned by the Partnership, is included in the lease to the ChineseCultureCenter.

Since the Hotel just completed renovations, there is no present program for any further major renovations; however, the Partnership expects to reserve approximately 4% of gross annual Hotel revenues each year for future capital requirements. In the opinion of management, the Hotel is adequately covered by insurance.

HOTEL FINANCINGS

On July 27, 2005, Justice entered into a first mortgage loan with The Prudential Insurance Company of America in a principal amount of $30,000,000 (the “Prudential Loan”). The term of the Prudential Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Prudential Loan calls for monthly installments of principal and interest in the amount of approximately $165,000, calculated on a 30-year amortization schedule. The Loan is collateralized by a first deed of trust on the Partnership’s Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Prudential Loan is without recourse to the limited and general partners of Justice. The principal balance of the Prudential Loan was $27,176,000 as of June 30, 2011.

On March 27, 2007, Justice entered into a second mortgage loan with Prudential (the “Second Prudential Loan”) in a principal amount of $19,000,000. The term of the Second Prudential Loan is for approximately 100 months and matures on August 5, 2015, the same date as the first Prudential Loan. The Second Prudential Loan is at a fixed interest rate of 6.42% per annum and calls for monthly installments of principal and interest in the amount of approximately $119,000, calculated on a 30-year amortization schedule. The Second Prudential Loan is collateralized by a second deed of trust on the Partnership’s Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Second Prudential Loan is also without recourse to the limited and general partners of Justice. The principal balance of the Second Prudential Loan was $18,003,000 as of June 30, 2011.

The Partnership had a $2,500,000 unsecured revolving line of credit facility with a bank that was to mature on April 30, 2010. Borrowings under that line of credit bore interest at Prime plus 3.0% per annum or based on the Wall Street

Journal Prime Rate (3.25%) plus 3.0% per annum, floating, (but subject to a minimum floor rate at 5.0% per annum). Borrowings under the line of credit were subject to certain financial covenants, which are measured annually at June 30th and December 31st based on the credit arrangement. Effective April 29, 2010, the Partnership obtained a modification from the bank which converted its revolving line of credit facility to a term loan. The Partnership also obtained a waiver of any prior noncompliance with financial covenants.

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The modification provides that Justice will pay the $2,500,000 balance on its line of credit facility over a period of four years, to mature on April 30, 2014. This term loan calls for monthly principal and interest payments of $41,000, calculated on a six-year amortization schedule, with interest only from May 1, 2010 to August 31, 2010. Pursuant to the modification, the annual floating interest rate was reduced by 0.5% to the WSJ Prime Rate plus 2.5% (with a minimum floor rate of 5.0% per annum). The modification provides for new financial covenants that include specific financial ratios and a return to minimum profitability after June 30, 2011. Management believes that the Partnership has the ability to meet the specific covenants and the Partnership was in compliance with the covenants as of June 30, 2011. The Partnership paid a loan modification fee of $10,000. The loan continues as unsecured. As of June 30, 2011 and June 30, 2010, the interest rate was 5.75% and the outstanding balances were $2,202,000 and $2,500,000, respectively.

RENTAL PROPERTIES

At June 30, 2011, the Company's investment in real estate consisted of properties located throughout the United States, with a concentration in Texas and Southern California. These properties include eighteen apartment complexes, two single-family houses as strategic investments and two commercial real estate properties. All properties are operating properties. In addition to the properties, the Company owns approximately 4.1 acres of unimproved real estate in Texas and 2 acres of unimproved land in Maui, Hawaii.

In the opinion of management, each of the properties is adequately covered by insurance. None of the properties are subject to foreclosure proceedings or litigation, other than such litigation incurred in the normal course of business. The Company's rental property leases are short-term leases, with no lease extending beyond one year.

Las Colinas, Texas. The Las Colinas property is a water front apartment community along Beaver Creek that was developed in 1993 with 358 units on approximately 15.6 acres of land. The Company acquired the complex on April 30, 2004 for approximately $27,145,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 27.5 years. Real estate property taxes for the year ended June 30, 2011 were approximately $553,000. The outstanding mortgage balance was approximately $18,051,000 at June 30, 2011 and the maturity date of the mortgage is May 1, 2013.

Morris County, New Jersey. The Morris County property is a two-story garden apartment complex that was completed in June 1964 with 151 units on approximately 8 acres of land. The Company acquired the complex on September 15, 1967 at an initial cost of approximately $1,600,000. Real estate property taxes for the year ended June 30, 2011 were approximately $206,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $9,220,000 at June 30, 2011 and the maturity date of the mortgage is May 1, 2013.

St. Louis, Missouri. The St. Louis property is a two-story project with 264 units on approximately 17.5 acres. The Company acquired the complex on November 1, 1968 at an initial cost of $2,328,000. For the year ended June 30, 2011, real estate property taxes were approximately $165,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $5,878,000 at June 30, 2011 and the maturity date of the mortgage is May 29, 2013.

Florence, Kentucky. The Florence property is a three-story apartment complex with 157 units on approximately 6.0 acres. The Company acquired the property on December 20, 1972 at an initial cost of approximately $1,995,000. For the year ended June 30, 2011, real estate property taxes were approximately$50,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $3,950,000 at June 30, 2011 and the maturity date of the mortgage is July 1, 2014.

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Austin, Texas. The Austin property is a two-story project with 249 units on approximately 7.8 acres. The Company acquired the complex with 190 units on November 18, 1999 for $4,150,000. The Company also acquired an adjacent complex with 59 units on January 8, 2002 for $1,681,000. For the year ended June 30, 2011, real estate taxes were approximately $147,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $7,041,000 at June 30, 2011 and the maturity date of the mortgage is July 1, 2023. The Company also owns approximately 4.1 acres of unimproved land adjacent to this property.

Los Angeles, California. The Company owns two commercial properties, thirteen apartment complexes, and two single-family houses in the general area of West Los Angeles.

The first Los Angeles commercial property is a 5,500 square foot, two story building that served as the Company's corporate offices until it was leased out, effective October 1, 2009 and the Company leased a new space for its corporate office. The Company acquired the building on March 4, 1999 for $1,876,000. The property taxes for the year ended June 30, 2011 were approximately $29,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $1,118,000 at June 30, 2011 and the maturity date of the mortgage is March 25, 2014.

The second Los Angeles commercial property is a 5,900 square foot commercial building. The Company acquired the building on September 15, 2000 for $1,758,000. The property taxes for the year ended June 30, 2011 were approximately $14,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $627,000 at June 30, 2011 and the maturity date of the mortgage is December 15, 2013.

The first Los Angeles apartment complex is a 10,600 square foot two-story apartment with 12 units. The Company acquired the property on July 30, 1999 at an initial cost of approximately $1,305,000. For the year ended June 30, 2011, real estate property taxes were approximately $20,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $934,000 at June 30, 2011 and the maturity date of the mortgage is December 1, 2018.

The second Los Angeles apartment complex is a 29,000 square foot three-story apartment with 27 units. This complex is held by Intergroup Woodland Village, Inc. ("Woodland Village"), which is 55.4% and 44.6% owned by Santa Fe and the Company, respectively. The property was acquired on September 29, 1999 at an initial cost of approximately $4,075,000. For the year ended June 30, 2011, real estate property taxes were approximately $59,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $3,236,000 at June 30, 2011 and the maturity date of the mortgage is December 1, 2020.

The third Los Angeles apartment complex is a 12,700 square foot apartment with 14 units. The Company acquired the property on October 20, 1999 at an initial cost of approximately $2,150,000. For the year ended June 30, 2011, real estate property taxes were approximately $34,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $1,850,000 at June 30, 2011 and the maturity date of the mortgage is March 1, 2021.

The fourth Los Angeles apartment complex is a 10,500 square foot apartment with 9 units. The Company acquired the property on November 10, 1999 at an initial cost of approximately $1,675,000. For the year ended June 30, 2011, real estate property taxes were approximately $27,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $1,262,000 at June 30, 2011 and the maturity date of the mortgage is March 1, 2021.

The fifth Los Angeles apartment complex is a 26,100 square foot two-story apartment with 31 units. The Company acquired the property on May 26, 2000 at an initial cost of approximately $7,500,000. For the year ended June 30, 2011, real estate property taxes were approximately $102,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $5,745,000 at June 30, 2011 and the maturity date of the mortgage is December 1, 2020.

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The sixth Los Angeles apartment complex is a 27,600 square foot two-story apartment with 30 units. The Company acquired the property on July 7, 2000 at an initial cost of approximately $4,411,000. For the year ended June 30, 2011, real estate property taxes were approximately $69,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. In June 2003, the operations of this property stopped and in December 2003, major renovations of the property began. In May 2004, the Company obtained a construction loan in the amount of $6,268,000 as part of a major renovation. In July 2006, the renovation of the property was completed and renting of the apartments commenced. In August 2007, the construction loan was refinanced to a note payable. The outstanding mortgage balance was approximately $6,699,000 at June 30, 2011 and the maturity date of the mortgage is September 1, 2022.

The seventh Los Angeles apartment complex is a 3,000 square foot apartment with 4 units. The Company acquired the property on July 19, 2000 at an initial cost of approximately $1,070,000. For the year ended June 30, 2011, real estate property taxes were approximately $16,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $390,000 at June 30, 2011 and the maturity date of the mortgage is August 1, 2030.

The eighth Los Angeles apartment complex is a 4,500 square foot two-story apartment with 4 units. The Company acquired the property on July 28, 2000at an initial cost of approximately $1,005,000. For the year ended June 30, 2011, real estate property taxes were approximately $16,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $657,000 at June 30, 2011 and the maturity date of the mortgage is December 1, 2018.

The ninth Los Angeles apartment complex is a 7,500 square foot apartment with 7 units. The Company acquired the property on August 9, 2000 at an initial cost of approximately $1,308,000. For the year ended June 30, 2011, real estate property taxes were approximately $21,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $965,000 at June 30, 2011 and the maturity date of the mortgage is December 1, 2018.

The tenth Los Angeles apartment complex is a 32,800 square foot two-story apartment with 24 units. The Company acquired the property on March 8, 2001 at an initial cost of approximately $2,859,000. For the year ended June 30, 2011, real estate property taxes were approximately $45,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $1,540,000 at June 30, 2011 and the maturity date of the mortgage is April 1, 2031.

The eleventh Los Angeles apartment complex is a 13,000 square foot two-story apartment with 8 units. The Company acquired the property on May 1, 2001 at an initial cost of approximately $1,206,000. For the year ended June 30, 2011, real estate property taxes were approximately $19,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $506,000 at June 30, 2011 and the maturity date of the mortgage is November 1, 2029.

The twelfth Los Angeles apartment complex, which is owned 100% by the Company's subsidiary Santa Fe, is a 4,200 square foot two-story apartment with 2 units. Santa Fe acquired the property on February 1, 2002 at an initial cost of approximately $785,000. For the year ended June 30, 2011, real estate property taxes were approximately $11,000. Depreciation is recorded on the straight-line method based upon an estimated useful Life of 40 years. The outstanding mortgage balance was approximately $398,000 at June 30, 2011 and the maturity date of the mortgage is January 18, 2032.

The thirteenth apartment which is located in Marina del Rey, California, is a 6,316 square foot two-story apartment with 9 units. The Company acquired the property on April 29, 2011 at an initial cost of approximately

$4,000,000. The annual real estate tax is estimated to be approximately $54,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 27.5 years. The outstanding mortgage balance was approximately $1,485,000 at June 30, 2011 and the maturity date of the mortgage is May 1, 2021.

The first Los Angeles single-family house is a 2,771 square foot home. The Company acquired the property on November 9, 2000 at an initial cost of approximately $660,000. For the year ended June 30, 2011, real estate property taxes were approximately $10,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $426,000 at June 30, 2011 and the maturity date of the mortgage is December 1, 2030.

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The second Los Angeles single-family house is a 2,201 square foot home. The Company acquired the property on August 22, 2003 at an initial cost of approximately $700,000. For the year ended June 30, 2011, real estate property taxes were approximately $12,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $459,000 at June 30, 2011 and the maturity date of the mortgage is November 1, 2033.

In August 2004, the Company purchased an approximately two acre parcel of unimproved land in Kihei, Maui, Hawaii for $1,467,000. The Company intends to obtain the entitlements and permits necessary for the joint development of the parcel with an adjoining landowner into residential units. After the completion of this predevelopment phase, the Company will determine whether it more advantageous to sell the entitled property or to commence with construction. Due to current economic conditions, the project is on hold.

MORTGAGES

Further information with respect to mortgage notes payable of the Company is set forth in Note 11 of the Notes to Consolidated Financial Statements.

ECONOMIC AND PHYSICAL OCCUPANCY RATES

The Company leases units in its residential rental properties on a short-term basis, with no lease extending beyond one year. The economic occupancy (gross potential less rent below market, vacancy loss, bad debt, discounts and concessions divided by gross potential rent) and the physical occupancy(gross potential rent less vacancy loss divided by gross potential rent) for each of the Company's operating properties for fiscal year ended June 30, 2011 are provided below.

Property	Economic Occupancy		Physical Occupancy	
1. Las Colinas,TX	62	%	85	%
2. Morris County, NJ	83	%	95	%
3. St. Louis, MO	68	%	76	%
4. Florence, KY	77	%	91	%
5. Austin, TX	66	%	88	%
6. Los Angeles, CA (1)	75	%	98	%
7. Los Angeles, CA (2)	70	%	99	%
8. Los Angeles, CA (3)	89	%	95	%
9. Los Angeles, CA (4)	87	%	97	%
10. Los Angeles, CA (5)	71	%	99	%
11. Los Angeles, CA (6)	72	%	92	%
12. Los Angeles, CA (7)	88	%	96	%
13. Los Angeles, CA (8)	87	%	99	%
14. Los Angeles, CA (9)	83	%	95	%
15. Los Angeles, CA (10)	79	%	95	%
16. Los Angeles, CA (11)	85	%	95	%
17. Los Angeles, CA (12)	85	%	93	%
18. Marina del Rey (13)	*		*	

* Purchased in April 2011.

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The Company's Los Angeles, California properties are subject to various rent control laws, ordinances and regulations which impact the Company's ability to adjust and achieve higher rental rates.

The Company's two commercial properties in Los Angeles, California are fully leased to two respective tenants. The first commercial building lease ends in November of 2011 with the tenant having the option to extend the lease for another five years. The second commercial building lease ends in September 2016.

Item 3. Legal Proceedings.

The Company is not subject to any legal proceedings requiring disclosure.

Item 4. (Removed and Reserved).

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

MARKET INFORMATION

The Company's Common Stock is listed and trades on the NASDAQ Capital Market tier of the NASDAQ Stock Market, LLC under the symbol: "INTG". The following table sets forth the high and low sales prices for the Company's common stock for each quarter of the last two fiscal years ended June 30, 2011 and 2000 as reported by NASDAQ.

Fiscal 2011	High		Low	
First Quarter (7/ 1 to 9/30)	$	16.94	$	14.04
Second Quarter (10/1 to 12/31)	$	25.94	$	16.91
Third Quarter (1/1 to 3/31)	$	22.80	$	19.00
Fourth Quarter (4/1 to 6/30)	$	25.46	$	23.00
Fiscal 2010				
First Quarter (7/ 1 to 9/30)	$	12.01	$	7.80
Second Quarter (10/1 to 12/31)	$	11.64	$	8.35
Third Quarter (1/1 to 3/31)	$	11.34	$	8.50
Fourth Quarter (4/1 to 6/30)	$	16.24	$	10.86

As of September 13, 2011, the approximate number of holders of record of the Company's Common Stock was 535.Such number of owners was determined from the Company's shareholders records and does not include beneficial owners of the Company's Common Stock whose shares are held in names of various brokers, clearing agencies or other nominees. Including beneficial holders, there are approximately 950 shareholders of the Company's Common Stock.

DIVIDENDS

The Company has not declared any cash dividends on its common stock and does not foresee issuing cash dividends in the near future.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

This information appears in Part III, Item 12 of this report.

ISSUER PURCHASES OF EQUITY SECURITIES

The Company did not make any purchases of its equity securities during the last quarter of fiscal 2011.

Item 6. Selected Financial Data.

Not required for smaller reporting companies.

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Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

The Company's principal sources of revenue continue to be derived from the investment of its 68.8% owned subsidiary, Portsmouth, in the Justice Investors limited partnership (“Justice” or the “Partnership”), rental income from its investments in multi-family real estate properties and income received from investment of its cash and securities assets. Portsmouth has a 50.0% limited partnership interest in Justice and serves as the managing general partner of Justice. Evon Corporation (“Evon”) serves as the other general partner. Justice owns the land, improvements and leaseholds at 750 Kearny Street, San Francisco, California, known as the Hilton San Francisco Financial District (the “Hotel”). The financial statements of Justice have been consolidated with those of the Company. See Note 2 to the Consolidated Financial Statements.

The Hotel is operated by the Partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. The term of the Agreement is for a period of 15 years commencing on January 12, 2006, with an option to extend the license term for another five years, subject to certain conditions. Justice also has a Management Agreement with Prism Hospitality L.P. (“Prism”) to perform the day-to-day management functions of the Hotel.

Until September 30, 2008, the Partnership also derived income from the lease of the parking garage to Evon. Effective October 1, 2008, Justice entered into an installment sale agreement with Evon to purchase the remaining term of the garage lease and related garage assets, and assumed the contract with Ace Parking for the operations of the garage. 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 and management of real estate. Properties include eighteen apartment complexes, two commercial real estate properties, 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 properties in California are managed by professional third party property management companies and the rental properties outside of California are managed by the Company. The commercial real estate in California is also managed by the Company.

The Company acquires its investments in real estate and other investments utilizing cash, securities or debt, subject to approval or guidelines of the Board of Directors. The Company also invests in income-producing instruments, equity and debt securities and will consider other investments if such investments offer growth or profit potential.

Fiscal Year Ended June 30, 2011 Compared to Fiscal Year Ended June 30, 2010

The Company had net income of $10,443,000 for the year ended June 30, 2011 compared to a net loss of $4,575,000 for the year ended June 30, 2010. The change is primarily attributable to the substantial income generated from investing activities and, to a lesser extent, the significant improvement in the operations of the hotel and the gain on the sale of real estate during the current year.

The Company had net income from hotel operations of $512,000 for the fiscal year ended June 30, 2011, compared to a net loss of $2,390,000 for the fiscal year ended June 30, 2010. The change to net income from hotel operations from a net loss is primarily attributable to a $1,280,000 decrease in depreciation and amortization expense as many of the furniture and fixture improvements from the renovation of the Hotel reached full deprecation during fiscal 2011. The

Hotel also had a significant increase in room revenues compared to the prior year.

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The following table sets forth a more detailed presentation of Hotel operations for the years ended June 30, 2011 and 2010.

For the years ended June 30,	2011	2010
Hotel revenues:		
Hotel rooms	$27,839,000	$24,848,000
Food and beverage	5,028,000	4,703,000
Garage	2,599,000	2,507,000
Other operating departments	816,000	622,000
Total hotel revenues	36,282,000	32,680,000
Operating expenses excluding interest, depreciation and amortization	(29,299,000)	(27,223,000)
Operating income before interest, depreciation and amortization	6,983,000	5,457,000
Interest	(2,806,000)	(2,902,000)
Depreciation and amortization	(3,665,000)	(4,945,000)
Net income (loss) from hotel operations	$512,000	$(2,390,000)

For the fiscal year ended June 30, 2011, the Hotel generated operating income of $6,983,000 before interest, depreciation and amortization, on total operating revenues of $36,282,000 compared to operating income of $5,457,000 before interest, depreciation and amortization, on operating revenues of $32,680,000 for the fiscal year ended June 30, 2010. The increase in income from Hotel operations is primarily attributable to increases in room, food and beverage, and other revenues in the current year, partially offset by an increase in operating expenses due to higher labor costs and increased staffing to improve guest satisfaction, as well as greater franchise and management fees which are based on a percentage of revenues.

Room revenues increased by $2,991,000 for the fiscal year ended June 30, 2011 compared to the fiscal year ended June 30, 2010 and food and beverage revenues increased by $325,000 for the same period. The increase in room revenues was primarily attributable to a significant increase in average daily room rates during fiscal 2011 as the Hotel began to see an increase in higher rated leisure, corporate and group business travel, which also resulted in higher in food and beverage revenues.

The following table sets forth the average daily room rate, average occupancy percentage and room revenue per available room (“RevPar”) of the Hotel for the fiscal years ended June 30, 2011 and 2010.

Fiscal Year ended June 30,	Average Daily Rate	Average Occupancy %	RevPar
2011	$ 163	86 %	$ 140
2010	$ 143	87 %	$ 125

The operations of the Hotel experienced an increase in the higher rated business and group travel segments in fiscal 2011 as the hospitality industry began to see some recovery. As a result, the Hotel’s average daily rate increased significantly by $20 for the fiscal year ended June 30, 2011 compared to the fiscal year ended June 30, 2010. The modest decrease in occupancy of 1% was due to the Hotel being able to reduce the amount of discounted Internet business that it was forced to take in the prior year to maintain occupancy in a very competitive market. As a result, the Hotel was able to achieve a RevPar number that was $15 higher than fiscal 2010.

During the past year we have seen our management team guide our Hotel through a difficult economic period by taking bold steps to reduce expenses and implement innovative strategies in order to improve operations and enhance our competitiveness in the market. Currently, we are working on a new executive lounge on the 26th floor of the Hotel that is expected to open in early October 2011. We have also taken actions to improve out internet connectivity throughout the Hotel and will be providing more technological amenities for our guests.

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We will continue in our efforts to upgrade our guest rooms and facilities and explore new and innovative ways to differentiate the Hotel from its competition. Moving forward, we will also focus on cultivating more international business, especially from China, and capturing a higher percentage of corporate and group travel. During the last twelve months, we have seen some improvement in business and leisure travel. If that trend in the San Francisco market and the hotel industry continues, it should translate into an increase in room revenues and profitability. However, like all hotels, we will remain subject to the uncertain domestic and global economic environment.

While operating in a highly competitive rental market, real estate operations remained relatively consistent. The Company had real estate revenues were $13,932,000 for the year ended June 30, 2011 compared with revenues of $13,738,000 for the year ended June 30, 2010. Real estate operating expenses were $7,444,000 and $7,101,000 for the comparative periods. Depreciation related to the Company's real estate operations increased to $2,646,000 for the year ended June 30, 2011 from $1,960,000 for the year ended June 30, 2010 primarily as the result of a one-time depreciation expense catch-up of $727,000 recorded in the current year due to the reclass of the Company's held for sale property from discontinued operations to continuing operations. Management continues to review and analyze the Company's real estate operations to improve occupancy and rental rates and to reduce expenses and improve efficiencies.

In January 2011, the Company sold its 132-unit apartment complex located in San Antonio, Texas for $5,500,000 and recognized a gain on the sale of real estate of $3,290,000. The Company received net proceeds of $2,030,000 after selling costs and the pay-off of the related outstanding mortgage note payable of $3,215,000. The proceeds were placed with a third party accommodator for the purpose of executing a Section 1031 tax-deferred exchange for another property. In April 2011, the Company purchased a 9-unit beachside apartment complex located in Marina Del Rey, California for $4,000,000 to effectuate that exchange. As part of the purchase, the Company obtained a 10-year mortgage note payable in the amount of $1,487,000. The interest rate on the loan is fixed at 5.60% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in May 2021.

The Company had a net gainon marketable securities of $2,675,000 for the year ended June 30, 2011 as compared to a net loss on marketable securities of $747,000 for the year ended June 30, 2010. For the year ended June 30, 2011, the Company had a net realized gain of $47,000 and a net unrealized gain of $2,628,000. For the year ended June 30, 2010, the Company had a net realized gain of $3,993,000 and a net unrealized loss of $4,740,000. Gains and losses on marketable securities and other investments 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 and other investments 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.

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. As of June 30, 2011, the Company had net other investments of $17,285,000. On October 20, 2010, as part of a debt restructuring of one of its investments, the Company exchanged approximately $13,231,000 in notes, convertible notes and debt instruments that it held in Comstock Mining, Inc. ("Comstock" – OTCBB: LODE) for 13,231 shares ($1,000 stated value) of newly created 7 1/2% Series A-1 Convertible Preferred Stock (the "A-1 Preferred") of Comstock. Prior to the exchange, those notes and convertible debt instruments had a carrying value of $1,809,000, net of impairment adjustments. The Company accounted for the transaction as an exchange of its debt securities and recorded the new instruments (A-1 Preferred) received based on their fair value. The Company estimated the fair value of the A-1 Preferred at $1,000 per share, which was the stated value of the instrument, for a total of $13,231,000. The fair value of the A-1 Preferred had a similar value to the Series B preferred stock financing (stated value of $1,000 per share) by which Comstock concurrently raised $35.7 million in new capital from other investors in October 2010. The Company recorded an unrealized gain of $11,422,000 related to the preferred stock received as part of the debt restructuring. This gain is included in the net unrealized gain on other investments on the Consolidated Statement of Operations.

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During the year ended June 30, 2011 and 2010, the Company performed an impairment analysis of its other investments and determined that one of its investments had other than temporary impairment and recorded impairment losses of $976,000 and $1,805,000, for each respective period.

Dividend and interest income increased to $1,540,000 for the year ended June 30, 2011 from $425,000 for the year ended June 30, 2010 primarily as the result of receiving a stock dividend of $845,000 from Comstock during the current year.

Margin interest and trading expenses increased to $1,577,000 for the year ended June 30, 2011 from $1,398,000 for the year ended June 30, 2010. The increase is primarily due to the increase in margin interest expense to $547,000 for the year ended June 30, 2011 from $435,000 for the year ended June 30, 2010. The increase is the result of the maintenance of higher margin balances.

During the year ended June 30, 2011, the Company had an income tax expense of $5,065,000 on both continuing and discontinued operations compared to anincome tax benefit of $1,639,000 during the year ended June 30, 2010. The effective tax rate is higher for the year ended June 30, 2011 as compared to the year ended June 30, 2010 primarily due to having income from Justice, of which 50% is taxable to Portsmouth, which resulted in a lower amount of noncontrolling interest that was reconciled against the net income of the Company for income tax calculation purposes.

MARKETABLE SECURITIES

As of June 30, 2011 and 2010, the Company had investments in marketable equity securities of $19,438,000 and $7,712,000, respectively. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as:

As of June 30, 2011 Industry Group		Fair Value	% of Total Investment Securities	
Basic materials	$	4,978,000	25.6	%
Services		3,740,000	19.2	%
Investment funds		3,358,000	17.3	%
Financial services		2,012,000	14.7	%
REITs and real estate companies		2,851,000	10.4	%
Other		2,499,000	12.8	%
	$	19,438,000	100.0	%

As of June 30, 2010 Industry Group		Fair Value	% of Total Investment Securities	
Investment funds	$	3,271,000	42.4	%
REITs		1,946,000	25.2	%
Healthcare		668,000	8.7	%
Financial services		551,000	7.1	%
Other		1,276,000	16.6	%
	$	7,712,000	100.0	%

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The Company’s investment portfolio is diversified with 73 different equity positions. The portfolio contains two individual equity security positions that are more than 5% of the total equity value of the portfolio, with the largest representing approximately 21.3% of the total equity value of the entire 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 fair value as determined by the most recently traded price of each security at the balance sheet date.

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 respective years.

For the years ended June 30,	2011	2010
Net gain (loss) on marketable securities	$2,675,000	$(747,000)
Net unrealized gain on other investments	11,565,000	181,000
Impairment loss on other investments	(976,000)	(1,805,000)
Dividend and interest income	1,540,000	425,000
Margin interest expense	(547,000)	(435,000)
Trading and management expenses	(1,030,000)	(963,000)
	$13,227,000	$(3,344,000)

FINANCIAL CONDITION AND LIQUIDITY

The Company’s cash flows are primarily generated from its Hotel operations, real estate operations and from the investment of its cash in marketable securities and other investments.

Following the temporary suspension of operations in May 2005 for major renovations, the Hotel started, and continues, to generate cash flows from its operations. As a result, Justice was able to pay some limited partnership distributions in fiscal years 2008 and 2009. However, due to the significant downturn in the San Francisco hotel market beginning in September 2008 and the continued weakness in domestic and international economies, no Partnership distributions were paid in fiscal 2011 and 2010. During such periods, the Company has to depend more on the revenues generated from the investment of its cash and marketable securities and from its general partner management fees. Since we have seen some recent improvements in the operations of the Hotel, and the San Francisco market in general, the Partnership may be in a position to consider limited partnership distributions in fiscal 2012. The general partners will continue to monitor and review the operations and financial results of the Hotel and to set the amount of any future distributions that may be appropriate based on operating results, cash flows and other factors, including establishment of reasonable reserves for debt payments and operating contingencies.

The new Justice Compensation Agreement that became effective on December 1, 2008, when Portsmouth assumed the role of managing general partner of Justice, has provided additional cash flows to the Company. Under the new Compensation Agreement, Portsmouth is now entitled to 80% of the minimum base fee to be paid to the general partners of $285,000, while under the prior agreement, Portsmouth was entitled to receive only 20% of the minimum base fee. As a result of that new agreement and the increase in Hotel gross revenues in fiscal 2011, total general partner fees paid to Portsmouth for the year ended June 30, 2011 increased to $323,000, compared to $264,000 for the year ended June 30, 2010.

To meet its substantial financial commitments for the renovation and transition of the Hotel to a Hilton, Justice had to rely on borrowings to meet its obligations. On July 27, 2005, Justice entered into a first mortgage loan with The Prudential Insurance Company of America in a principal amount of $30,000,000 (the “Prudential Loan”). The term of the Prudential Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Prudential Loan calls for monthly installments of principal and interest in the amount of approximately $165,000, calculated on a 30-year amortization schedule. The Loan is collateralized by a first deed of trust on the Partnership's Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Prudential Loan is without recourse to the limited and general partners of Justice. The principal balance of the Prudential Loan was $27,176,000 as of June 30, 2011.

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On March 27, 2007, Justice entered into a second mortgage loan with Prudential (the “Second Prudential Loan”) in a principal amount of $19,000,000. The term of the Second Prudential Loan is for 100 months and matures on August 5, 2015, the same date as the first Prudential Loan. The Second Prudential Loan is at a fixed interest rate of 6.42% per annum and calls for monthly installments of principal and interest in the amount of $119,000, calculated on a 30-year amortization schedule. The Second Prudential Loan is collateralized by a second deed of trust on the Partnership’s Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Second Prudential Loan is also without recourse to the limited and general partners of Justice. The principal balance of the Second Prudential Loan was $18,003,000 as of June 30, 2011.

Effective April 29, 2010, the Partnership obtained a modification of its $2,500,000 unsecured revolving line of credit facility with East West Bank (formerly United Commercial Bank) that was to mature on April 30, 2010, and converted that line of credit facility to an unsecured term loan. The modification provides that Justice will pay the $2,500,000 balance on its line of credit facility over a period of four years, to mature on April 30, 2014. This term loan calls for monthly principal and interest payments of $41,000, calculated on a nine-year amortization schedule, with interest only from May 1, 2010 to August 31, 2010. Pursuant to the modification, the annual floating interest rate was reduced by 0.5% to the Wall Street Journal Prime Rate plus 2.5% (with a minimum floor rate of 5.0% per annum). The modification provides for new financial covenants that include specific financial ratios and a return to minimum profitability after June 30, 2011. Management believes that the Partnership has the ability to meet the specific covenants and the Partnership was in compliance with the covenants as of June 30, 2011. As of June 30, 2011, the interest rate was 5.75% and the outstanding balance was $2,202,000.

Despite the downturns in the economy, the Hotel has continued to generate positive cash flows. While the debt service requirements related to the two Prudential loans, as well as the new term loan to pay off the line of credit, may create some additional risk for the Company and its ability to generate cash flows in the future since the Partnership’s assets had been virtually debt free for a number of years, management believes that cash flows from the operations of the Hotel and the garage will continue to be sufficient to meet all of the Partnership’s current and future obligations and financial requirements. Management also believes that there is sufficient equity in the Hotel assets to support future borrowings, if necessary, to fund any new capital improvements and other requirements.

In January 2011, the Company sold its 132-unit apartment complex located in San Antonio, Texas for $5,500,000 and recognized a gain on the sale of real estate of $3,290,000. The Company received net proceeds of $2,030,000 after selling costs and the pay-off of the related outstanding mortgage note payable of $3,215,000. The proceeds were placed with a third party accommodator for the purpose of executing a Section 1031 tax-deferred exchange for another property. In April 2011, the Company purchased a 9-unit beachside apartment complex located in Marina Del Rey, California for $4,000,000. As part of the purchase, the Company obtained a 10-year mortgage note payable in the amount of $1,487,000. The interest rate on the loan is fixed at 5.60% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in May 2021.

In February 2011, the Company refinanced its $715,000 adjustable rate mortgage note payable on its 9-unit apartment building located in Los Angeles, California for a new 10-year fixed rate mortgage in the amount of $1,265,000. The interest rate on the new loan is fixed at 5.89% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in March 2021. The Company received net proceeds of approximately $367,000 from the refinancing.

In February 2011, the Company refinanced its $958,000 adjustable rate mortgage note payable on its 14-unit apartment building located in Los Angeles, California for a new 10-year fixed rate mortgage in the amount of $1,855,000. The interest rate on the new loan is fixed at 5.89% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in March 2021. The Company received net proceeds of approximately $687,000 from the refinancing.

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In December 2010, the Company modified its $5,932,000 mortgage note payable on the property located in St. Louis, Missouri. Prior to the modification of the mortgage note, the Company paid a fixed rate of 6.16%. Upon modification, the interest rate was based upon LIBOR (London Interbank Offered Rate) plus 3.5%. Concurrent to the modification of the note, the Company entered into a rate swap agreement in order to settle the variable rate (i.e., LIBOR) into a fixed rate of 1.35%, thereby allowing the Company to pay a total fixed interest rate of 4.85%. The swap agreement matures in May 2013. A swap is a contractual agreement to exchange interest rate payments. Under the swap agreement, the Company agrees to pay the bank (counterparty) a fixed rate and the bank agrees to pay the Company a floating rate. The interest rate swap agreement is being measured at fair value, but was not designated by the Company as a cash flow hedge. Should the Company terminate the swap contract prematurely, it would be required to pay the fair value of the swap valued at $91,000 as of June 30, 2011, which is recorded as a liability by the Company under “accounts payable and other liabilities” in the consolidated balance sheet. The change in the fair valueof the instrument is recognized and recorded in the “net unrealized gain (loss) on other investments and derivative instruments” in the consolidated statement of operations.

In November 2010, the Company refinanced its $1,641,000 adjustable rate mortgage note payable on its 27-unit apartment building located in Los Angeles, California for a new 10-year fixed rate mortgage in the amount of $3,260,000. The interest rate on the new loan is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. The Company received net proceeds of approximately $1,507,000 from the refinancing.

In November 2010, the Company also refinanced its $3,569,000 adjustable rate mortgage note payable on its 31-unit apartment building located in Los Angeles, California for a new 10-year fixed rate mortgage in the amount of $5,787,000. The interest rate on the new loan is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. The Company received net proceeds of approximately $2,078,000 from the refinancing.

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 its cash, securities assets, and the cash flows generated from those assets and from partnership distributions and management fees, will be adequate to meet the Company’s current and future obligations.

MATERIAL CONTRACTUAL OBLIGATIONS

The following table provides a summary of the Company’s material financial obligations which also includes interest.

	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Mortgage notes payable	$117,616,000	$2,405,000	$2,431,000	$1,821,000	$1,786,000	$42,243,000	$66,930,000
Other notes payable	2,786,000	651,000	569,000	1,558,000	8,000	-	-
Interest	35,340,000	6,378,000	6,367,000	7,531,000	4,112,000	2,053,000	8,899,000
Total	$155,742,000	$9,434,000	$9,367,000	$10,910,000	$5,906,000	$44,296,000	$75,829,000

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no material off balance sheet arrangements.

IMPACT OF INFLATION

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. Since Prism has the power and ability under the terms of its management agreement to adjust hotel room rates on an ongoing basis, 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.

The Company's residential 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.

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CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are most significant to the portrayal of our financial position and results of operations and require judgments by management in order to make estimates about the effect of matters that are inherently uncertain. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to the consolidation of our subsidiaries, to our revenues, allowances for bad debts, accruals, asset impairments, other investments, income taxes and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
The Intergroup Corporation:

We have audited the accompanying consolidated balance sheets of The InterGroup Corporation and its subsidiaries (the Company) as of June 30, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the years in the two-year period ended June 30, 2011. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The InterGroup Corporation and its subsidiaries as of June 30, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the two-year period ended June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

/s/ Burr Pilger Mayer, Inc.
San Francisco, California
September 21, 2011

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THE INTERGROUP CORPORATION
CONSOLIDATED BALANCE SHEETS

As of June 30,	2011	2010
ASSETS		
Investment in hotel, net	$40,143,000	$41,961,000
Investment in real estate, net	69,270,000	66,395,000
Property held for sale	-	1,982,000
Investment in marketable securities	19,438,000	7,712,000
Other investments, net	17,285,000	6,651,000
Cash and cash equivalents	1,364,000	1,140,000
Restricted cash	2,148,000	1,641,000
Other assets, net	4,718,000	4,645,000
Total assets	$154,366,000	$132,127,000
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Liabilities:		
Accounts payable and other liabilities	$11,347,000	$10,473,000
Due to securities broker	9,454,000	2,235,000
Obligations for securities sold	674,000	1,698,000
Other notes payable	2,786,000	3,688,000
Mortgage notes payable - hotel	45,179,000	45,990,000
Mortgage notes payable - real estate	72,437,000	67,044,000
Mortgage notes payable - property held for sale	-	3,248,000
Deferred income taxes	5,987,000	1,135,000
Total liabilities	147,864,000	135,511,000
Commitments and contingencies		
Shareholders' equity (deficit):		
Preferred stock, $.01 par value, 100,000 shares authorized; none issued		
Common stock, $.01 par value, 4,000,000 shares authorized; 3,322,172 and 3,290,872 issued; 2,398,438 and 2,401,884 outstanding, respectively	33,000	33,000
Additional paid-in capital	9,371,000	9,109,000
Retained earnings	12,941,000	4,190,000
Treasury stock, at cost, 923,734 shares in 2011 and 888,988 shares in 2010	(10,299,000)	(9,564,000)
Total InterGroup shareholders' equity	12,046,000	3,768,000
Noncontrolling interest	(5,544,000)	(7,152,000)
Total shareholders' equity (deficit)	6,502,000	(3,384,000)
Total liabilities and shareholders' equity (deficit)	$154,366,000	$132,127,000

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

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THE INTERGROUP CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended June 30,	2011	2010
Revenues:		
Hotel	$36,282,000	$32,680,000
Real estate	13,932,000	13,738,000
Total revenues	50,214,000	46,418,000
Costs and operating expenses:		
Hotel operating expenses	(29,299,000)	(27,223,000)
Real estate operating expenses	(7,444,000)	(7,101,000)
Depreciation and amortization expense	(6,311,000)	(6,905,000)
General and administrative expense	(1,877,000)	(1,814,000)
Total costs and operating expenses	(44,931,000)	(43,043,000)
Income from operations	5,283,000	3,375,000
Other income (expense):		
Interest expense	(6,367,000)	(6,492,000)
Net gain (loss) on marketable securities	2,675,000	(747,000)
Net unrealized gain on other investments and derivative instruments	11,565,000	181,000
Impairment loss on other investments	(976,000)	(1,805,000)
Dividend and interest income	1,540,000	425,000
Trading and margin interest expense	(1,577,000)	(1,398,000)
Net other income (expense)	6,860,000	(9,836,000)
Income (loss) before income taxes	12,143,000	(6,461,000)
Income tax (expense) benefit	(3,796,000)	1,737,000
Income (loss) from continuing operations	8,347,000	(4,724,000)
Discontinued operations:		
Income from discontinued operations	75,000	247,000
Gain on the sale of real estate	3,290,000	-
Income tax expense	(1,269,000)	(98,000)
Income from discontinued operations	2,096,000	149,000
Net income (loss)	10,443,000	(4,575,000)
Less: Net (income) loss attributable to the noncontrolling interest	(1,692,000)	2,026,000
Net income (loss) attributable to InterGroup	$8,751,000	$(2,549,000)
Net income (loss) per share from continuing operations		
Basic	$3.46	$(1.98)
Diluted	$3.33	$(1.98)
Net income per share from discontinued operations		
Basic	$0.87	$0.06
Diluted	$0.84	$0.06
Net income (loss) per share attributable to InterGroup		
Basic	$3.63	$(1.07)
Diluted	$3.49	$(1.07)
Weighted average number of common shares outstanding	2,411,242	2,383,602

Weighted average number of diluted common shares outstanding	2,506,888	2,383,602

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

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THE INTERGROUP CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

	Common Stock		Additional			InterGroup		Total
			Paid-in	Retained	Treasury	Shareholders'	Noncontrolling	Shareholders'
	Shares	Amount	Capital	Earnings	Stock	Equity	Interest	Equity (Deficit)
Balance at June 30, 2009	3,216,653	$32,000	$8,959,000	$6,739,000	$(9,564,000)	$6,166,000	$(5,126,000)	$1,040,000
Net loss	-	-	-	(2,549,000)	-	(2,549,000)	(2,026,000)	(4,575,000)
Issuance of stock	6,004	-	72,000	-	-	72,000	-	72,000
Conversion of RSU to stock	65,215	1,000	(1,000)	-	-	-	-	-
Exercise of stock options	3,000	-	36,000	-	-	36,000	-	36,000
Stock options expense		-	43,000	-	-	43,000	-	43,000
Balance at June 30, 2010	3,290,872	33,000	9,109,000	4,190,000	(9,564,000)	3,768,000	(7,152,000)	(3,384,000)
Net income	-	-	-	8,751,000	-	8,751,000	1,692,000	10,443,000
Issuance of stock	4,716	-	72,000	-	-	72,000	-	72,000
Conversion of RSU to stock	17,564	-	-	-	-	-	-	-
Stock options exchanged for stock	6,020	-	-	-	-	-	-	-
Exercise of stock	3,000	-	38,000	-	-	38,000	-	38,000

options								
Stock options expense	-	-	278,000	-	-	278,000	-	278,000
Investment in Santa Fe	-	-	(126,000)	-	-	(126,000)	(84,000)	(210,000)
Purchase of treasury stock	-	-	-	-	(735,000)	(735,000)	-	(735,000)
Balance at June 30, 2011	3,322,172	$33,000	$9,371,000	$12,941,000	$(10,299,000)	$12,046,000	$(5,544,000)	$6,502,000

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

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THE INTERGROUP CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30,	2011	2010
Cash flows from operating activities:		
Net income (loss)	$10,443,000	$(4,575,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,311,000	6,905,000
Gain on sale of real estate	(3,290,000)	-
Net unrealized (gain) loss on marketable securities	(2,628,000)	4,740,000
Unrealized gain on other investments and derivative instruments	(11,565,000)	(181,000)
Impairment loss on other investments	976,000	1,805,000
Gain on insurance recovery	(322,000)	(178,000)
Stock compensation expense	350,000	115,000
Changes in assets and liabilities:		
Investment in marketable securities	(9,098,000)	1,468,000
Other assets	(133,000)	(257,000)
Accounts payable and other liabilities	874,000	558,000
Due to securities broker	7,219,000	(2,605,000)
Obligations for securities sold	(1,024,000)	(407,000)
Deferred taxes	4,852,000	(1,704,000)
Net cash provided by operating activities	2,965,000	5,684,000
Cash flows from investing activities:		
Proceeds from sale of real estate	5,291,000	-
Investment in hotel	(1,787,000)	(1,329,000)
Investment in real estate	(5,218,000)	(161,000)
Investment in other investments	(45,000)	(1,708,000)
Investment in Santa Fe	(210,000)	-
Restricted cash	(507,000)	(43,000)
Net cash used in investing activities	(2,476,000)	(3,241,000)
Cash flows from financing activities:		
Proceeds from line of credit	-	689,000
Borrowings from mortgage notes payable	13,654,000	-
Principal payments on mortgage notes payable	(12,320,000)	(2,206,000)
Payments on other notes payable	(902,000)	(846,000)
Purchase of treasury stock	(735,000)	-
Proceeds from exercise of options	38,000	36,000
Net cash used in financing activities	(265,000)	(2,327,000)
Net increase in cash and cash equivalents	224,000	116,000
Cash and cash equivalents at the beginning of the year	1,140,000	1,024,000
Cash and cash equivalents at the end of the year	$1,364,000	$1,140,000
Supplemental information:		
Income tax paid	$116,000	$103,000
Interest paid	$7,037,000	$7,115,000

Conversion of line of credit into other notes payable	$-	$2,500,000
Fixed assets acquired through capit		