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INTERGROUP CORP
Form 10KSB
September 28, 2006

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

FORM 10-KSB

Annual Report under Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the fiscal year ended June 30, 2006

Transition Report under Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1-10324

THE INTERGROUP CORPORATION

(Name of Small Business Issuer in its Charter)

Delaware	13-3293645
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(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
820 Moraga Drive, Los Angeles, California	90049-1632
-----	-----
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number: (310) 889-2500

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
-----	-----
Common Stock-\$.01 par value	The NASDAQ Stock Market, LLC
Common Stock-\$.01 par value	Pacific Exchange, Inc.

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

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

The issuer's revenues for its most recent fiscal year were \$12,832,000.

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The aggregate market value of the common equity held by non-affiliates of issuer, computed by reference to the price the common equity was sold on September 12, 2006 was \$14,155,050.

The number of shares outstanding of the issuer's Common Stock, \$.01 par value, as of September 12, 2006 was 2,356,560.

Transitional Small Business Disclosure Format (check one): Yes No [X]

DOCUMENTS INCORPORATED BY REFERENCE: None

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB contains some "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" and other 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-QSB and 8-K, Annual reports to Shareholders, press releases and other materials we may release to the public. These statements are subject to certain risks and uncertainties, such as the impact of terrorism and war on the national and international economies, including tourism and securities markets, natural disasters, general economic conditions and competition in the hotel industry in the San Francisco area, labor relations and labor disruptions, partnership distributions, the ability to obtain financing at favorable interest rates and terms, securities markets, regulatory factors, litigation and other factors discussed below in this Report. Consequently, no forward looking statement can be guaranteed and our actual future results may differ materially.

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-KSB, 10-QSB, and 8-K reports to the Securities and Exchange Commission.

PART I

Item 1. Description of Business.

BUSINESS DEVELOPMENT

The InterGroup Corporation ("InterGroup" or the "Company") is 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 and has been a reporting company pursuant to Section 12(g) of the Securities Exchange Act of 1934 since that time.

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, which it redefined to encompass investments in any area which can have a socially redeeming value and promote the establishment of a fair, equal and better society.

The Company's principal sources of revenue have been, and continue to be, derived from the operations of its multi-family residential properties, from the sales and disposition of its real property assets, from the operations of its majority owned subsidiary, Santa Fe Financial Corporation ("Santa Fe"), and from the investment of its cash and securities assets. Santa Fe is a public company (OTCBB: SFEF).

BUSINESS OF ISSUER

The Company's principal business is the ownership and management of real estate. Properties include nineteen apartment complexes, an equity interest in a hotel, 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 with exception of the Austin, Texas and Irving, Texas properties, are managed by professional third party property management companies.

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. See Item 2 for a description of the Company's current investments in real estate and its investment policies concerning real property and marketable securities.

As of June 30, 2006, the Company had the power to vote 78% of the voting shares of Santa Fe Financial Corporation ("Santa Fe"), a public company (OTCBB: SFEF). Santa Fe's revenue is primarily generated through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), a public company (OTCBB: PRSI), which derives its revenue primarily as a general partner and a 50.0% limited partner in Justice Investors, a California limited partnership ("Justice" or the "Partnership"). Justice owns the land, improvements and leaseholds now known as the Hilton San Francisco Financial District, a 549-room hotel in San Francisco, California (the "Hotel"). Both Santa Fe and Portsmouth are consolidated into the Company's financial statements.

In April 2006, Portsmouth purchased a 0.20% limited partnership interest in Justice from another limited partner for \$180,000, which brought Portsmouth's limited partnership interest in Justice to exactly 50.0%. Portsmouth's investment in Justice is recorded on the equity basis. Portsmouth also serves as one of the two general partners. The other general partner, Evon Corporation ("Evon"), acts as the managing general partner. All significant partnership decisions require the active participation and approval of both general partners. The Company and Evon jointly consult and determine the amount of partnership reserves and the amount of cash to be distributed to the limited partners. As of June 30, 2006, there were approximately 86 limited partners in Justice (not including multiple family accounts).

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

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limited partners entitled to more than 72% of the net profit.

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The Company's principal business is conducted through its general and limited partnership interest in Justice. Justice was formed in 1967 to acquire real property for the development and lease of a hotel located at 750 Kearny Street, San Francisco, California 94108 (the "Hotel") and related facilities, including a five level underground parking garage. 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", NYSE: FCH) in 1998. As discussed below, the lease of the Hotel to Felcor was terminated effective June 30, 2004. The Partnership also derives income from its lease of the garage portion of the property to Evon and the lease of approximately 5,400 square feet on the lobby level of the Hotel to Tru Spa, LLC for the operation of a health and beauty spa. As a general partner, Portsmouth takes an active role in monitoring and overseeing the operations of the Hotel, the lease of the parking garage and the spa.

The Company also derives income from management fees as a general partner in Justice and from the investment of its cash and 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. Please see discussion of Investment Policies under Item 2 below.

SAN FRANCISCO HOTEL LEASE

The Hotel portion of the Partnership's San Francisco property was initially leased to Holiday Inns of America in 1970 and operated as a Holiday Inn brand hotel. On March 15, 1995, an amended and restated lease was entered into by Justice with an effective date of January 1, 1995 (the "Hotel Lease"). The Hotel Lease was assumed by Felcor, effective July 28, 1998 and continued to be operated as a Holiday Inn. The initial term of the Hotel Lease was for a 10-year term expiring on December 31, 2004. The lessee also had an option to renew the lease for one additional term of five years, which would extend the lease to December 31, 2009. The Hotel Lease required the lessee to pay an annual rent of the greater of twenty percent (20%) of gross room revenues or \$2,500,000 plus fifty percent (50%) of lessee's cash available as defined by the Hotel Lease. Under the terms of the Hotel Lease, the lessee was responsible for all maintenance and repairs to the property, certain capital improvements, taxes and insurance. The lessee also had an obligation to convert the Hotel property to a "Holiday Inn Select" and to maintain the property to those standards, at its own cost and expense.

In July 2003, Justice delivered to the hotel lessee, a notice citing certain deficiencies in the physical condition of the hotel property and in its furniture, fixtures and equipment and requested that those deficiencies be corrected in accordance with the lessee's obligations under the Hotel Lease. On May 3, 2004, Justice entered into a Settlement Agreement with Felcor to resolve disputes regarding certain obligations of Felcor and others under the terms of the Hotel Lease. Pursuant to the terms of the Settlement Agreement, Felcor was required to pay to Justice \$5,000,000 towards the costs of capital repairs, replacements and improvements necessary to place the hotel in the condition required by the Hotel Lease at the end of its term. Felcor also agreed to transfer to Justice and terminate its leasehold estate and its option right under the Hotel Lease, effective June 30, 2004. In addition, the parties to the Settlement agreed to mutual releases and to cooperate for a smooth transition of the operations of the Hotel. The Settlement Agreement was fully effectuated as of June 30, 2004.

DOW HOTEL COMPANY MANAGEMENT AGREEMENT

With the termination of the Hotel Lease, Justice assumed the role of an owner operator of the Hotel on July 1, 2004. On May 19, 2004, Justice entered into a third party Management Agreement with Dow Hotel Company, LLC, a Washington limited liability company ("Dow") to operate and manage the Hotel as an agent of the Partnership, effective July 1, 2004. The Management Agreement has an initial term of 10 years, with an option of Justice to extend the original term for another 10 year period. The Management Agreement provides for a base management fee to Dow of up to 2.5% of annual gross operating revenues of the Hotel and incentive fees not to exceed, in the aggregate, 4% of gross operating revenues of the Hotel. The Management Agreement can be terminated by Justice upon at least 60 days written notice, subject to certain termination fees during the first year of the Agreement.

On March 25, 2005, the Partnership entered into an amendment of the Dow Management Agreement to cover the period of time the Hotel was closed for renovations. Pursuant to that amendment, Dow was entitled to a fee for services rendered under the Management Agreement in the amount of \$15,000 per month, which was paid as follows: (i) one half (\$7,500) payable monthly and (ii) the other half (\$7,500) earned, but payment deferred until the first month that the Hotel had a positive net operating income sufficient to make such lump sum payment, but in no event later than April 1, 2006. Management fees for the fiscal year ended June 30, 2006 were approximately \$193,000 and no incentive management fees were earned for that period.

HOLIDAY HOSPITALITY FRANCHISING AGREEMENT

Effective July 1, 2004, The Partnership entered into a short term franchise agreement with Holiday Inn Hospitality Franchising, Inc. to continue to operate the Hotel as a Holiday Inn Select brand hotel, until such time as the Partnership was able to secure a replacement hotel brand and operate the Hotel under a new flag. Under the terms of that Holiday Inn franchise agreement, the Partnership paid monthly royalties, marketing and reservation fees of 5%, 1.5% and 1%, respectively, of the Hotel's gross room revenue for the preceding calendar month. The Holiday Inn franchise agreement terminated on May 31, 2005, at which time the Hotel was closed for renovations.

HILTON HOTELS FRANCHISE LICENSE AGREEMENT

With the termination of the Hotel Lease to Felcor, the Partnership was able to actively pursue a franchise agreement with a new nationally recognized brand in an effort to move the Hotel up-market and become more competitive. After considering and negotiating with several brands, the Partnership entered into a Franchise License Agreement with Hilton Hotels Corporation (the "Hilton Franchise Agreement") on December 10, 2004 for the right to operate the Hotel as a Hilton brand hotel. The term of the Hilton Franchise Agreement is for 15 years commencing on the opening date of the Hotel, with an option to extend that Agreement for another five years, subject to certain conditions.

The Partnership will pay monthly royalty fees for the first two years of three percent of the Hotel's gross room revenue, as defined, for the preceding calendar month, the third year will be four percent of the Hotel's gross room revenue, and the fourth year until the end of the term will be five percent of the Hotel's gross room revenue. The partnership will also pay a monthly program fee of four percent of the Hotel's gross room revenue and an

information technology recapture charge of 0.75% of the Hotel's gross revenue. The amount of the monthly program fee is subject to change; however, the monthly fee will not exceed five percent of gross room revenue.

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 \$36.4 million, which excludes approximately \$630,000 in interest costs incurred during for 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 herein, the Partnership has been able to secure financing, collateralized by the Hotel, in the aggregate amount of up to \$46,500,000 to meet those commitments. That amount of leverage and the associated debt service will create additional risk for the Partnership and its ability to generate cash flows in the future since the Hotel asset has been virtually debt free for many years.

TEMPORARY CLOSURE OF HOTEL FOR RENOVATIONS

On March 15, 2005, the Partnership announced its decision to close down its Hotel operations effective, May 31, 2005, to complete the renovations of the Hotel as required by the Hilton Franchise Agreement. The Partnership made this decision because of, among other things, the scope of the work in the common areas, engineering factors and potential environmental and safety issues which made it preferable to temporarily close the Hotel portion of the property. The Hotel was closed for more than seven months before it reopened as the "Hilton San Francisco Financial District" on January 12, 2006. The below ground parking garage and Tru Spa located on the lobby level of the Hotel, both of which are lessees of the Partnership, remained open during the renovation work.

GARAGE LEASE AND OPERATIONS

The garage lease between the Partnership and Evon provides for a monthly rental of sixty percent (60%) of gross parking revenues with a minimum rent of \$19,764 per month. That lease expires in November 2010. The lessee is responsible for insurance, repairs and maintenance, utilities and all taxes assessed against the improvements to the leased premises. The garage was operated by Ampco Systems Parking ("Ampco") pursuant to a sublease agreement. On August 31, 2005, Evon terminated its sublease with Ampco. Effective September 1, 2005, Ace Parking Management, Inc. ("Ace Parking") became the new parking garage operator pursuant to a Parking Facility Management Agreement with the garage lessee, Evon. That agreement is for a period of sixty two months (62) months and terminates on October 31, 2010, with a five year option to renew. The agreement can be terminated upon ten (10) days prior written notice of the termination of Evon's lease of the garage or upon 90 days written notice without cause. The agreement provides that Evon will pay a

management fee to Ace of \$2,000 per month, plus an accounting fee of \$250 per month, plus 3% of the annual net profit, as defined, from the operations of the garage in excess of \$100,000.

TRU SPA LEASE

During July 2002, Justice entered into a lease with Tru Spa, LLC, which was amended effective January 1, 2004. The lease premises consist of approximately 5,400 square feet of space on the lobby level of the hotel for the construction and operation of a health and beauty spa. The term of the lease is for ten years commencing with the opening of the spa on June 1, 2003, with a five year option to extend the term. The spa lease provides for minimum monthly rent of \$11,667, additional rent of \$2,072 (up to a total of \$250,000 to help defray certain relocation construction costs) and other tenant fees. Minimum rental amounts are subject to adjustment every three years based on any percentage increase in the Consumer Price Index. Under the terms of the lease, Justice was responsible for up to \$1,497,586 in leasehold improvements, which were paid using the partnership's line of credit. The spa lease is structured to reimburse the Partnership for those leasehold improvements over the term of the lease. Due to the certain disruptions of the operations of the spa resulting from the temporary closing of the Hotel and the renovation work, the Partnership and Tru Spa entered into lease amendments that would permit Tru Spa to apply its security deposit of \$35,000 to pay its monthly obligations for June 30, 2005 and July 31, 2005, with the balance to be applied as partial payment of its August 2005 rent and to provide for a rent free period for the balance of the August 2005 rent through January 31, 2006. The Partnership reserved the right, in its discretion, to require Tru Spa to make an additional security deposit in the future. The Partnership believes that the spa facilities in the Hotel will help it to be more competitive in the future by providing greater amenities to its guests.

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. The amended lease requires the Partnership to pay to the Foundation a monthly event space fee in the amount of \$4,600, adjusted annually based on the local Consumer Price Index. The term of the amended lease remains the same as the current lease, expiring 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.

COMPENSATION OF GENERAL PARTNERS AND REPOSITIONING FEES

Due to the termination of the Hotel Lease on June 30, 2004, it was necessary for the Partnership to amend the agreement by which the general partners of Justice were compensated since the general partners would be taking on new responsibilities as Justice assumed the role as owner-operator of the Hotel. Furthermore, the prior agreement was based on a percentage of gross rents, which the Partnership would no longer be receiving from the Hotel. The expiring compensation agreement provided that the general partners were entitled to receive compensation equal to 3% of the annual gross rents of the partnership. From the first \$150,000 of compensation payable to the general partners, \$120,000 was payable to Evon, as the managing general partner, and \$30,000 is payable to Portsmouth as the other general partner. Any

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compensation in excess of the \$150,000 was to be split 50/50 between the general partners.

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On July 16, 2004, Justice entered into a new General Partner Compensation Agreement (the "Compensation Agreement"), with an effective date of May 31, 2004. This was done to provide adequate compensation to Evon and Portsmouth and provide incentives to the general partners to encourage excellence in the performance of their responsibilities. The new agreement provides that the general partners will receive annual base compensation of 1.5% of gross revenues, with a minimum annual base compensation of \$263,000, adjusted for inflation. From the minimum annual base compensation, 80% will be paid to Evon for its services as the managing general partner and 20% will be paid to Portsmouth as the other general partner. Base annual compensation in excess of the minimum will be payable in equal amounts to Evon and Portsmouth. The maximum base annual compensation that can be earned by the general partners is 1.5% of \$40,000,000 of gross revenues. The Compensation Agreement also provides for incentive compensation to the general partners in a sum equal to the 5.0% of the annual net operating income of Justice, as defined in the Dow Management Agreement, that is in excess of \$7,000,000. Incentive compensation shall be payable in equal amounts to Evon and Portsmouth.

In addition, the Compensation Agreement provides that the general partners are to receive a repositioning fee in the aggregate amount of \$275,000, to be paid in equal amounts to Evon and Portsmouth in two installments. The first installment of approximately \$69,000 to each of Evon and Portsmouth was paid within 10 days of the execution of the Compensation Agreement with the second installment paid upon the substantial completion of the renovation of the Hotel.

Due to the expanded scope of the renovation project, the additional time commitments required of the general partners and the increased value brought to the Partnership as a result of the repositioning of the Hotel, Justice entered into an amended and restated compensation agreement with its general partners, Evon and Portsmouth, effective February 23, 2006. Pursuant to that amended agreement, Evon and Portsmouth are each to receive a total of \$378,000 in repositioning fees as compensation for their services rendered to Justice with respect to repositioning the Hotel and restructuring its business and management subject to certain performance criteria. For fiscal year ended June 30, 2006, a total of \$119,000 in repositioning fees was paid to Portsmouth. An additional \$100,000 in repositioning fees has been earned by Portsmouth and accrued by Justice but not yet paid.

COMPETITION

All of the properties owned by the Company are in areas where there is substantial competition. However, management believes that its apartments, hotel, and commercial properties are generally in a competitive position in their respective communities. The Company intends to continue upgrading and improving the physical condition of its existing properties and will consider selling existing properties, which the Company believes have realized their potential, and re-investing in properties that may require renovation but that offer greater appreciation potential.

Until May 31, 2005, the Hotel was operated as a Holiday Inn brand hotel and was part of Holiday Inn's worldwide reservation system. The Hotel was designed to Holiday Inn's specifications to serve both business travelers and tourists and cater to both individuals and tour groups. It also handled conferences and business meetings, having meeting and dining facilities for groups of up to 400 people. The Hotel had traditionally enjoyed a favorable

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year-round occupancy rate, but both occupancy and average daily room rates suffered since fiscal year ended June 30, 2001. Newer and more upscale properties opened in or near the Financial District, which provide greater amenities to its guests, making it difficult for the Hotel to compete. Those competitors were better positioned to attract both the business traveler and

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tourists. Management believed that the Hotel could not continue to be competitive under the conditions it operated under while a Holiday Inn Select brand hotel. The Hotel was approximately 25 years old, with no major renovations having been made to the property during that time. By terminating the Hotel Lease with Felcor, and taking over the operations of the Hotel, the Partnership obtained much greater ability to direct the future of the Hotel.

The newly opened Hilton San Francisco Financial District hotel has 549 well appointed guestrooms and luxury suites with bay or city views, featuring large working desks, ergonomic chairs, wired and wireless high-speed Internet access, and "The Suite Dreams" beds by Hilton, complete with duvet, down comforter and jumbo size pillows. The newly redesigned meeting rooms and ballroom will accommodate meetings and events for up to 500 people with video conferencing and premium audio/visual equipment. A new business center and fitness center are additional amenities. The new Hilton hotel also has the only hotel day spa (Tru Spa) in the Financial District. A redesigned entry way is integrated into the lobby and management expects the new restaurant "Seven Fifty" and lounge, with a dramatic fireplace treatment, are expected to bring a new level of excitement and service to the guests of the Hotel. Management believes that the new Hilton hotel now has the ability to directly compete with all hotels in the Financial District.

EMPLOYEES

As of June 30, 2006, the Company had a total of 11 full-time employees in its corporate office. Effective July 2002, the Company entered into a client service agreement with Administaff Companies II, L.P. ("Administaff"), a professional employer organization serving as an off-site, full service human resource department for its corporate office. Administaff personnel management services are delivered by entering into a co-employment relationship with the Company's employees. There are also approximately 10 employees at the Company's properties outside of the State of California that are subject to similar co-employment relationships with Administaff. The employees and the Company are not party to any collective bargaining agreement, and the Company believes that its employee relations are satisfactory.

Item 2. Description of Properties.

PROPERTIES

At June 30, 2006, the Company's investment in real estate consisted of properties located throughout the United States, but which are concentrated in Texas and Southern California. These properties include nineteen apartment complexes, two single-family houses as strategic investments, and two commercial real estate properties, one of which serves as the Company's corporate headquarters. All properties are operating properties with exception of the Company's corporate office. 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.

The Company also owns an interest in a San Francisco hotel property through

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its subsidiaries' interest in Justice Investors. 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.

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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, 2006 were approximately \$811,000. The outstanding mortgage balance was approximately \$19,696,000 at June 30, 2006 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, 2006 were approximately \$160,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$10,118,000 at June 30, 2006 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, 2006, real estate property taxes were approximately \$141,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$5,352,000 at June 30, 2006 and the maturity date of the mortgage is July 1, 2008.

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, 2006, real estate property taxes were approximately \$47,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$4,200,000 at June 30, 2006 and the maturity date of the mortgage is July 1, 2014.

Irving, Texas. The Irving property is a two-story apartment with 224 units on approximately 9.9 acres. The Company acquired the property on September 16, 1994 at an initial cost of approximately \$4,150,000. For the year ended June 30, 2006, real estate property taxes were approximately \$189,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$4,106,000 at June 30, 2006 and the maturity date of the mortgage is January 1, 2008. As of June 30, 2006, this property is currently listed for sale.

San Antonio, Texas. The San Antonio property is a two-story project with 132 units on approximately 4.3 acres. The Company acquired the complex on June 29, 1993 for \$2,752,000. For the year ended June 30, 2006, real estate taxes were approximately \$121,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding

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mortgage balance was approximately \$2,938,000 at June 30, 2006 and the maturity date of the mortgage is December 1, 2008.

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, 2006, real estate taxes were approximately \$141,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of

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40 years. The outstanding mortgage balance was approximately \$7,762,000 at June 30, 2006 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, twelve 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 serves as the Company's corporate offices. The Company acquired the building on March 4, 1999 for \$1,876,000. The property taxes for the year ended June 30, 2006 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 \$1,145,000 at June 30, 2006 and the maturity date of the mortgage is April 15, 2009.

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, 2006 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 \$767,000 at June 30, 2006 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, 2006, real estate property taxes were approximately \$17,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$1,014,000 at June 30, 2006 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, 2006, real estate property taxes were approximately \$51,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$1,811,000 at June 30, 2006 and the maturity date of the mortgage is October 1, 2029.

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, 2006, real estate property taxes 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 \$1,069,000 at June 30, 2006

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and the maturity date of the mortgage is November 1, 2029.

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, 2006, real estate property taxes were approximately \$22,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$799,000 at June 30, 2006 and the maturity date of the mortgage is December 31, 2029.

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

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an initial cost of approximately \$7,500,000. For the year ended June 30, 2006, real estate property taxes were approximately \$90,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$4,009,000 at June 30, 2006 and the maturity date of the mortgage is August 1, 2033.

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, 2006, 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. In June 2003, the operations of this property stopped and in December 2003, major renovations of the property began. In May 2004, the Company paid off the mortgage in the amount of \$2,576,000 and obtained a new construction loan in the amount of \$6,268,000 as part of the renovation of the property. As of June 30, 2006, the balance of the construction loan was approximately \$6,878,000 and the maturity of the loan is June 1, 2007. The property was approximately 80% completed in June 2006 and renting of the apartments commenced towards the latter part of the June.

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, 2006, real estate property taxes 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 \$428,000 at June 30, 2006 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, 2000 at an initial cost of approximately \$1,005,000. For the year ended June 30, 2006, real estate property taxes were approximately \$13,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$713,000 at June 30, 2006 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, 2006, real estate property taxes were approximately \$17,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$1,048,000 at June 30, 2006 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

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at an initial cost of approximately \$2,859,000. For the year ended June 30, 2006, real estate property taxes were approximately \$38,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$1,693,000 at June 30, 2006 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, 2006, 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 \$556,000 at June 30, 2006 and the maturity date of the mortgage is November 1, 2029.

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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, 2006, 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 \$436,000 at June 30, 2006 and the maturity date of the mortgage is February 1, 2032.

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, 2006, real estate property taxes were approximately \$9,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately \$461,000 at June 30, 2006 and the maturity date of the mortgage is December 1, 2030.

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, 2006, 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 \$507,000 at June 30, 2006 and the maturity date of the mortgage is November 1, 2033.

San Francisco, California Hotel.

The newly opened Hilton San Francisco Financial District hotel is owned directly by the Partnership. The Hotel is centrally located near the Financial District, one block from the Transamerica Pyramid. The Embarcadero Center is within walking distance and North Beach is two blocks away. Chinatown is directly across the bridge that runs from the hotel to Portsmouth Square Park. The Hotel is a 31-story (including parking garage), steel and concrete, A-frame building, which has 549 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 Chinese Culture Center 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 rooftop swimming pool, 5-storied underground garage and pedestrian bridge across Kearny Street connecting the Hotel and the Chinese Culture Center with Portsmouth Square Park in Chinatown. The bridge, built and owned by the partnership, is included in the lease to the Chinese Culture Center.

The Hotel is located in an area of intense competition from other hotels in the Financial District. Since the Hotel was just reopened under the Hilton

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brand after being closed for more than seven months for a substantial renovation project, some hotels may be better known to the business and leisure traveler. It may take 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 25 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. Management, in conjunction with its management company Dow and Hilton, will make every effort to market the Hotel as an upscale property to business travelers, leisure customers and small to medium size groups. While it may take some time for the Hotel to be fully recognized and reach its full potential, management believes that the substantial renovations made to the Hotel, coupled with the strength of the Hilton brand and its Hilton Honors program, have provided the foundation for the Hotel to meet or exceed all of its competition.

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Since the Hotel was just totally renovated, there is no present program for any further major renovations; however, the Partnership expects to reserve approximately 3% of gross annual Hotel revenues for calendar year 2006 and 4% of gross annual Hotel revenues for each year thereafter for future capital requirements. In the opinion of management the property is adequately covered by insurance.

PROPERTY FINANCINGS

On July 27, 2005, Justice entered into a first mortgage loan (the "Prudential Loan") with The Prudential Insurance Company of America in a principal amount of \$30,000,000. The term of the Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Loan calls for monthly installments of principal and interest in the amount of approximately \$165,000, calculated on a 360 month 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 Loan is without recourse to the limited and general partners of Justice.

From the proceeds of the Prudential Loan, the Partnership retired its then existing line of credit in the approximate amount of \$4,500,000, including accrued interest, and paid off a short term uncollateralized line of credit from United Commercial Bank in the amount of \$2,007,000, including accrued interest.

On July 27, 2005, Justice also obtained a new \$10,000,000 Revolving Line of Credit ("LOC") from United Commercial Bank. The term of the LOC is for 60 months, expiring on June 30, 2010, at an annual interest rate based on the index selected by Justice at the time of the request for each advance. The interest rate will either be a variable rate equal to The Wall Street Journal Prime Rate or the Libor Rate plus 2%, fixed for the period selected by the Partnership. The LOC is collateralized by a second deed of trust on the Hotel property. Interest only is payable monthly with principal and accrued interest due at maturity. On January 20, 2006, the Partnership obtained a \$4,500,000 increase in its LOC, raising the total amount available to the Partnership to \$14,500,000. The increase in the credit line is on the same terms as the existing line of credit with additional loan and documentation fees of \$4,000. On May 23, 2006, Justice obtained a short term increase of its LOC of an additional \$2,000,000, raising the total amount available to the Partnership to \$16,500,000. If the short term increase is not paid off by December 31,

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2006, UCB has the right to record a lien on the Hotel property for the additional \$2,000,000. That increase is also on the same terms as the existing LOC, with additional documentation fees of \$1,000. As of June 30, 2006, approximately \$16,000,000 of the LOC was utilized.

The Prudential Loan and the LOC have provided Justice with sufficient financial resources for the Partnership to complete the substantial renovations to the Hotel required by its Franchise License Agreement with Hilton and to meet its debt service requirements and operating capital needs through the reopening of the Hotel and the period of time necessary to ramp up operations. The Hotel started to generate net operating income in June 2006. The Partnership also believes that there is sufficient equity in the Hotel assets to support future borrowings if necessary. The Partnership believes that the revenues expected to be generated from the Hotel operations for the fiscal year beginning July 1, 2006, and in the future, will be sufficient to meet all of its current and future obligations and financial requirements.

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REAL ESTATE INVESTMENT POLICIES

The most significant investment activity of the Company has been to acquire, renovate, operate, and when appropriate, sell income-producing real estate. Through its marketable securities portfolio, the Company has indirectly invested in additional real estate related investments such as hotels and office buildings.

The Company may also look for new real estate investment opportunities in hotels, apartments, office buildings and shopping centers. 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 plans to 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.

MORTGAGES

Information with respect to mortgage notes payable of the Company is set forth in Note 5 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, 2006 are provided below.

Property -----	Economic Occupancy -----	Physical Occupancy -----
Apartments:		
1. Las Colinas, TX	74%	90%
2. Morris County, NJ	89%	95%
3. St. Louis, MO	80%	89%
4. Florence, KY	87%	91%

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5. Irving, TX	73%	94%
6. San Antonio, TX	88%	90%
7. Austin, TX	49%	82%
8. Los Angeles, CA (1)	77%	93%
9. Los Angeles, CA (2)	68%	95%
10. Los Angeles, CA (3)	86%	95%
11. Los Angeles, CA (4)	80%	95%
12. Los Angeles, CA (5)	67%	95%
13. Los Angeles, CA (6)	*	*
14. Los Angeles, CA (7)	82%	92%
15. Los Angeles, CA (8)	82%	84%
16. Los Angeles, CA (9)	85%	90%
17. Los Angeles, CA (10)	83%	96%
18. Los Angeles, CA (11)	82%	97%
19. Los Angeles, CA (12)	91%	93%

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*This property was undergoing significant renovations and was 80% completed as of June 30, 2006. As of June 30, 2006, only two units of a total of 30 units were occupied.

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.

MANAGEMENT OF THE PROPERTIES

The Company may engage third party management companies as agents to manage certain of Company's residential rental properties. Effective April 2006, the Company entered into third party management agreements (the "Agreements") with JPI Management Services, L.P. ("JPI") for property management services for five of its properties located in: Irving, Texas; San Antonio, Texas; Parsippany, New Jersey; Florissant, Missouri; and Florence, Kentucky. The Agreements provide for a management fee equal to 3.5% of the gross monthly receipts of each property and are for a term of one year, but can be terminated by either party upon thirty days written notice.

Effective August 2005, 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 is for a term of twelve months ending on July 31, 2006 and will continue thereafter on a month-to-month basis, unless terminated upon 30 days prior written notice. The Management Agreements provide 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.

MARKETABLE SECURITIES INVESTMENT POLICIES

In addition to real estate, the Company also invests from time to time in income producing instruments, corporate debt and equity securities, 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

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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 or American Stock Exchanges or the Nasdaq NMS Market; (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.

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The Company's investment portfolio is diversified with 60 different equity securities. The Company has five individual positions that comprise more than 5% of the equity value of the portfolio with the largest being 10.2% of the value of the portfolio. The amount of the Company's investment in any particular issue may increase or decrease, and additions or reductions 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 reductions in other positions. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. As of June 30, 2006, the market value of the Company's marketable securities was \$29,186,000.

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, 2006, the Company had other investments of \$4,344,000.

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, 2006, the Company had obligations for securities sold (equities short) of \$6,635,000 and had no naked short positions.

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, 2006, the Company had a margin balance of \$11,532,000 and incurred \$767,000 and \$904,000 in margin interest expense during the year ended June 30, 2006 and June 30, 2005, respectively.

On July 18, 2003, the disinterested members of the respective Boards of Directors of the Company's subsidiary, Santa Fe and Santa Fe's subsidiary, Portsmouth, established a performance based compensation program for the

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Company's CEO, John V. Winfield, to keep and retain his services as a direct and active manager of the securities portfolios of those companies. On January 12, 2004, the disinterested members of the Securities Investment Committee of InterGroup also established a performance based compensation program for Mr. Winfield, which was ratified by the Board of Directors. The terms of that compensation arrangement are discussed in detail in Item 10 "Executive Compensation" of this Report. During the year ended June 30, 2006, no performance based compensation was earned by the Company's CEO. During the year ended June 30, 2005, the Company and subsidiaries paid \$320,000 to the Company's CEO as performance based compensation related to the management of the securities portfolios.

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

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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.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Report.

PART II

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

The Company's Common Stock is traded on NASDAQ Global Market (formerly the Nasdaq National Market) of the NASDAQ Stock Market LLC under the symbol: "INTG". It is also listed on the Pacific Exchange, Inc. 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 as reported by NASDAQ.

Fiscal 2006 -----	High -----	Low -----
First Quarter 7/1 - 9/30	\$17.25	\$14.50
Second Quarter 10/1 - 12/31	\$16.40	\$14.72
Third Quarter 1/1 - 3/31	\$16.45	\$14.00
Fourth Quarter 4/1 - 6/30	\$17.16	\$14.00

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Fiscal 2005	High	Low
First Quarter 7/1 - 9/30	\$14.96	\$11.15
Second Quarter 10/1 - 12/31	\$14.31	\$12.50
Third Quarter 1/1 - 3/31	\$15.20	\$13.41
Fourth Quarter 4/1 - 6/30	\$19.10	\$14.75

As of September 12, 2006, there were approximately 540 shareholders of record and more than 1,400 beneficial holders 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.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

The following table sets forth information as of June 30, 2006, with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance, aggregated as follows:

Plan category	Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	390,000	\$9.91	60,000
Equity compensation plans not approved by security holders	None	N/A	None
Total	390,000	\$9.91	60,000

SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Fiscal 2006 Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1 (April 1- April 30)	479	\$14.99	479	39,917

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Month #2 (May 1- May 31)	3,000	\$15.93	3,000	36,917

Month #3 (June 1- June 30)	800	\$15.86	800	36,117

Total	4,279	\$15.81	4,279	36,117

The Company currently has only one stock repurchase program. The program was initially announced on January 13, 1998 and was first amended on February 10, 2003. The total number of shares authorized to be repurchased was 720,000, adjusted for stock splits. On October 12, 2004, the Board of Directors authorized the Company to purchase up to an additional 150,000 shares of Company's common stock, increasing the total remaining number of shares authorized for repurchase to 152,941. The program has no expiration date and can be amended from time to time in the discretion of the Board of Directors. No plan or program expired during the period covered by the table.

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Item 6. Management Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

The Company may from time to time make forward-looking statements and projections concerning future expectations. When used in this discussion, the words "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "may," "could," "might" and similar expressions, are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties, such as the impact of terrorism and war on the national and international economies, including tourism and securities markets, natural disasters, general economic conditions and competition in the hotel industry in the San Francisco area, labor relations and labor disruptions, partnership distributions, the ability to obtain financing at favorable interest rates and terms, securities markets, regulatory factors, litigation and other factors discussed below in this Report that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as to the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

The Company's principal business is the ownership and operation of real estate. Properties include nineteen apartment complexes, an equity interest in a hotel, 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 with exception of its Austin, Texas and Irving, Texas properties, are managed by professional third party property management companies.

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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.

For the Year Ended June 30, 2006 as compared to June 30, 2005.

The Company had a net loss of \$1,923,000 for the year ended June 30, 2006 compared a net loss of \$3,128,000 for the year ended June 30, 2005. The reduction in the net loss is primarily the result of the significant improvement in net gains(losses) from investments to net gains of \$4,921,000 during the year ended June 30, 2006 from net losses of \$4,874,000 during the year ended June 30, 2005, partially offset by the decrease in income from discontinued operations (properties sold or listed for sale) to \$583,000 for the year ended June 30, 2006 from \$3,483,000 for the year ended June 30, 2005 and the increase in the equity in net loss of Justice Investors to \$4,564,000 for the year ended June 30, 2006 from \$2,303,000 for the year ended June 30, 2005.

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The loss from real estate operations increased to \$2,158,000 for the year ended June 30, 2006 from \$1,756,000 for the year ended June 30, 2005 primarily as the result in the increase in property operating expenses to \$6,315,000 for fiscal year 2006 from \$4,608,000 for fiscal year 2005, partially offset by the amortization of an intangible asset of \$555,000 and the loss on early extinguishment of debt of \$160,000 during the year ended June 30, 2005. The increase in property operating expenses is due to management's overall effort to improve the Company's real estate operations and to prepare for sale certain non-strategic real estate properties. As the result of management's effort to improve the condition of the Company's apartments and to provide a higher quality of service to the current and potential tenants, across the Company's real estate portfolio, repairs and maintenance expenses increased by approximately \$744,000 and leasing and other services expenses increased by approximately \$168,000. Management also hired professional third party property managers during fiscal year 2006 to oversee the day-to-day real estate operations of all the Company's rental properties with exception to the two properties located in Austin and Irving, Texas, respectively. This resulted in additional property management fees of approximately \$159,000 for the year end June 30, 2006. In-house real estate management is currently focusing on improving the two properties not managed by third party property managers with the Irving, Texas property currently listed for sale. The operational results of this property are classified under discontinued operations. The additional operating expenses incurred to improve the real estate operations did increase rental income to \$12,014,000 for fiscal year 2006 from \$11,630,000 for fiscal year 2005.

During fiscal 2006, utilities expense, which is a component of real estate operating expenses, increased by \$120,000 as the result of higher energy costs. Professional fees related to the management of the properties also increased by approximately \$450,000. During the year ended June 30, 2006, the Company hired a professional consultant and paid \$250,000 in consulting fees to help management analyze and determine which non-strategic real estate properties to sell. The sale of some of these real estate assets is discussed below. Additionally, during fiscal 2006, the Company incurred approximately \$200,000 in litigation and settlement expenses related to two of its California properties. These expenses are included in property operating expenses.

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Gains on the sale of real estate decreased to \$1,321,000 for the year ended June 30, 2006 from \$6,069,000 for the year ended June 30, 2005. During fiscal 2006, the Company sold three apartment properties and a parcel of land and realized gains on the sale of real estate of totaling \$1,321,000. During fiscal year 2005, the Company sold 442-unit apartment complex located in Houston, Texas, for \$11,850,000 and recognized a gain of \$6,069,000. These real estate sales are a part of the Company's overall strategy to sell-off non-strategic assets.

In February 2006, the Company sold 5.4 acres of unimproved land in Pasadena, Texas for \$467,000 and recognized a gain on the sale of \$147,000. In December 2005, the Company sold its 54-unit apartment complex located in Irving, Texas for \$3,100,000 and realized a gain on the sale of real estate of \$598,000. In November 2005, the Company sold its 5-unit apartment complex located in Los Angeles, California for \$1,620,000 and realized a gain on the sale of real estate of \$592,000. In August 2005, the Company sold its 112-unit apartment complex located in Austin, Texas for \$4,400,000 and realized a net loss on the sale real estate of \$16,000. The net gain on the sales of these properties and the related revenues and expenses are excluded from the real estate operations and are presented under discontinued operations.

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During the twelve months ended June 30, 2005, the Company incurred a loss on early termination of debt of \$133,000 as the result of the repayment of \$1,180,000 mortgage on 54-unit apartment complex located in Irving, Texas that was eventually sold in December 2005. The amortization expense of \$555,000 during the twelve months ended June 30, 2005 was related to the amortization of the intangible asset acquired along with the purchase of the Las Colinas, Texas property purchased in April 2004. No such expenses were incurred during the fiscal year 2006.

The Company's equity in net loss of Justice Investors increased to \$4,564,000 for year ended June 30, 2006 from \$2,303,000 for the year ended June 30, 2005. For the year ended June 30, 2006, the Justice Investors sustained a total net loss of \$8,601,000 compared to a net loss of \$4,221,000 for the year ended June 30, 2005. The increase in that net loss was primarily attributable to greater losses from the operations of the Hotel, increased general and administrative expenses for professional services and other costs associated with the repositioning and reopening of the Hotel, higher interest costs, insurance costs, property taxes and greater depreciation and amortization expenses resulting from the renovation of the Hotel.

For the year ending June 30, 2006, Justice had a net loss from Hotel operations of approximately \$3,787,000 on revenues of approximately \$9,054,000 compared to a net operating loss of approximately \$1,734,000 on revenues of approximately \$12,930,000 in fiscal 2005. Effective, May 31, 2005, the Partnership elected to close down its Hotel operations to complete the renovations of the Hotel as required by the Hilton Franchise Agreement. Since the Hotel did not reopen until January 12, 2006, less than six months of operating results from the Hotel are included in fiscal 2006, while for the 2005 fiscal year eleven months of Hotel operating results were included. The increase in the net loss from Hotel operations was primarily due to approximately \$1,230,000 in start up costs incurred for the reopening of the Hotel and higher operating expenses, including property taxes and sales and marketing costs as the Hotel ramped up its operations. Garage rent decreased to \$945,000 from \$1,005,000 primarily due to the Hotel being closed for almost seven months in fiscal 2006.

Average daily room rates for the Hotel increased to approximately \$148 for

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fiscal 2006 (for five months of operations) from approximately \$90 for fiscal 2005 (for 11 months of operations), while average monthly occupancy rates decreased to 52% in fiscal 2006 from approximately 65% in fiscal 2005. The increase in average daily room rates is primarily attributable to the renovation and repositioning of the Hotel as a Hilton making it possible to achieve higher room rates. The decrease in average monthly occupancy rates is primarily attributable to the fact that the Hotel opened with a limited number of rooms available in January 2006 and did not transition into full operations until the end of February 2006 and it took several months until the Hotel was able to reach a level where it began generating net operating income in June 2006. Management understands that such a ramp up period is typical in the industry for hotels that shut down operations for major renovations, especially for those hotels that reopen with a different brand. As a general partner of Justice, Portsmouth will continue to work diligently with Evon, Dow and Hilton to improve the operations of the Hotel.

Net gains(losses) on marketable securities improved significantly to net gains of \$4,921,000 for the year ended June 30, 2006 from net losses of \$4,874,000 for the year ended June 30, 2005. The change was due to the significant improvement in the performance of Company's investment portfolio during the year ended June 30, 2006. For the year ended June 30, 2006, the Company had net unrealized gains of \$2,873,000 and net realized gains \$2,048,000. For the year ended June 30, 2005, the Company had net unrealized losses of \$7,734,000

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and realized gains of \$2,860,000. 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.

During the year ended June 30, 2006, the Company recorded impairment losses on other investments of \$513,000 that were considered permanently impaired. In the comparable year, the Company recorded impairment losses of \$740,000 related to other investments. These investments were determined to be impaired after review of the most recent financial statements and news releases of the entity in which the Company invested.

Dividend and interest income decreased to \$697,000 for the year ended June 30, 2006 from \$914,000 for the year ended June 30, 2005 as a result of the decreased investment in income yielding securities during the current fiscal year 2006.

General and administrative expenses increased to \$1,659,000 from \$1,460,000 primarily as the result of the increase in accounting audit fees to \$470,000 for fiscal year 2006 from \$244,000 for fiscal year 2005.

The total provision for income tax benefit decreased to \$2,131,000 for the year ended June 30, 2006 from \$2,668,000 for the year ended June 30, 2005 as the result of the decrease in the total loss before income taxes to \$4,541,000 from \$7,239,000 for the respective comparable year.

Minority interest benefit decreased to \$487,000 for the year ended June 30, 2006 from \$1,443,000 for the year ended June 30, 2005 as a result of the lower losses incurred by the Company's subsidiaries, Santa Fe and Portsmouth, during the year ended June 30, 2006 as compared to the year ended June 30, 2005.

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MARKETABLE SECURITIES

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 or American Stock Exchanges or the Nasdaq NMS Market; (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's investment portfolio is diversified with 60 different equity securities. The Company has five individual positions that comprise more than 5% of the equity value of the portfolio with the largest being 10.2% of the

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value of the portfolio. The amount of the Company's investment in any particular issue may increase or decrease, and additions or reductions 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 reductions in other positions. Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. As of June 30, 2006, the market value of the Company's marketable securities was \$29,186,000.

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, 2006, the Company had other investments of \$4,344,000.

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, 2006, the Company had obligations for securities sold (equities short) of \$6,635,000 and had no naked short positions.

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, 2006, the Company had a

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margin balance of \$11,532,000 and incurred \$767,000 and \$904,000 in margin interest expense during the year ended June 30, 2006 and June 30, 2005, respectively.

As of June 30, 2006, the Company had investments in marketable equity securities of \$29,186,000. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as of June 30, 2006:

Industry Group	Market Value	% of Total Investment Securities
-----	-----	-----
Insurance, banks and brokerages	\$ 5,066,000	17.4%
Telecommunications and media	3,856,000	13.2%
Consumer goods and retail	3,577,000	12.3%
Newspapers and paper mills	3,188,000	10.9%
Pharmaceuticals and healthcare	2,984,000	10.2%
REITs and building materials	2,603,000	8.9%
Services	2,380,000	8.2%
Technology, internet and computers	2,065,000	7.1%
Utilities and energy	1,381,000	4.7%
Automobiles and motor vehicle parts	419,000	1.4%
Other	1,667,000	5.7%
	-----	-----
	\$29,186,000	100.0%
	=====	=====

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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 year ended June 30,	2006	2005
	-----	-----
Net investment gains(losses)	\$ 4,921,000	\$ (4,874,000)
Impairment loss on other investments	(513,000)	(740,000)
Dividend & interest income	697,000	914,000
Margin interest	(767,000)	(904,000)
Trading expenses	(1,718,000)	(1,753,000)
	-----	-----
	\$ 2,620,000	\$ (7,357,000)
	=====	=====

FINANCIAL CONDITION AND LIQUIDITY

The Company's cash flows are generated primarily from its real estate activities, sales of investment securities and borrowings related to both. The Company generated cash flow of \$319,000 from operating activities, generated net cash flow of \$4,602,000 from investing activities, and used net cash flow of \$5,206,000 for financing activities during the year ended June 30, 2006.

In February 2006, the Company sold 5.4 acres of unimproved land in Pasadena, Texas for \$467,000 and recognized a gain on the sale of \$147,000. The Company received net proceeds after closing costs and attorney's fees of \$437,000.

In December 2005, the Company sold its 54-unit apartment complex located in Irving, Texas for \$3,100,000 and realized a gain on the sale of real estate of \$598,000. The Company received net proceeds of \$2,931,000 after selling costs

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and attorney's fees.

In November 2005, the Company sold its 5-unit apartment complex located in Los Angeles, California for \$1,620,000 and realized a gain on the sale of real estate of \$592,000. The Company received net proceeds of \$870,000 after selling costs and attorney's fees and the repayment of the mortgage note in the amount of \$660,000.

In August 2005, the Company sold its 112-unit apartment complex located in Austin, Texas for \$4,400,000 and realized a net loss on the sale real estate of \$16,000. The Company received net proceeds of \$1,664,000 after selling costs and attorney's fees and the repayment of the mortgage note in the amount of \$2,186,000.

In September 2004, the Company sold its 442-unit multi-family apartment complex located in Houston, Texas for \$11,850,000. The Company realized a gain of \$6,069,000 and received net proceeds of \$11,273,000 after selling costs and attorneys' fees.

During the year ended June 30, 2006, the Company improved properties in the aggregate amount of \$2,917,000. Management believes the improvements to the properties should enhance market values, maintain the competitiveness of the Company's properties and potentially enable the Company to obtain a higher yield through higher rents.

During the year ended June 30, 2006, the Company purchased 19,900 shares of Portsmouth stock for a total investment of \$718,000.

During the year ended June 30, 2006, the Company purchased 14,100 shares of Santa Fe stock for a total investment of \$260,000.

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In April 2006, Portsmouth purchased a 0.20% limited partnership interest in Justice from another limited partner for \$180,000, which brought its limited partnership interest in Justice to exactly 50.0%.

During the year ended June 30, 2006, the Company made additional borrowings of \$1,745,000 from its construction loan related to the renovation of its 30-unit apartment complex located in Los Angeles, California and made principal payments on its mortgages totaling \$3,921,000. The Company also repaid \$2,055,000 of its line of credit.

The Company's Board of Directors has given the Company the authority to repurchase, from time to time, shares of its Common Stock. Such repurchases may be made at the discretion of management and depending upon market conditions. During the year ended June 30, 2006, the Company acquired an additional 60,324 shares of its Common Stock for \$975,000. Approximately 36,000 shares remain eligible for the Company to repurchase under that authorization.

Prior to operating the hotel as a Hilton, the Partnership was required to make substantial renovations to the hotel to meet Hilton standards in accordance with a product improvement plan agreed upon by Hilton and the Partnership, as well as complying with other brand standards. The total cost of the construction-renovation project of the Hotel was approximately \$36.4 million, which excludes approximately \$630,000 in interest costs incurred during for the construction phase that were capitalized.

To meet its substantial financial commitments for the renovation project and transition of the Hotel to a Hilton, Justice had to rely on borrowings to meet

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its obligations. On July 27, 2005, Justice entered into a first mortgage loan (the "Prudential Loan") with The Prudential Insurance Company of America in a principal amount of \$30,000,000. The term of the Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Loan calls for monthly installments of principal and interest in the amount of approximately \$165,000, calculated on a 360 month 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 Loan is without recourse to the limited and general partners of Justice.

On July 27, 2005, Justice also obtained a \$10,000,000 Revolving Line of Credit ("LOC") from United Commercial Bank ("UCB"). The term of the LOC is for 60 months at an annual interest rate, based on an index selected by Justice at the time of the advance, equal to the Wall Street Journal Prime Rate or the Libor Rate plus 2%, fixed for the period selected by the Partnership. The Loc is collateralized by a second deed of trust on the Hotel property. Interest only is payable monthly with principal and accrued interest due a maturity. On January 20, 2006, the Partnership obtained a \$4,500,000 increase in its LOC, raising the total amount available to the Partnership pursuant to \$14,500,000. The increase in the credit line is on the same terms as the existing line of credit with additional loan and documentation fees of \$4,000. On May 23, 2006, Justice obtained a short term increase of its LOC of an additional \$2,000,000, raising the total amount available to the Partnership to \$16,500,000. If the short term increase of is not paid off by December 31, 2006, UCB has the right to record a lien on the Hotel property for the additional \$2,000,000. That increase is also on the same terms as the existing LOC, with additional documentation fees of \$1,000. As of June 30, 2006, approximately \$16,000,000 of the LOC was utilized.

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The Prudential Loan and the LOC have provided Justice with sufficient financial resources for the Partnership to complete the substantial renovations to the Hotel required by its Franchise License Agreement with Hilton and to meet its debt service requirements and operating capital needs through the reopening of the Hotel and the period of time necessary to ramp up operations. The Hotel started to generate net operating income from its operations in June 2006. The Partnership also believes that there is sufficient equity in the Hotel assets to support future borrowings if necessary. The Partnership believes that the revenues expected to be generated from the Hotel operations after July 1, 2006 will be sufficient to meet all of its current and future obligations and financial requirements.

The additional amount of leverage related to the Prudential Loan and the utilization of the LOC and the associated debt service will create additional risk for the Partnership and its ability to generate cash flows in the future since the Hotel asset has been virtually debt free for many years. The Partnership does not anticipate paying any partnership distributions until some time after operations stabilize under the Hilton brand and net income and capital requirements warrant such distributions. As a result, the Company may have to depend more on the revenues generated from the investment of its cash and securities assets during that transition period.

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 anticipates that the net cash flow generated from future operating activities will be sufficient to meet its operating and long-term debt service

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requirements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

The annual combined aggregate principal payments on the mortgage notes payable for the five-year period commencing July 1, 2006, and thereafter, are as follows:

Year ending June 30,	
2007	\$ 8,038,000
2008	5,963,000
2009	10,069,000
2010	1,102,000
2011	1,165,000
Thereafter	51,919,000

Total	\$78,256,000
	=====

IMPACT OF INFLATION

The Company's residential and commercial rental properties provide income from short-term operating leases and no lease extends beyond one year. Rental increases are expected to offset anticipated increased property operating expenses.

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The Company's revenue from its interest in Justice Investors is primarily dependent on hotel revenues. Hotel room rates are typically impacted by supply and demand factors, not inflation, since rental of a hotel room is usually for a limited number of nights. Room rates can be, and usually are, adjusted to account for inflationary cost increases. To the extent that the hotel lessee is able to adjust room rates, there should be minimal impact on partnership revenues due to inflation. Partnership revenues are also subject to interest rate risks, which may be influenced by inflation. For the two most recent fiscal years, the impact of inflation on the Company's income is not viewed by management as material.

CRITICAL ACCOUNTING POLICIES

The Company reviews its long-lived assets including its investment in real estate and other investments for impairment when circumstances indicate that a potential loss in carrying value may have occurred. To the extent that projected future undiscounted cash flows from the operation of the hotel property, owned through the Company's investment in Justice Investors, and rental properties are less than the carrying value of the assets, the carrying value of the assets are reduced to their fair value. For other investments, the Company reviews the investment's operating results, financial position and other relevant factors to determine whether the estimated fair value of the asset is less than the carrying value of the asset.

Marketable securities are stated at market value as determined by the most

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recently traded price of each security at the balance sheet date. Marketable securities are classified as trading with net change in unrealized gains or losses included in the statement of operations. The Company's other accounting policies are straightforward in their application.

Item 7. Financial Statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of The InterGroup Corporation at June 30, 2006, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Irvine, California
September 27, 2006

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THE INTERGROUP CORPORATION CONSOLIDATED BALANCE SHEET

As of June 30,	2006
ASSETS	
Investment in real estate, at cost:	
Land	\$ 25,989,000
Buildings, improvements and equipment	69,160,000
Less: accumulated depreciation	(19,867,000)
	75,282,000
Property held for sale	3,634,000
	78,916,000
Investment in Justice Investors	5,646,000
Cash and cash equivalents	583,000
Restricted cash	2,712,000
Investment in marketable securities	29,186,000
Other investments	4,344,000
Prepaid expenses and other assets	1,497,000

Total Assets	\$ 122,884,000
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities:	
Mortgage notes payable	\$ 74,150,000
Mortgage notes payable - property held for sale	4,106,000
Due to securities brokers	11,532,000
Obligation for securities sold	6,635,000
Line of credit	4,258,000
Accounts payable and other liabilities	3,405,000
Deferred income taxes	3,887,000

Total Liabilities	107,973,000

Minority Interest	5,668,000

Commitments and Contingencies	
Shareholders' Equity:	
Preferred stock, \$.01 par value, 2,500,000 shares authorized; none issued	-
Common stock - Class A, \$.01 par value, 2,500,000 shares authorized; none issued	-
Common stock, \$.01 par value, 4,000,000 shares authorized; 3,193,745 shares issued and 2,359,862 outstanding	21,000
Additional paid-in capital	8,686,000
Retained earnings	9,350,000
Treasury stock, at cost, 833,883 shares	(8,814,000)

Total Shareholders' Equity	9,243,000

Total Liabilities and Shareholders' Equity	\$ 122,884,000
	=====

The accompanying notes are an integral part of the consolidated financial

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statements.

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THE INTERGROUP CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Year Ended June 30,	2006	2005
	-----	-----
Real estate operations:		
Rental income	\$ 12,014,000	\$ 11,630,000
Rental expenses:		
Property operating expenses	(6,315,000)	(4,608,000)
Mortgage interest expense	(3,697,000)	(3,784,000)
Real estate taxes	(1,798,000)	(1,870,000)
Depreciation	(2,362,000)	(2,409,000)
Amortization	-	(555,000)
Loss on early extinguishment of debt	-	(160,000)
	-----	-----
Loss from real estate operations	(2,158,000)	(1,756,000)
	-----	-----
Equity in net loss of Justice Investors	(4,564,000)	(2,303,000)
	-----	-----
Investment transactions:		
Net investment gains(losses)	4,921,000	(4,874,000)
Impairment loss on other investments	(513,000)	(740,000)
Dividend and interest income	697,000	914,000
Margin interest and trading expenses	(2,485,000)	(2,657,000)
	-----	-----
Income(loss) from investment transactions	2,620,000	(7,357,000)
	-----	-----
Other income(expense):		
General and administrative expenses	(1,659,000)	(1,460,000)
Other income	121,000	121,000
	-----	-----
Other expense	(1,538,000)	(1,339,000)
	-----	-----
Loss before provision for income taxes and minority interest	(5,640,000)	(12,755,000)
	-----	-----
Provision for income tax benefit	2,647,000	4,701,000
	-----	-----
Loss before minority interest	(2,993,000)	(8,054,000)
Minority interest benefit, net of tax	487,000	1,443,000
	-----	-----
Net loss from continuing operations	\$ (2,506,000)	\$ (6,611,000)
	-----	-----
Discontinued operations:		
Net loss on discontinued operations	\$ (222,000)	\$ (553,000)
Gain on sale of real estate	1,321,000	6,069,000
Provision for income tax expense	(516,000)	(2,033,000)
	-----	-----
Income from discontinued operations	\$ 583,000	\$ 3,483,000
	-----	-----
Net loss	\$ (1,923,000)	\$ (3,128,000)
	=====	=====
Loss per share from continuing operations		
Basic	\$ (1.05)	\$ (2.69)
Diluted	\$ (1.05)	\$ (2.69)

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	=====	=====
Income per share from discontinued operations		
Basic	\$ 0.24	\$ 1.42
Diluted	\$ 0.21	\$ 1.23
	=====	=====
Net loss per share		
Basic	\$ (0.81)	\$ (1.27)
Diluted	\$ (0.81)	\$ (1.27)
	=====	=====
Weighted average number of shares outstanding	2,385,008	2,453,544
	=====	=====
Diluted weighted average number of shares outstanding	2,754,008	2,821,044
	=====	=====

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

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THE INTERGROUP CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common stock	Additional paid-in capital	Retained Earnings	Treasury Stock	Total
	-----	-----	-----	-----	-----
Balance at June 30, 2004	\$ 21,000	\$8,686,000	\$14,401,000	\$ (6,799,000)	\$16,309,000
Net loss			(3,128,000)		(3,128,000)
Purchase of treasury stock				(1,040,000)	(1,040,000)
	-----	-----	-----	-----	-----
Balance at June 30, 2005	21,000	8,686,000	11,273,000	(7,839,000)	12,141,000
Net loss			(1,923,000)		(1,923,000)
Purchase of treasury stock				(975,000)	(975,000)
	-----	-----	-----	-----	-----
Balance at June 30, 2006	\$21,000	\$8,686,000	\$ 9,350,000	\$ (8,814,000)	\$ 9,243,000
	=====	=====	=====	=====	=====

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

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THE INTERGROUP CORPORATION

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CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended June 30,	2006	2005
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (1,923,000)	\$ (3,128,000)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation of real estate	2,362,000	2,409,000
Depreciation - discontinued operations	149,000	495,000
Amortization of intangible asset	-	555,000
Gain on sale of real estate	(1,321,000)	(6,069,000)
Loss on early extinguishment of debt	-	160,000
Equity in net loss of Justice Investors	4,564,000	2,303,000
Net unrealized (gain)loss on investments	(2,873,000)	7,734,000
Impairment loss on other investments	513,000	740,000
Minority interest	(487,000)	(1,443,000)
Changes in assets and liabilities:		
Restricted cash	269,000	572,000
Prepaid expenses and other assets	370,000	1,204,000
Investment in marketable securities	(2,279,000)	34,632,000
Other investments	(2,689,000)	(1,716,000)
Accounts payable and other liabilities	(107,000)	(958,000)
Due to securities broker	4,806,000	(15,719,000)
Obligations for securities sold	1,378,000	(16,328,000)
Deferred taxes	(2,413,000)	(1,516,000)
	-----	-----
Net cash provided by operating activities	319,000	3,927,000
	-----	-----
Cash flows from investing activities:		
Net proceeds from sale of real estate	8,677,000	11,273,000
Investment in real estate	-	(1,467,000)
Additions to buildings, improvements and equipment	(2,917,000)	(2,920,000)
Investment in Santa Fe	(260,000)	(197,000)
Investment in Portsmouth	(718,000)	(1,499,000)
Investment in Justice Investors	(180,000)	-
	-----	-----
Net cash provided by investing activities	4,602,000	5,190,000
	-----	-----
Cash flows from financing activities:		
Borrowings from mortgage notes payable	1,745,000	6,703,000
Principal payments on mortgage notes payable	(3,921,000)	(16,002,000)
Borrowings from (repayment of) line of credit	(2,055,000)	1,313,000
Purchase of treasury stock	(975,000)	(1,040,000)
	-----	-----
Net cash used in financing activities	(5,206,000)	(9,026,000)
	-----	-----
Net increase(decrease) in cash and cash equivalents	(285,000)	91,000
Cash and cash equivalents at beginning of period	868,000	777,000
	-----	-----
Cash and cash equivalents at end of period	\$ 583,000	\$ 868,000
	=====	=====

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

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THE INTERGROUP CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business and Significant Accounting Policies and Practices:

Description of the Business

The InterGroup Corporation ("InterGroup" or the "Company") was formed to buy, develop, operate and dispose of real property and to engage in various investment activities to benefit the Company and its shareholders.

As of June 30, 2006 and 2005, the Company had the power to vote 78% and 76.9%, respectively, of the voting shares of Santa Fe Financial Corporation ("Santa Fe"), a public company (OTCBB: SFEF). Those percentages include the power to vote an approximately 4% interest in the common stock in Santa Fe owned by the Company's Chairman and President pursuant to a voting trust agreement entered into on June 30, 1998.

Santa Fe's revenue is primarily generated through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), a public company (OTCBB: PRSI), which derives its revenue primarily as a general partner and a 50% limited partner in Justice Investors, a California limited partnership ("Justice" or the "Partnership"). Justice owns the land, improvements and leaseholds now known as the "Hilton San Francisco Financial District", a 549-room hotel in San Francisco, California (the "Hotel").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all controlled subsidiaries. All significant inter-company transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Real Estate

Investments in real estate are stated at cost. Depreciation of buildings, improvements and equipment is provided on the straight-line method based upon estimated useful lives of five to forty years for buildings and improvements and five to ten years for equipment. Expenditures for repairs and maintenance are charged to expense as incurred and improvements are capitalized.

In accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for Impairment or Disposal of Long-Lived Assets", the Company reviews its rental property assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If expected future cash flows (undiscounted and excluding interest costs) are less than the carrying value of the rental asset, the asset is written down to its fair value. The estimation of expected future net cash flows is inherently uncertain and relies to a considerable extent on assumptions regarding current and future economic and market conditions, and

the availability of capital. If, in future periods, there are changes in the estimates or assumptions incorporated into the impairment review analysis, the changes could result in an adjustment to the carrying amount of the long-lived asset. No impairment losses on the investment in real estate have been recorded for the year ended June 30, 2006 and 2005.

Properties are classified as held for sale when management commits to a plan to sell the asset, the asset is available for immediate sale, an active program to locate a buyer has been initiated, the sale of the asset is probable, the sale of the asset is actively marketed and it is unlikely that significant changes to the sale plan will be made or withdrawn. As of June 30, 2006, the Company had one property classified as held for sale.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased and are carried at cost, which approximates fair value.

Restricted Cash

Restricted cash is comprised of amounts held by lenders for payment of real estate taxes, insurance, replacement reserves for the operating properties and tenant security deposits that are invested in certificates of deposit.

Investment in Marketable Securities

Marketable securities are stated at market value as determined by the most recently traded price of each security at the balance sheet date. Marketable securities are classified as trading securities with all unrealized gains and losses on the Company's investment portfolio recorded through the statement of operations.

Other Investments

Other 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.

Due to Securities Broker

The Company may utilize margin for its marketable securities purchases through the use of standard margin agreements with national brokerage firms. Various securities brokers have advanced funds to the Company for the purchase of marketable securities under standard margin agreements. These advanced funds are recorded as a liability.

Obligation for Securities Sold

Obligation for securities sold represents the fair market value of shares sold with the promise to deliver that security at some future date and the fair market value of shares underlying the written call options with the obligation to deliver that security when and if the option is exercised. The obligation may be satisfied with current holdings of the same security or by subsequent purchases of that security. Unrealized gains and losses from changes in the obligation are included in the statement of operations.

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Treasury Stock

The Company records the acquisition of treasury stock under the cost method.

Rental Income

Rental income is recognized as earned. Revenue recognition from apartment rentals commences when an apartment unit is placed in service and occupied by a rent-paying tenant. Apartment units are leased on a short-term basis, with no lease extending beyond one year.

Income Taxes

Deferred income taxes are determined using the liability method. A deferred tax asset or liability is determined based on the difference between the financial statement and tax basis of assets and liabilities as measured by statutory tax rates. Deferred tax expense is the result of changes in the asset and/or liability for deferred taxes.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, restricted cash, marketable securities, other investments, mortgage notes payable, amounts due securities brokers and obligations for securities sold approximates fair value. The fair value of mortgage notes payable is estimated using discounted cash flows of future payments based on the borrowing rates available to the Company for debt with similar terms and maturities.

Environmental Remediation Costs

Liabilities for environmental remediation costs are recorded and charged to expense when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Recoveries of such costs are recognized when received. As of June 30, 2006, there were no liabilities for environmental remediation.

The Company adopted Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143 ("FIN 47") during the fiscal year ended June 30, 2006. FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the Company. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, the Company is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The adoption of FIN 47 did not have any impact on the Company's consolidated balance sheet as of June 30, 2006 or its consolidated statements of operations or its consolidated statements of cash flows for the years ended June 30, 2006 and June 30, 2005.

Stock-Based Compensation Plans

Effective December 15, 2002, the Company adopted Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 148). In accounting for its plans, the Company, as allowable under the provisions of

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SFAS 148, applies Accounting Principles Board Opinions No. 25, "Accounting for Stock issued to Employees." As a result of this election, the Company does not recognize compensation expense for its stock option plans.

During the years ended June 30, 2006 and 2005, the Company granted 12,000 and 15,000 options, respectively. Had the Company determined compensation expense based on the fair value for its stock options at grant date, net income(loss) and earnings(loss) per share would have been reduced to the pro forma amounts as follows:

For the year ended June 30,	2006	2005
	-----	-----
Net loss	\$ (1,923,000)	\$ (3,128,000)
Stock based employee Compensation expense*	(56,000)	(77,000)
	-----	-----
Pro forma net loss	\$ (1,979,000)	\$ (3,205,000)
Loss per share		
Basic as reported	\$ (0.81)	\$ (1.27)
Basic pro forma	\$ (0.83)	\$ (1.31)
Diluted as reported	\$ (0.81)	\$ (1.27)
Diluted pro forma	\$ (0.83)	\$ (1.31)

*Determined under fair value based on method for awards net of related tax effects (40%).

The Black-Scholes option pricing model was used with the following weighted-average assumptions:

For the year ended June 30,	2006	2005
	-----	-----
Risk free interest rate	5.07%	3.87%
Dividend yield	0.00%	0.00%
Price volatility factor	24.46	24.60
Weighted average expected life	10	10
Fair value of each option granted	\$7.71	\$7.83
Aggregate fair value of options granted	\$92,000	\$129,000

Earnings Per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the weighted-average number of common shares is increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued. The Company's only potentially dilutive common shares are stock options. Stock options are included in diluted earnings per share by application of the treasury stock method. As of June 30, 2006, the Company had 369,000 stock options that were considered potentially dilutive common shares and 36,000 stock options that were considered anti-dilutive. These amounts were included in the calculation for diluted earnings per share. As of June 30, 2005, the Company had 367,500 stock options that were considered potentially dilutive common shares and 25,500 stock options that were considered anti-dilutive. These amounts were included in the calculation for diluted earnings per share.

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123-R, Share-Based Payment. This Statement addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for (a) equity instruments of the company, such as stock options, or (b) liabilities, such as those related to performance units, that are based on the fair value of the company s equity instruments or that may be settled by the issuance of such equity instruments.

SFAS No. 123-R, which is effective for the Company beginning in the first quarter of fiscal year 2007, eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, and generally requires that such transactions be accounted for using prescribed fair-value-based methods. SFAS No. 123-R permits public companies to adopt its requirements using one of two methods: (a) a modified prospective method in which compensation costs are recognized beginning with the effective date based on the requirements of SFAS No. 123-R for all share-based payments granted after the effective date and based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123-R that remain unvested on the effective date or (b) a modified retrospective method which includes the requirements of the modified prospective method described above, but also permits companies to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either for all periods presented or prior interim periods of the year of adoption. The Company does not believe the adoption of SFAS No. 123(R) will have a material impact on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." This Interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance is also provided on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is in the process of evaluating the impact, if any, of FIN 48 on its consolidated financial statements.

2. Investment in Real Estate:

At June 30, 2006, the Company's investment in real estate consisted of twenty three properties located throughout the United States. These properties include nineteen apartment complexes, two single-family houses as strategic investments, and two commercial real estate properties, one of which serves as the Company's corporate headquarters. The Company also owns two unimproved real estate properties located in Irving, Texas and Maui, Hawaii.

In February 2006, the Company sold 5.4 acres of unimproved land in Pasadena, Texas for \$467,000 and recognized a gain on the sale of \$147,000. The Company

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received net proceeds after closing costs and attorney's fees of \$437,000.

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In December 2005, the Company sold its 54-unit apartment complex located in Irving, Texas for \$3,100,000 and realized a gain on the sale of real estate of \$598,000. The Company received net proceeds of \$2,931,000 after selling costs and attorney's fees.

In November 2005, the Company sold its 5-unit apartment complex located in Los Angeles, California for \$1,620,000 and realized a gain on the sale of real estate of \$592,000. The Company received net proceeds of \$870,000 after selling costs and attorney's fees and the repayment of the mortgage note in the amount of \$660,000.

In August 2005, the Company sold its 112-unit apartment complex located in Austin, Texas for \$4,400,000 and realized a net loss on the sale real estate of \$16,000. The Company received net proceeds of \$1,664,000 after selling costs and attorney's fees and the repayment of the mortgage note in the amount of \$2,186,000.

In September 2004, the Company sold its 442-unit multi-family apartment complex located in Houston, Texas for \$11,850,000. The Company realized a gain of \$6,069,000 and received net proceeds of \$11,273,000 after selling costs and attorneys' fees.

Under the provisions of the Statement of Financial Accounting Standards No.144, Accounting for Impairment or Disposal of Long-Lived Assets, for properties disposed of during the year or for properties for which the Company actively markets for sale at a price that is reasonable in relation to its market value, the properties are required to be classified as held for sale on the balance sheet and accounted for under discontinued operations in the statement of operations. The revenues and expenses from the operation of these properties have been reclassified from continuing operations for the year ended June 30, 2006 and 2005 and reported as income from discontinued operations in the consolidated statements of operations.

As of June 30, 2006, the Company had one property located in Texas classified as held for sale. The revenues and expenses from the operation for this property along with the properties that were sold during the years ended June 30, 2006 and 2005 respectively, have been reclassified from continuing operations and reported as income from discontinued operations in the consolidated statements of operations for the respective years. Revenues and expenses from the operation of these properties for the year ended June 30, 2006 and 2005 are summarized as follows:

For the year ended June 30,	2006	2005
	-----	-----
Revenues	\$1,522,000	\$ 2,922,000
Expenses	(1,744,000)	(3,475,000)
	-----	-----
Net loss	(222,000)	(553,000)
	=====	=====

Depreciation expense for the year ended June 30, 2006 and 2005, was \$149,000 and \$495,000, respectively.

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3. Marketable Securities and Other Investments:

At June 30, 2006, all of the Company's marketable securities are classified as trading securities. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the change in the unrealized gains and losses on these investments are included the statement of operations. Trading securities are summarized as follows:

As of June 30, 2006

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Market Value
Corporate Equities	\$23,665,000	\$6,802,000	(\$1,281,000)	\$5,521,000	\$29,186,000

As of June 30, 2006, the Company had \$647,000 of unrealized losses related to securities held for over one year.

As of June 30, 2006, the Company had net other investments of \$4,344,000. This balance includes gross other investments of \$5,823,000, net an impairment loss of \$1,479,000.

As part of the investment strategies, the Company may assume short positions in marketable securities. Short sales are used by the Company to potentially offset normal market risks undertaken in the course of its investing activities or to provide additional return opportunities. As of June 30, 2006, the Company had obligations for securities sold (equities short) of \$6,635,000 and had no naked short positions.

Net gains on marketable securities on the statement of operations are comprised of realized and unrealized gains. Below is the composition of the two components for the years ended June 30, 2006 and 2005.

For the year ended June 30,	2006	2005
Realized gains on marketable securities	\$ 2,048,000	\$ 2,860,000
Unrealized gains(losses) on marketable securities	2,873,000	(7,734,000)
Net gains(losses) on marketable securities	4,921,000	\$(4,874,000)

4. Investment in Justice Investors:

The Company has a 50% interest in Justice Investors. Justice owns the land, improvements and leaseholds now known as the "Hilton San Francisco Financial District", a 549-room hotel in San Francisco, California. Portsmouth is both a general and limited partner in Justice and oversees operations and shares management responsibilities with the other general partner. Portsmouth records its investment in Justice on the equity basis.

The Company amortizes on a straight-line basis the step up in the asset values which represents the excess purchase price over the underlying book value and is allocable to the depreciable assets of its investment in Justice Investors

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over 40 years, which approximates the remaining life of the primary asset, the hotel building.

For the Company's investment in Justice, to the extent that projected future undiscounted cash flows from the operation of the Hotel property are less than the carrying value of the asset, the investment would be considered impaired and the carrying value of the asset would be reduced to its fair value. All significant partnership decisions require the active participation and approval of both general partners. The Company and Evon jointly consult and

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determine the amount of partnership reserves and the amount of cash to be distributed to the limited 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.

Historically, Justice's most significant income source was a lease between the Partnership and Felcor Lodging Trust, Inc. ("Felcor") for the Hotel portion of the property. Pursuant to a Settlement Agreement entered into on May 3, 2004, Felcor agreed to terminate its lease and surrender possession of the Hotel to Justice, on June 30, 2004. Effective July 1, 2004, Justice became the owner-operator of the Hotel, with the assistance of a Management Agreement with Dow Hotel Company, LLC. ("Dow") to perform the day-to-day management functions of the Hotel. The Partnership also derives income from the lease of the garage portion of the property to Evon and from a lease on the lobby level of the Hotel to Tru Spa. The Company also derives revenue from management fees from Justice for actively managing the hotel as a general partner.

On December 10, 2004, Justice entered into a Franchise License Agreement for the right to operate the Hotel property as a Hilton brand hotel. Prior to operating the hotel as a Hilton, the Partnership was required to make substantial renovations to the hotel to meet Hilton standards in accordance with a product improvement plan agreed upon by Hilton and the Partnership, as well as complying with other brand standards. The Agreement required that those renovations be complete and the Hotel commence operations as a Hilton hotel no later than June 1, 2006. The term of the Agreement is for a period of 15 years commencing on the opening date, with an option to extend the license term for another five years, subject to certain conditions.

On March 15, 2005, the Partnership announced its decision to close down its Hotel operations on or about June 1, 2005 to complete renovations of the Hotel as required by the Hilton Agreement. The below ground parking garage and Tru Spa located on the lobby level of the Hotel, both of which are lessees of the Partnership, remained open during the renovation work. The Hotel renovation work was substantially completed on January 12, 2006 at which time the Partnership 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 \$36.4 million, which excludes approximately \$630,000 in interest costs incurred during for the construction phase that were capitalized.

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On July 14, 2005, the Financial Accounting Standards Board directed Staff Position (FSP) SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5" to amend the guidance in AICPA Statement of Position

78-9, "Accounting for Investments in Real Estate Ventures" (SOP 78-9) to be consistent with the consensus in Emerging Issues Task Force Issue No. 04-5 "Determining Whether a General Partner, or General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" (Issue 04-5). FSP SOP 78-9-1 eliminated the concept of "important rights" in paragraph .09 of SOP 78-9 and replaces it with the concepts of "kick out rights" and "substantive participating rights" as defined in Issue 04-5.

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Under the amendment to paragraph .09 of SOP 78-9 the general partners of a limited partnership should be deemed to control a limited partnership; however, the rights of the limited partners may overcome that presumption of control. The guidance in EITF Issue No. 04-5 should be used to determine whether the rights of the limited partners overcome the presumption of control by the general partners. The presumption of control is not overcome by the rights of the limited partners and if a single general partner controls the limited partnership, that general partner should consolidate the limited partnership and apply the principles of accounting applicable for investments in subsidiaries. For existing partnership agreements such as Justice Investors, the guidance should be applied in financial statements issued for the first reporting period in the fiscal years beginning after December 15, 2005 and early application is encouraged.

During the fiscal quarter ended March 31, 2006, Portsmouth conducted an assessment of its general and limited interest in Justice Investors under the new guidance provided by SOP 78-9-1. The Company determined that, under the limited partnership agreement, the limited partners of Justice do not have either "kick out rights" to remove Portsmouth as a general partner or "substantive participating rights" to direct the business of the Partnership. Significant in that assessment is the fact that the limited partners of Justice do not have the ability to dissolve (liquidate) the Partnership and effectively remove the general partners without the participation and consent of Portsmouth's 50.0% limited partnership interest since any action to sell the Partnership real property and dissolve the Partnership requires the approval of partners entitled to more than 72% of the net profit of the Partnership. Based on its assessment, Portsmouth has concluded that rights of the limited partners under the Partnership agreement do not overcome the presumption that Portsmouth, as a general partner and a significant limited partner, controls the Partnership in accordance with guidance set forth in FSP SOP 78-9-1. Thus, Portsmouth will be able to consolidate Justice and apply the principles of accounting applicable for investments in subsidiaries due to its substantial limited partnership interest and general partnership rights.

Portsmouth will apply the guidance of FSP SOP 78-9-1 in its financial statements issued for the first reporting period of its fiscal year beginning July 1, 2006.

Condensed financial statements for Justice Investors are as follows:

JUSTICE INVESTORS CONDENSED BALANCE SHEET

As of June 30,

2006

Assets

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Cash	\$ 2,352,000
Other assets	2,057,000
Property, plant and equipment, net of accumulated depreciation of \$14,814,000	42,146,000
Land	1,124,000

Total assets	\$ 47,679,000
	=====
Liabilities and partners' capital	
Total current liabilities	\$ 6,647,000
Long term liabilities	45,719,000
Partners' capital deficit	(4,687,000)

Total liabilities and partners' capital	\$ 47,679,000
	=====

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JUSTICE INVESTORS CONDENSED STATEMENTS OF OPERATIONS

For the year ended June 30,	2006	2005
	-----	-----
Hotel revenue	\$ 9,054,000	\$ 12,930,000
Garage rent	945,000	1,005,000
Other income(loss)	(2,195,000)	53,000
Operating expenses	(16,405,000)	(16,218,000)
Loss on disposition of assets	-	(1,991,000)
	-----	-----
Net loss	\$ (8,601,000)	\$ (4,221,000)
	=====	=====

5. Mortgage Notes Payable:

As of June 30, 2006, the Company had mortgage debt outstanding of \$78,256,000. The mortgages carry variable rates from 6.45% to 9.25% and fixed rates ranging from 4.35% to 7.95%.

In May 2004, the Company obtained a construction loan in the amount of \$6,268,000 as part of a major renovation of its 30-unit apartment complex located in Los Angeles, California. In December 2005, the Company entered into a loan modification agreement with the bank and increased the loan amount to \$7,286,000 with maturity on June 1, 2007. As of June 30, 2006, the balance on the construction loan was \$6,878,000.

In November 2005, the Company paid off a mortgage in the amount of \$660,000 related to the sale of its 5-unit family apartment located Los Angeles, California.

In August 2005, the Company paid off a mortgage in the amount of \$2,186,000 related to the sale of its 112-unit multi-family apartment located Austin, Texas.

In June 2005, the Company refinanced a loan in the amount of \$4,006,000 on its 157-unit Florence, Kentucky property and obtained a new mortgage in the amount of \$4,200,000. The loan is a 10 year fixed rate loan at 4.995%.

In September 2004, as a part of the sale of its 442-unit property in Houston, Texas, the Company paid off the related mortgage loan in the amount of \$9,864,000.

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In August 2004, the Company repaid a mortgage in the amount of \$1,180,000 on its 54-unit multi-family apartment located in Irving, Texas. Related to the repayment of the mortgage, the Company incurred an early termination fee of \$133,000.

In August 2004, to facilitate the purchase of the land in Kihei, Maui, the Company obtained a loan in the amount of \$750,000. The loan is for a term of three years at a floating interest rate equal to the bank's base rate (8.25% as of June 30, 2006) plus 1%. Interest only is payable monthly.

Each mortgage is secured by its respective land and building. Mortgage notes payable secured by real estate are comprised of the following information as of June 30, 2006:

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Property	Number of Units	Note Origination Date	Note Maturity Date	Mortgage Balance	Interest Rate
Los Angeles	30	May 2004	June 2007	\$ 6,878,000	7.31%
Los Angeles	Office	September 2000	December 2013	767,000	6.45%
Los Angeles	24	March 2001	April 2031	1,693,000	7.15%
Los Angeles	5	July 2000	August 2030	428,000	7.59%
Los Angeles	1	November 2000	December 2030	461,000	8.44%
Kihei, Maui	Land	August 2004	August 2007	750,000	9.25%
Total variable interest debt				\$10,977,000	
Austin	249	June 2003	July 2023	7,762,000	5.46%
Florence	157	June 2005	July 2014	4,200,000	4.99%
Irving	224	July 2001	January 2008	4,106,000	7.01%
Las Colinas	358	April 2004	May 2013	19,696,000	4.99%
Morris County	151	April 2003	May 2013	10,118,000	5.43%
San Antonio	132	November 1998	December 2008	2,938,000	6.62%
St. Louis	264	June 1998	July 2008	5,352,000	6.73%
Los Angeles	31	July 2003	August 2033	4,009,000	4.35%
Los Angeles	27	October 1999	October 2029	1,811,000	7.73%
Los Angeles	14	October 1999	November 2029	1,069,000	7.89%
Los Angeles	12	November 2003	December 2018	1,014,000	6.38%
Los Angeles	9	November 1999	December 2029	799,000	7.95%
Los Angeles	8	May 2001	November 2029	556,000	7.00%
Los Angeles	7	November 2003	December 2018	1,048,000	6.38%
Los Angeles	4	November 2003	December 2018	713,000	6.38%
Los Angeles	2	February 2002	February 2032	436,000	6.45%
Los Angeles	1	October 2003	November 2033	507,000	5.75%
Los Angeles	Office	February 1999	April 2009	1,145,000	7.76%
Total fixed interest debt				\$67,279,000	
Total mortgages				\$78,256,000	

The annual combined aggregate principal payments on the mortgage notes payable for the five-year period commencing July 1, 2006, and thereafter, are as follows:

Year ending June 30,	
2007	\$ 8,038,000

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2008	5,963,000
2009	10,069,000
2010	1,102,000
2011	1,165,000
Thereafter	51,919,000

Total	\$78,256,000
	=====

At June 30, 2006, the total outstanding mortgage balance approximates the estimated fair value of the outstanding debt.

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6. Line of Credit:

In August 2004, the Company obtained a revolving \$1,500,000 line of credit secured by its 31-unit property Los Angeles property. In June 2006, the balance of the line of credit of \$1,400,000 was paid off.

In April 2004, the Company obtained a revolving \$5,000,000 line of credit ("LOC"). The LOC carries a variable interest rate of 9.00% as of June 30, 2006. Interest is paid on a monthly basis. As of June 30, 2006, the balance of the LOC is \$4,258,000. In July 2006, the LOC was renewed through October 2007.

7. Income Taxes:

The provision for the Company's income tax benefit (expense) is comprised of the following:

For the year ended June 30,	2006	2005
	-----	-----
Current tax expense	\$ (283,000)	\$ (299,000)
Deferred tax benefit	2,414,000	2,967,000
	-----	-----
	\$ 2,131,000	\$ 2,668,000
	=====	=====

The components of the deferred tax liability as of June 30, 2006, are as follows:

Net operating loss carryforwards	\$ 8,634,000
Capital loss carryforwards	295,000
Accruals and reserves	939,000

Deferred tax assets	9,868,000

Deferred real estate gains	\$ (8,750,000)
Unrealized gains on marketable securities	(2,299,000)
Depreciation	(1,516,000)
Book/tax difference on investment in Justice Investors	(1,130,000)
State taxes	(60,000)

Deferred tax liabilities	(13,755,000)

Net deferred tax liability	\$ (3,887,000)
	=====

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The provision for income taxes differs from the amount of income tax computed by applying the federal statutory income tax rate to income before taxes as a result of the following differences:

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For the year ended June 30,	2006	2005
	-----	-----
Income tax at federal statutory rates	\$ 1,544,000	\$ 2,382,000
State income taxes, net of federal benefit	-	390,000
Dividend received deduction	64,000	196,000
Other adjustments	523,000	(300,000)
	-----	-----
Total income tax benefit	\$ 2,131,000	\$ 2,668,000
	=====	=====

As of June 30, 2006, the Company had net operating losses (NOLs) of \$22,123,000 and \$14,867,000 for federal and state purposes, respectively. Below is the break-down of the NOLs for Intergroup, Santa Fe and Portsmouth. The carryforward expires in varying amounts through the year 2025.

	Federal	State
	-----	-----
Intergroup	\$10,678,000	\$ 6,735,000
Santa Fe	5,357,000	2,351,000
Portsmouth	6,088,000	5,781,000
	-----	-----
	\$22,123,000	\$14,867,000
	=====	=====

The Company also has capital losses available for carryforward of \$660,000 and \$802,000 for federal and state purposes, respectively. These carryforwards expire in varying amounts through 2011.

8. Segment Information

The Company operates in three reportable segments, the operations of its multi-family residential properties, the operation of Justice Investors, and the investment of its cash and securities assets. These three operating segments, as presented in the financial statements, reflect how management internally reviews each segment's performance. Management also makes operational and strategic decisions based on this same information.

Information below represents reported segments for the years ended June 30, 2006 and 2005. Operating income for rental properties consist of rental income. Operating income(loss) from Justice Investors consist of the operations of the hotel and garage included in the equity in net income(loss) of Justice Investors. Operating income for investment transactions consist of net investment gains and dividend and interest income.

	Real Estate				
Year ended	Rental	Justice	Investment	Other	Subtotal
June 30, 2006	Properties	Investors	Transactions	-----	-----
	-----	-----	-----		-----
Operating income(loss)	\$12,014,000	\$(4,564,000)	\$ 5,105,000	\$ -	\$ 12,555,000
Operating expenses	(6,315,000)	-	(2,485,000)	-	(8,800,000)
Real estate taxes	(1,798,000)	-	-	-	(1,798,000)

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Net operating income (loss)	3,901,000	(4,564,000)	2,620,000	-	1,957,000
Gain on sale of real estate	-	-	-	-	-
Mortgage interest expense	(3,697,000)	-	-	-	(3,697,000)
Depreciation	(2,362,000)	-	-	-	(2,362,000)
General and administrative Expense	-	-	-	(1,659,000)	(1,659,000)
Other income	-	-	-	121,000	121,000
Income tax expense	-	-	-	2,647,000	2,647,000
Minority interest	-	-	-	487,000	487,000
Net income (loss)	<u>\$ (2,158,000)</u>	<u>\$ (4,564,000)</u>	<u>\$ 2,620,000</u>	<u>\$ 1,596,000</u>	<u>\$ (2,506,000)</u>
Total Assets	<u>\$75,282,000</u>	<u>\$ 5,646,000</u>	<u>\$33,530,000</u>	<u>\$ 4,792,000</u>	<u>\$ 119,250,000</u>

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Year ended June 30, 2005	Real Estate				Subtotal
	Rental Properties	Justice Investors	Investment Transactions	Other	
Operating income	\$11,630,000	\$ (2,303,000)	\$ (4,700,000)	\$ -	\$ 4,627,000
Operating expenses	(4,608,000)	-	(2,657,000)	-	(7,265,000)
Real estate taxes	(1,870,000)	-	-	-	(1,870,000)
Net operating income (loss)	<u>5,152,000</u>	<u>(2,303,000)</u>	<u>(7,357,000)</u>	<u>-</u>	<u>(4,508,000)</u>
Gain on sale of real estate	-	-	-	-	-
Mortgage interest expense	(3,784,000)	-	-	-	(3,784,000)
Depreciation	(2,409,000)	-	-	-	(2,409,000)
Amort. of intangible asset	(555,000)	-	-	-	(555,000)
Loss on early termination Of debt	(160,000)	-	-	-	(160,000)
General and administrative Expense	-	-	-	(1,460,000)	(1,460,000)
Other income	-	-	-	121,000	121,000
Income tax benefit (expense)	-	-	-	4,701,000	4,701,000
Minority interest	-	-	-	1,443,000	1,443,000
Net income (loss)	<u>\$ (1,756,000)</u>	<u>\$ (2,303,000)</u>	<u>\$ (7,357,000)</u>	<u>\$ 4,805,000</u>	<u>\$ (6,611,000)</u>
Total Assets	<u>\$77,629,000</u>	<u>\$ 9,522,000</u>	<u>\$24,033,000</u>	<u>\$ 7,884,000</u>	<u>\$ 119,068,000</u>

9. Supplemental Cash Flow Information:

Cash paid for margin interest for the year ended June 30, 2006 and 2005 was \$969,000 and \$904,000, respectively. Cash paid for interest on mortgage notes payable for the year ended June 30, 2006 and 2005 was \$4,105,000 and \$4,554,000, respectively. For the year ended June 30, 2006, the Company received net tax refunds of \$216,000. For the year ended June 30, 2005, the Company made net tax payments of 113,000.

10. Stock Option Plans

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On December 8, 1998, the Company adopted and authorized a stock option plan (the "1998 Non-employee Directors Plan") for non-employee directors. The 1998 Non-employee Directors Plan provides for the granting of stock options to purchase shares of the Company's common stock to non-employee directors of the Company. The aggregate number of shares to be delivered upon exercise of all options granted under the Plan may not exceed 150,000. During fiscal years 2006 and 2005, the Company granted stock options of 12,000 and 15,000 shares in each respective year, to the directors of the Company. These options have exercise prices of \$18.00 and \$11.75 per share, respectively. All 12,000 and 15,000 options granted during the year ended June 30, 2006 and 2005, respectively, were vested on the date of grant. The options have a term of 10 years.

On December 22, 1998, the Company adopted and authorized a stock option plan (the "1998 Key Officers Plan") for selected key officers. The 1998 Plan provides for the granting of stock options to purchase shares of the Company's common stock to key officers of the Company. The aggregate number of shares to be delivered upon exercise of all options granted under the Plan may not exceed 300,000. On December 22, 1998, the Board of Directors of the Company granted a total of 225,000 stock options to the President and Chairman of the Company at an exercise price of \$7.92 per share. As of June 30, 2006, all 225,000 options are vested.

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Information relating to the stock options during the fiscal years ended June 30, 2005 and 2005 are as follows:

	Number of Shares	Weighted-average Exercise Price
Unexercised options		
outstanding at June 30, 2004:	378,000	\$ 9.58
Granted	15,000	\$ 9.52
Exercised	-	-
Forfeited	-	-
Unexercised options		
outstanding at June 30, 2005:	393,000	\$ 9.66
Granted	12,000	\$18.00
Exercised	-	-
Forfeited	-	-
Unexercised options		
Outstanding at June 30, 2006	405,000	\$9.91

As of June 30, 2006, 9,000 of the total 405,000 unexercised options outstanding were not yet vested.

Unexercised Options	Range of Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Life
June 30, 2005	\$7.92-\$29.63	\$ 9.66	4.23 years
June 30, 2006	\$7.92-\$29.63	\$ 9.91	3.44 years

12. Commitments and Contingencies:

The Company is a defendant or co-defendant in various other legal actions involving various claims incident to the conduct of its business. Most of

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these claims are covered by insurance. Management does not anticipate the Company to suffer any material liability by reason of such actions.

13. Related Party Transactions:

Gary N. Jacobs, a Director of the Company, is of Counsel to the law firm of Christensen, Glaser, Fink, Jacobs, Weil & Shapiro, LLP ("the law firm"). Through May 31, 2000 he was a senior partner of said firm, which provides legal services to the Company when needed. During the year ended June 30, 2006, the Company made no payments to the law firm. During the year ended June 30, 2005, the Company made payments of approximately \$44,000 to the law firm, \$38,000 of which was incurred in fiscal 2004.

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 InterGroup and oversees the investment activity of the Company. Depending on certain market conditions and various risk factors, the Chief Executive Officer, his family and the Company 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 InterGroup, at risk in connection with investment decisions made on behalf of the Company.

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On July 18, 2003, the Company's subsidiaries established a performance based compensation program for the Company's CEO, John V. Winfield, to keep and retain his services as a direct and active manager of the securities portfolios of those companies. On January 12, 2004, the disinterested members of the Securities Investment Committee of InterGroup also established a performance based compensation program for Mr. Winfield, which was ratified by the Board of Directors. The Company's previous experience and results with outside money managers was not acceptable. Pursuant to the criteria established the Board of Directors, Mr. Winfield is entitled to performance compensation for his management of the securities portfolios of the Company and its subsidiaries equal to 20% of all net investment gains generated in excess of an annual return equal to the Prime Rate of Interest (as published by the Wall Street Journal) plus 2%. Compensation amounts are earned, calculated and paid quarterly based on the results of the Company's investment portfolio for that quarter. Should the companies have a net investment loss during any quarter, Mr. Winfield would not be entitled to any further performance-based compensation until any such investment losses are recouped by the Company. This performance based compensation program may be modified or terminated at the discretion of the respective Boards of Directors.

During the year ended June 30, 2006, Mr. Winfield did not receive any performance based compensation. During the year ended June 30, 2005, Mr. Winfield was paid performance based compensation of \$320,000. Of the total amount of the bonus for fiscal 2005, \$57,000 was paid by Santa Fe and \$4,000 was paid by Portsmouth.

14. Subsequent Events:

In July 2006, the Company listed its 30-unit apartment complex located in Los Angeles, California for sale.

Item 8. Changes in and Disagreements with Accountants on Accounting and

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Financial Disclosure.

None.

Item 8A. Controls and Procedures.

(a) Disclosure Controls and Procedures.

The Company's management, with the participation of the Company's Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal period covered by this Annual Report on Form 10-KSB. Except as noted below, based upon such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported in a timely manner and in accordance with Securities and Exchange Commission rules and regulations.

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(b) Changes in Internal Control Over Financial Reporting.

There have been no changes in the Company's internal control over financial reporting during the last quarterly period covered by this Annual Report on Form 10-KSB that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B. Other Information.

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

The following table sets forth certain information with respect to the Directors and Executive Officers of the Company as of June 30, 2005:

Name	Position with the Company	Age	Term to Expire
Class A Directors:			
John V. Winfield (1) (4) (6) (7)	Chairman of the Board; President and Chief Executive Officer	59	Fiscal 2006 Annual Meeting
Josef A. Grunwald(2) (3) (7)	Director and Vice Chairman of the Board	58	Fiscal 2006 Annual Meeting
Class B Directors:			
Gary N. Jacobs (1) (5) (6) (7)	Secretary; Director	61	Fiscal 2007 Annual Meeting
William J. Nance (1)			

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John C. Love -- Mr. Love was appointed to the Board in 1998. Mr. Love is an international hospitality and tourism consultant and a hotel broker. He was formerly a partner in the national CPA and consulting firm of Pannell Kerr Forster. He is Chairman Emeritus of the Board of Trustees of Golden Gate University in San Francisco. Mr. Love is also a Director of Santa Fe and Portsmouth.

David C. Gonzalez -- Mr. Gonzalez was appointed Vice President Real Estate of the Company on January 31, 2001. Over the past 17 years, Mr. Gonzalez has served in numerous capacities with the Company, including Controller and Director of Real Estate.

David T. Nguyen - Mr. Nguyen was appointed as Treasurer of the Company on February 26, 2003. Mr. Nguyen also serves as Treasurer of Santa Fe and Portsmouth, having been appointed to those positions on February 27, 2003. Mr. Nguyen is a Certified Public Accountant and, from 1995 to 1999, was employed by PricewaterhouseCoopers LLP where he was a Senior Accountant specializing in real estate. Mr. Nguyen served as the Company's Controller from 1999 to 2001 and from 2003 to the present.

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Michael G. Zybala -- Mr. Zybala was appointed Vice President Operations and Assistant Secretary of the Company on January 27, 1999 and served as Vice President Operations until July 15, 2002. Mr. Zybala is an attorney at law and has served as a special legal consultant to the Company. Mr. Zybala is also the Vice President and Secretary of Santa Fe and Portsmouth and has served as their General Counsel since 1995. Mr. Zybala has provided legal services to Santa Fe and Portsmouth since 1978.

Family Relationships: There are no family relationships among directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers.

Involvement in Certain Legal Proceedings: No director or executive officer, or person nominated or chosen to become a director or executive officer, was involved in any legal proceeding requiring disclosure.

BOARD AND COMMITTEE INFORMATION

InterGroup's common stock trades on the NASDAQ Global Market (formerly the Nasdaq National Market) of the NASDAQ Stock Market LLC. It is also listed on the Pacific Exchange, Inc. InterGroup is a small business issuer under the rules and regulations of the Securities and Exchange Commission ("SEC"). With the exception of the Company's President and CEO, John V. Winfield, all of InterGroup's Board of Directors consists of "independent" directors as independence is defined by the applicable rules of the SEC and NASDAQ.

Audit Committee and Audit Committee Financial Expert

The Company is a small business issuer under SEC rules. The Company's Audit Committee is currently comprised of three members: Directors Nance (Chairperson), Grunwald and Love, each of who meet the independence requirements of the SEC and NASDAQ as modified or supplemented from time to time. Directors Nance and Love also meet the Audit Committee Financial Expert requirement as defined by the SEC and NASDAQ.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

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Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and each beneficial owner of more than ten percent of the Common Stock of the Company, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten-percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that during fiscal 2006 all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with.

Code of Ethics.

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Code of Ethics is filed as Exhibit 14 to this Report. The Company will provide to any person without charge, upon request, a copy of its Code of Ethics by sending

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such request to: The InterGroup Corporation, Inc., Attn: Treasurer, 820 Moraga Drive, Los Angeles 90049. The Company does not maintain an Internet website. The Company will promptly disclose any amendments or waivers to its Code of Ethics on Form 8-K.

Item 10. Executive Compensation.

The following table provides certain summary information concerning compensation awarded to, earned by, or paid to the named Executive Officers of the Company who earned more than \$100,000 (salary and bonus) for all services rendered to the Company and its subsidiaries for fiscal years 2006, 2005 and 2004. There are currently no employment contracts with the Executive Officers. No long-term compensation, options or stock appreciation rights were granted to any of the named Executive Officers during the last three fiscal years.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Annual Compensation				All Other Compensation
	Year	Salary	Bonus	Other Annual Compensation	
John V. Winfield Chairman, President and Chief Executive Officer	2006	\$522,000 (1)	\$ - (2)	\$67,500 (3)	\$85,000 (4)
	2005	\$522,000 (1)	\$ 320,000 (2)	\$52,500 (3)	\$85,000 (4)
	2004	\$522,000 (1)	\$2,077,000 (2)	\$52,426 (3)	\$85,000 (4)
David C. Gonzalez Vice President Real Estate	2006	\$180,000	\$ -	\$ -	\$ -
	2005	\$180,000	\$ 25,000	\$ -	\$ -
	2004	\$184,900	\$ 50,000	\$70,579 (5)	\$ -
David T. Nguyen Treasurer and	2006	\$176,500 (6)	\$ -	\$ -	\$ -
	2005	\$120,000 (6)	\$ 12,000	\$ -	\$ -

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Controller	2004	\$120,000 (6)	\$ 12,000	\$ -	\$ -
Michael G. Zybala	2006	\$ 90,000 (7)	\$ -	\$18,000 (8)	\$ -
Vice President	2005	\$ 84,000 (7)	\$ 8,000	\$18,000 (8)	\$ -
Real Estate	2004	\$ 84,000 (7)	\$ 8,000	\$ 9,000 (8)	\$ -

(1) Mr. Winfield also serves as President and Chairman of the Board of the Company's subsidiary, Santa Fe, and Santa Fe's subsidiary, Portsmouth. Mr. Winfield received salary and directors fees of \$267,000, \$328,000 and \$251,000 from those entities during fiscal years 2006, 2005 and 2004, respectively, which amounts are included in this item.

(2) These amounts reflect performance bonuses, paid by the Company and its subsidiary Santa Fe and Santa Fe's subsidiary, Portsmouth, based on the results of Mr. Winfield's management of the securities portfolios of those companies for the fiscal years ended June 30, 2006, 2005 and 2004. Of the total amount of the bonus for fiscal 2005, \$57,000 was paid by Santa Fe and \$4,000 was paid by Portsmouth. For fiscal 2004, \$211,000 was paid by Santa Fe and \$407,000 was paid by Portsmouth. No performance bonus was paid for fiscal 2006.

(3) Amounts include an auto allowance and compensation for a portion of the salary of an assistant. The auto allowance was \$15,000, \$15,000 and \$15,000 during fiscal years 2006, 2005 and 2004, respectively. The amount of compensation related to the assistant was approximately \$53,000, \$38,000 and \$38,000 during fiscal years 2006, 2005 and 2004, respectively.

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(4) During fiscal 2006, 2005 and 2004, the Company and its subsidiaries also paid annual premiums in the total amount of \$85,000 for split dollar whole life insurance policies owned by, and the beneficiary of which are, a trust for the benefit of Mr. Winfield's family. Of the \$85,000 in premiums paid each year, Santa Fe and Portsmouth paid \$43,000 of that amount. The Company has a secured right to receive, from any proceeds of the policies, reimbursement of all premiums paid prior to any payment to the beneficiary.

(5) Amount shown reflects the cost of an automobile purchased by the Company for Mr. Gonzalez.

(6) Mr. Nguyen's salary and bonuses are allocated approximately 50% to the Company and 50% to Santa Fe and Portsmouth.

(7) Mr. Zybala's salary and bonuses are allocated approximately 25% to the Company and 75% to Santa Fe and Portsmouth.

(8) Amounts are for Special Hotel Committee fees paid by Portsmouth.

On July 18, 2003, the disinterested members of the respective Boards of Directors of the Company's subsidiary, Santa Fe and Santa Fe's subsidiary, Portsmouth, established a performance based compensation program for the Company's CEO, John V. Winfield, to keep and retain his services as a direct and active manager of the securities portfolios of those companies. On January 12, 2004, the disinterested members of the Securities Investment Committee of InterGroup also established a performance based compensation program for Mr. Winfield, which was ratified by the Board of Directors. The Company's previous experience and results with outside money managers was not acceptable. Pursuant to the criteria established the Board of Directors, Mr.

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Winfield is entitled to performance compensation for his management of the securities portfolios of the Company and its subsidiaries equal to 20% of all net investment gains generated in excess of an annual return equal to the Prime Rate of Interest (as published by the Wall Street Journal) plus 2%. Compensation amounts are earned, calculated and paid quarterly based on the results of the Company's investment portfolio for that quarter. Should the companies have a net investment loss during any quarter, Mr. Winfield would not be entitled to any further performance-based compensation until any such investment losses are recouped by the Company. This performance based compensation program may be modified or terminated at the discretion of the respective Boards of Directors.

Internal Revenue Code Limitations

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), provides that, in the case of a publicly held corporation, the corporation is not generally allowed to deduct remuneration paid to its chief executive officer and certain other highly compensated officers to the extent that such remuneration exceeds \$1,000,000 for the taxable year. Certain remuneration, however, is not subject to disallowance, including compensation paid on a commission basis and, if certain requirements prescribed by the Code are satisfied, other performance based compensation. Since InterGroup, Santa Fe and Portsmouth are each public companies, the \$1,000,000 limitation applies separately to the compensation paid by each entity. For fiscal years 2006 and 2005 no compensation paid by the Company to its CEO or other executive officers was subject the deduction disallowance prescribed by Section 162(m) of the Code.

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OPTIONS/SAR GRANTS IN LAST FISCAL YEAR

The Company did not have any individual grants of stock options or Stock Appreciation Rights ("SARs") during the year ended June 30, 2006 to any named executive officer.

AGGREGATE OPTIONS/SAR EXERCISES IN THE LAST FISCAL YEAR AND FISCAL YEAR END OPTION/SAR VALUES

The following table contains information concerning each exercise of stock options (or tandem SARs) and freestanding SARs during the last completed fiscal year by each of the named executive officers and the fiscal year-end value of unexercised options and SARs (adjusted for March 31, 2003 stock split):

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs as of June 30, 2006		Value of Unexercised In-the-Money Options/ at June 30, 2006	
			Exercisable/Unexercisable		Exercisable/Unexercisable	
John V. Winfield	-	\$ -	225,000/0		\$1,775,250/\$0(1)	
David C. Gonzalez	-	\$ -	6,000/9,000		\$ 15,840/\$23,760(1)	

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(1) Based on the closing price of the Company's Common Stock on June 30, 2006 of \$15.81 per share.

1998 Stock Option Plan for Non-Employee Directors

On December 8, 1998, the Board of Directors of the Company adopted, subject to stockholder approval and ratification, a 1998 Stock Option Plan for Non-employee Directors (the "Plan"). The stockholders ratified that plan on January 27, 1999.

The stock to be offered under the Plan shall be shares of the Company's Common Stock, par value \$.01 per share, which may be unissued shares or treasury shares. Subject to certain adjustments upon changes in capitalization, the aggregate number of shares to be delivered upon exercise of all options granted under the Plan shall not exceed 150,000 shares (adjusted for March 31, 2003 stock split). The Plan shall terminate on the earliest to occur of (i) the dates when all of the Common Stock available under the Plan shall have been acquired through the exercise of options granted under the Plan; (ii) 10 years after the date of adoption of the Plan by the Board; or (iii) such other date that the Board may determine.

Pursuant to the Plan, each non-employee director as of the adoption date of the Plan shall be granted on the date thereof: (i) if he or she became a non-employee director prior to January 1, 1998, an option to purchase 8,000 shares of Common Stock; and (ii) if he or she became a non-employee director on or after January 1, 1998, an option to purchase 4,000 shares of Common Stock.

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Each new non-employee director who is elected to the Board shall automatically be granted an option to purchase 4,000 shares of Common Stock upon the initial date of election to the Board. On each July 1 following the adoption date, each non-employee director shall be granted an option to purchase 3,000 shares of Common Stock (adjusted for stock split) provided he or she holds such position on that date and the number of Common Shares available for grant under the Plan is sufficient to permit such automatic grant.

The exercise price of the option shall be determined at the time of grant and shall not be less than 100% of the fair market value of the Common Stock at the time of the grant of the option. The term of the option shall be for ten years. Options granted to any non-employee director will not vest 100% until such person has been a member of the Board for four (4) years or more. Non-employee directors who have been a member of the Board less than four (4) years, shall be vested with respect to 20% of the options on the date of grant and 20% on each anniversary of such person having become a member of the Board, provided that the optionee is on each such date serving as a member of the Board or as an employee or consultant to the Company.

Pursuant to the Plan, the following non-employee directors of the Company were granted options during fiscal 2006 to purchase 2,400 shares each of the Common Stock of the Company: Josef A. Grunwald; William J. Nance; Mildred Bond Roxborough; Gary N. Jacobs; and John C. Love. The exercise price for the options is \$18.00 per share, which was the closing price (adjusted for stock split) of the Company's Common Stock on the Nasdaq National Market System as of the date of grant on July 1, 2005. Those grants were limited to 2,400 shares since all of the options authorized to be issued under the Plan had been issued.

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1998 Stock Option Plan for Selected Key Officers, Employees and Consultants

On December 8, 1998, the Board of Directors of the Company adopted, subject to shareholder approval and ratification, a 1998 Stock Option Plan for selected key officers, employees and consultants (the "Key Employee Plan"). The Key Employee Plan was ratified by the stockholders on January 27, 1999.

The stock to be offered under the Key Employee Plan shall be shares of the Company's Common Stock, par value \$.01 per share, which may be unissued shares or treasury shares. Subject to certain adjustments upon changes in capitalization, the aggregate number of shares to be delivered upon exercise of all options granted under the Key Employee Plan shall not exceed 300,000 shares (adjusted for stock split). The Key Employee Plan shall terminate on the earliest to occur of (i) the dates when all of the Common Stock available under the Key Employee Plan shall have been acquired through the exercise of options granted under the Key Employee Plan; (ii) 10 years after the date of adoption of the Key Employee Plan by the Board; or (iii) such other date that the Board may determine.

The Key Employee Plan is administered by a Committee appointed by the Board of Directors which consists of two or more disinterested persons within the meaning of Rule 16b-3 promulgated pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"). Persons eligible to receive options under the Key Employee Plan shall be employees who are selected by the Committee. In determining the Employees to whom options shall be granted and the number of shares to be covered by each option, the Committee shall take into account the

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duties of the respective employee, their present and potential contribution to the success of the Company, their anticipated number of years of active service remaining and other factors as it deems relevant in connection with accomplishing the purposes of the Key Employee Plan. An employee who has been granted an option may be granted an additional option or options as the Committee shall so determine.

The exercise price of the option shall be determined at the time of grant and shall not be less than 100% of the fair market value of the Common Stock at the time of the grant of the option. The term of the option shall not exceed 10 years from the date on which the option is granted. The vesting schedule for the options and the method or time that when the option may be exercised in whole or in part shall be determined by the Committee. However, in no event shall an option be exercisable within six months of the date of grant in the case of an optionee subject to Section 16(b) of the Exchange Act. Subject to certain exceptions, the option shall terminate six months after the optionee's employment with the Company terminates. No options to purchase shares were granted pursuant to the Key Employee Plan during fiscal 2006.

Compensation of Directors

Each director is paid a fee of \$1,500 per quarter for a total annual compensation of \$6,000. The Chairman of the Board of Directors is eligible to receive \$9,000 per annum. Directors also are eligible to receive \$500 for each committee meeting attended and \$600 for each committee meeting chaired. Members of the Audit Committee receive a fee of \$500 per quarter. Directors who are also Executive Officers do not receive any fee for attending Board or Committee meetings. As an Executive Officer, the Company's Chairman has also elected to forego his annual board fee. The Directors are also eligible for

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grants of options to purchase shares of the Company's Common Stock pursuant to the 1998 Stock Option Plan for Non-Employee Directors. As discussed above, all of the options authorized to be issued under that Plan were exhausted effective with the July 1, 2005 option grant. It is expected that the Board of Directors will review the form and amounts of compensation that the Company pays to its directors so that it can continue to attract and retain qualified directors.

Except for the foregoing, there are no other arrangements for compensation of Directors and there are no employment contracts between the Company and its Directors or any change in control arrangements.

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Item 11. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth, as of September 12, 2006, certain information with respect to the beneficial ownership of Common Stock of the Company (adjusted for stock split) owned by (i) those persons or groups known by the Company to own more than five percent of the outstanding shares of Common Stock, (ii) each Director and Executive Officer, and (iii) all Directors and Executive Officers as a group.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Owner (2)	Percentage (3)
-----	-----	-----
John V. Winfield	1,613,907 (4)	62.5%
Josef A. Grunwald	126,861 (3)	5.3%
William J. Nance	77,697 (3)	3.3%
Gary N. Jacobs	29,775 (3) (5)	1.2%
John C. Love	26,400 (3)	1.1%
David C. Gonzalez	21,750 (6)	*
Michael G. Zybala	0	*
David T. Nguyen	0	*
All Directors and Executive Officers as a Group (9 persons)	1,896,390	70.1%

* Ownership does not exceed 1%.

(1) Unless otherwise indicated, the address for the persons listed is 820 Moraga Drive, Los Angeles, CA 90049.

(2) Unless otherwise indicated and subject to applicable community property laws, each person has sole voting and investment power with respect to the shares beneficially owned.

(3) Percentages are calculated on the basis of 2,356,650 shares of Common Stock outstanding at September 12, 2006, plus any securities that person has the right to acquire within 60 days pursuant to options, warrants, conversion privileges or other rights. The following options are included in director's

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shares: Josef A. Grunwald-32,400; William J. Nance-32,400; Gary N. Jacobs-26,400; John C. Love-26,400.

(4) Includes 225,000 shares of which Mr. Winfield has the right to acquire pursuant to options

(5) Other than his options, all shares of Mr. Jacobs are held by the Gary and Robin Jacobs Family Trust.

(6) Includes 6,000 shares of which Mr. Gonzalez has the right to acquire pursuant to options.

As of September 12, 2006, there were approximately 540 shareholders of record and more than 1,400 beneficial holders of the Company's Common Stock.

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Changes in Control Arrangements

There are no arrangements that may result in a change in control of the Company.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

The following table sets forth information as of June 30, 2006 (adjusted for March 31, 2003 stock split), with respect to compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance, aggregated as follows:

Plan category	Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options warrants and rights (b)	Remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	390,000	\$9.91	60,000
Equity compensation plans not approved by security holders	None	N/A	None
Total	390,000	\$9.91	60,000

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Item 12. Certain Relationships and Related Transactions.

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On December 4, 1998, the Administrative and Compensation Committee authorized the Company to obtain whole life and split dollar insurance policies covering the Company's President and Chief Executive Officer, Mr. Winfield. During fiscal 2006 and 2006, the Company paid annual premiums in the amount of approximately \$85,000 for the split dollar insurance policy owned by, and the beneficiary of which is, a trust for the benefit of Mr. Winfield's family. The Company has a secured right to receive, from any proceeds of the policy, reimbursement of all premiums paid prior to any payments to the beneficiary.

On June 30, 1998, the Company's Chairman and President entered into a voting trust agreement with the Company giving the Company the power to vote his 4.0% interest in the outstanding shares of the Santa Fe common stock.

As Chairman of the Securities Investment Committee, the Company's President and Chief Executive officer, John V. Winfield, oversees 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. Under the direction of the Securities Investment Committee, the Company has instituted certain modifications to its procedures to reduce the potential for conflicts of interest.

The Company, its subsidiary Santa Fe and Santa Fe's subsidiary, Portsmouth, have established performance based compensation programs for Mr. Winfield's management of the securities portfolios of those companies. For the fiscal years ended June 30, 2005, Mr. Winfield received, in the aggregate, performance based compensation in the amount of \$320,000. Of the total amount of the bonus for fiscal 2005, \$57,000 was paid by Santa Fe and \$4,000 was paid by Portsmouth. No performance bonus was paid for fiscal 2006. The performance based compensation was approved by the disinterested members of the respective Boards of Directors of the Company and its subsidiaries.

Gary N. Jacobs, a Director of the Company, is Of Counsel to the law firm of Christensen, Glaser, Fink, Jacobs, Weil & Shapiro, LLP. Through May 31, 2000 he was a senior partner of said firm, which provided legal services to the Company during the year ended June 30, 2005. No payments were made to this firm during the year ended June 30, 2006. During the year ended June 30, 2005, the Company made payments of approximately \$44,000 to Christensen, Glaser, Fink, Jacobs, Weil & Shapiro, LLP, \$38,000 of which was incurred in fiscal 2004.

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Item 13. Exhibits, List and Reports on Form 8-K.

(a) Listing of Exhibits by Table Number

3. Certificate of Incorporation and By-Laws *

Restated Certificate of Incorporation dated February 20, 1998 is incorporated herein by reference to the Company's Form 10-QSB Report filed with the Securities and Exchange Commission on May 15, 1998.

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4. Instruments defining the rights of security holders, including Indentures *

9. Voting Trust Agreement

Voting Trust Agreement dated June 30, 1998 between John V. Winfield and The InterGroup Corporation is incorporated by reference to the Company's Form 10-KSB Annual Report filed with the Securities and Exchange Commission on September 28, 1998.

10. Material Contracts

(a) Note and Exercise Agreement from Mr. John V. Winfield dated May 17, 1996 **

(b) 1998 Stock Option Plan for Non-Employee Directors approved by the Board of Directors on December 8, 1998 and ratified by the shareholders on January 27, 1999 ***

(c) 1998 Stock Option Plan for Selected Key Officers, Employees and Consultants approved by the Board of Directors on December 8, 1998 and ratified by the shareholders on January 27, 1999 ***

14. Code of Ethics

21. Subsidiaries:

- (1) Intergroup Summit Hills, Inc. (incorporated on August 12, 1993 in TX)
- (2) Intergroup Mariposa, Inc. (incorporated on June 23, 1994 in TX)
- (3) Intergroup Arlington Arms, Inc. (incorporated on August 5, 1993 in TX)
- (4) Intergroup Woodland Village, Inc. (incorporated on August 5, 1993 in OH)
- (5) Intergroup Cross Keys, Inc. (incorporated on April 1, 1994 in MO)
- (6) Intergroup Bridgeton, Inc. (incorporated on May 12, 1994 in MO)
- (7) Intergroup Whisperwood, Inc. (incorporated on June 20, 1994 in PA)
- (8) Intergroup Eagle Creek, Inc. (incorporated on April 15, 1994 in TX)
- (9) Intergroup Entertainment Corp. (incorporated on December 23, 1993 in DE)
- (10) Mutual Real Estate Corp. (incorporated on March 10, 1994 in TX)
- (11) WinGroup Capital (incorporated on September 21, 1994 in CA)
- (12) Broadview Enterprises, Inc. (incorporated April 14, 1995 in MO)
- (13) Wayward, Inc. (incorporated April 18, 1995 in MO)
- (14) Golden West Entertainment, Inc. (incorporated February 15, 1990 in CA)
- (15) Golden West Television Productions, Inc. (incorporated September 17, 1991 in CA)
- (16) Golden West Television Productions, Inc. (incorporated March 17, 1986 in NY)
- (17) Intergroup The Trails, Inc. (incorporated on September 14, 1994 in TX)
- (18) Intergroup Meadowbrook Gardens, Inc. (incorporated on June 23, 1994 in NJ)
- (19) Intergroup Pine Lake, Inc. (incorporated on February 9, 1996 in KY)
- (20) Bellagio Capital Fund, LLC (established on June 18, 1997 in CA)

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- (21) Intergroup Casa Maria, Inc. (incorporated on April 3, 1997 in TX)
- (22) Healthy Planet Communications, Inc. (incorporated July 3, 1997 in CA)
- (23) Santa Fe Financial Corporation (incorporated July 25, 1967 in NV)
- (24) Portsmouth Square, Inc. (incorporated July 6, 1967 in CA)
- (24) 2301 Bel-Air Equity, Inc. (incorporated May 25, 2000 in CA)
- (26) 11378 Ovada Properties, Inc. (incorporated June 21, 2000 in CA)
- (27) 11371 Ovada Properties, Inc. (incorporated May 25, 2000 in CA)
- (28) 11361 Ovada Properties, Inc. (incorporated June 1, 2000 in CA)

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- (29) 11680 Bellagio Properties, Inc. (incorporated May 25, 2000 in CA)
- (30) North Sepulveda Properties, Inc. (incorporated June 21, 2000 in CA)
- (31) 11650 Bellagio Properties, Inc. (incorporated August 17, 2000 in CA)
- (32) Intergroup Elwood, Inc. (incorporated October 12, 2000 in TX)
- (33) 11720 Bellagio Properties, Inc. (incorporated January 17, 2001 in CA)
- (34) 636 Acanto Properties, Inc. (incorporated February 15, 2001 in CA)
- (35) Intergroup Tollgate Creek, Inc. (incorporated June 14, 2001 in TX)
- (36) 614 Acanto Properties, Inc. (incorporated November 7, 2001 in CA)
- (37) Intergroup Ulunui, Inc. (incorporated August 12, 2004 in HI)

- 31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

* All Exhibits marked by two asterisks are incorporated herein by reference to the Trust's Registration Statement on Form S-4 as filed with the Securities and Exchange Commission on September 6, 1985, Amendment No. 1 to Form S-4 as filed with the Securities and Exchange Commission on October 23, 1985, Exhibit 14 to Form 8 Amendment No. 1 to Form 8 filed with the Securities & Exchange Commission November 1987 and Form 8 Amendment No. 1 Item 4 filed with the Securities & Exchange Commission October 1988.

** All Exhibits marked by five asterisks are incorporated herein by reference to the Company's Form 10-KSB Annual Report filed with the Securities and Exchange Commission on September 16, 1996.

*** All Exhibits marked by six asterisks are incorporated herein by reference to the Company's Schedule 14A filed with the Securities and Exchange Commission on December 21, 1998.

(b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the last quarter of the period covered by this Report.

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Item 14. Principal Accountant Fees and Services.

Audit Fees - The aggregate fees billed for each of the last two fiscal years ended June 30, 2006 and 2005 for professional services rendered by PricewaterhouseCoopers LLP, the principal accountant for the audit of the Company's annual financial statements and review of financial statements included in the Company's Form 10-QSB or services normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years, were as follows:

Fiscal Year

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	2006	2005
	-----	-----
Audit Fees	\$470,000	\$244,000
Audit-Related Fees	\$ -	\$ -
Tax Fees	\$ -	\$ -
All Other Fees	\$ -	\$ -

Audit Committee Pre-Approval Policies

The Audit Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to any de minimus exceptions that may be set for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

All of the services described herein were approved by the Audit Committee pursuant to its pre-approval policies.

None of the hours expended on the principal accountant's engagement to audit the Company's financial statements for the most recent fiscal year were attributed to work performed by persons other than the principal accountant's full-time permanent employees.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE INTERGROUP CORPORATION
(Registrant)

Date: September 28, 2006

by /s/ John V. Winfield

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

Date: September 28, 2006

by /s/ David T. Nguyen

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

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: September 28, 2006

/s/ John V. Winfield

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

Date: September 28, 2006

/s/ Josef A. Grunwald

Josef A. Grunwald, Vice Chairman of Board

Date: September 28, 2006

/s/ Gary N. Jacobs

Gary N. Jacobs, Director

Date: September 28, 2006

/s/ John C. Love

John C. Love, Director

Date: September 28, 2006

/s/ William J. Nance

William J. Nance, Director

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