INTERGROUP CORP
Form 10-K
September 29, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2014

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _______ to_________

Commission File Number 1-10324

THE INTERGROUP CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	13-3293645
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

10940 Wilshire Blvd., Suite 2150, Los Angeles, California 90024

(Address of principal executive offices)(Zip Code)

(310) 889-2500

(Registrant’s telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x Yes ¨ No

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

Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act):

¨ Yes x No

The aggregate market value of the Common Stock, no par value, held by non-affiliates computed by reference to the closing price on December 31, 2013 (the last business day of registrant's most recently completed second fiscal quarter ended December 31, 2013) was $15,207,000.

The number of shares outstanding of registrant's Common Stock, as of September 3, 2014, was 2,386,246.

DOCUMENTS INCORPORATED BY REFERENCE: None

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FORWARD-LOOKING STATEMENTS

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

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

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

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

PART I

Item 1. Business.

GENERAL

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

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

As of June 30, 2014, the Company owned approximately 80.9% of the common shares of Santa Fe Financial Corporation (“Santa Fe”), a public company (OTCBB: SFEF). Santa Fe’s revenue is primarily generated through its 68.8% owned subsidiary, Portsmouth Square, Inc. (“Portsmouth”), a public company (OTCBB: PRSI). InterGroup also directly owns approximately 12.9% of Portsmouth. Portsmouth’s primary business is conducted through its general and limited partnership interest in Justice Investors, a California limited partnership (“Justice” or the “Partnership”). Portsmouth has a 93% limited partnership interest in Justice and is the sole general partner. The financial statements of Justice are consolidated with those of the Company. See Note 2 to the consolidated financial statements.

Justice owns a 543-room hotel property located at 750 Kearny Street, San Francisco California, known as the *Hilton San Francisco Financial District* (the Hotel) and related facilities including a five level underground parking garage. The Hotel is operated by the partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. Justice also has a Management Agreement with Prism Hospitality L.P. (Prism) to perform the day-to-day management functions of the Hotel. The parking garage that is part of the Hotel property is managed by Ace Parking pursuant to a contract with the Partnership.

The parking garage that is part of the Hotel property is managed by Ace Parking Management, Inc. pursuant to a contract with the Partnership. Portsmouth also receives management fees as a general partner of Justice for its services in overseeing and managing the Partnership's assets. Those fees are eliminated in consolidation.

In addition to the operations of the Hotel, the Company also generates income from the ownership, management and, when appropriate, sale of real estate. Properties include seventeen apartment complexes, two commercial real estate properties and two single-family houses. The properties are located throughout the United States, but are concentrated in Texas and Southern California. The Company also has investments in unimproved real property. All of the Company's operating real estate properties were managed by professional third party property management companies through July 2014. Beginning August 2014, the Company began managing its properties located outside of California in-house, while the properties located in California with exception to the two commercial properties, are still being managed by a third party property management company. The two commercial properties are managed in-house.

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

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

RECENT BUSINESS DEVELOPMENTS

Limited Partnership Redemption and Restructuring

In December 2013, the Partnership determined to restructure its ownership to facilitate a refinancing of the Hotel and redeem the interests of certain Partners, including Evon. In the course of this refinancing, restructuring and redemption, the Partnership created Justice Holdings Company, LLC ("Holdings"), a Delaware Limited Liability Company, Justice Operating Company, LLC ("Operating") and Justice Mezzanine Company, LLC ("Mezzanine"). Holdings and Mezzanine are both a wholly-owned subsidiaries of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the Mezzanine borrower and in December 2013, the Partnership conveyed ownership of the Hotel to Operating.

On December 18, 2013, the Partnership completed an Offer to Redeem any and all limited partnership interests not held by Portsmouth and the Loan Agreements, as defined below. In addition, the Partnership approved amendments to the Amended and Restated Agreement of Limited Partnership, which amendments became effective upon the completion of the Offer to Redeem and the consummation of the Loan Agreements. Such amendments are described below. As a result, Portsmouth, which prior to the Offer to Redeem owned 50% of the then outstanding limited partnership interests now controls approximately 93% of the voting interest in Justice and is now its sole General Partner.

Pursuant to the Offer to Redeem, the Partnership has accepted tenders, for cash, from Evon, a general partner and seventy-three of the limited partners representing approximately 29.173% of partnership interests outstanding prior to the Offer to Redeem for $1,385,000 for each 1% tendered. On December 19, 2013, Justice distributed the amounts due each of these former partners pursuant to the terms of the tender offer.

In addition, the Partnership has accepted the election of holders of approximately 17.146% of the limited partnership interests outstanding prior to the Offer to Redeem to participate in an alternate redemption structure. Under that alternative redemption structure, the Partnership paid to Holdings $1,385,000 for each 1% tendered. Those partners who elected the alternative redemption structure may within 12 months of December 18, 2013, designate property for Holdings to purchase and then require Holdings to transfer that property to the partner in redemption of that partner's interest in the Partnership. The governing agreement also provides for other possible methods of redeeming the interests of the partners who elected the alternate redemption structure. During the year ended June 30, 2014, a total of $2,928,000 was redeemed under the alternative redemption structure. As of June 30, 2014, the current and deferred payments related to the alternative redemption structure, which are held by Justice's wholly owned subsidiary, Holdings, are classified as restricted cash and, together with the expenses discussed below, total $16,163,000 and are classified on the balance sheet as redemption payable.

The Partnership incurred approximately $6,681,000 in restructuring costs relating to the Offer to Redeem and related financing transactions, including a one-time management fee of $1,550,000, approximately $431,000 in legal, accounting and other professional expenses, and payment of a Documentary Transfer Tax of approximately $4.7 million to the City and County of San Francisco ("CCSF"). CCSF required payment of the Documentary Transfer Tax as a condition to record the transfer of the Hotel to Operating and other documents related to the Loan Agreements. While the Partnership believes the amount of Documentary Transfer tax that was assessed by CCSF was incorrect, the tax was paid, under protest, to allow for the consummation of the redemption transaction, the Loan Agreements and the recording of all related documents. The Partnership has challenged CCSF's imposition of the tax and filed a refund claim with the CCSF. No prediction can be made as to whether CCSF's calculation of the tax will be upheld, or whether any portion of the tax will be refunded.

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

As a result of the ownership structure implemented in December 2013, the Partnership is the indirect sole owner of a 543-room hotel property located at 750 Kearny Street, San Francisco, California, now known as the Hilton San Francisco Financial District (the Hotel) and related facilities including a five level underground parking garage. The Hotel is operated by Operating as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. Operating also has a Management Agreement with Prism Hospitality L.P. (Prism) to perform management functions for the Hotel. The management agreement with Prism had an original term of ten years and can be terminated at any time with or without cause by the Partnership owner. Effective January 2014, the management agreement with Prism was amended by the Partnership. Effective December 1, 2013, GMP Management, Inc., a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement, which is for a term of 3 years, but which can be terminated earlier by the Partnership for cause.

HILTON HOTELS FRANCHISE LICENSE AGREEMENT

The Partnership entered into a Franchise License agreement (the License agreement) with the Hilton Hotels Corporation (Hilton) on December 10, 2004. The term of the License agreement is for a period of 15 years commencing on the opening date, with an option to extend the license agreement for another five years, subject to certain conditions.

Beginning on the opening date in January 2006, the Partnership paid monthly royalty fees for the first two years of three percent (3%) of the Hotel's gross room revenue for the preceding calendar month; the third year was at four percent (4%) of the Hotel's gross room revenue; and the fourth year until the end of the term will be five percent (5%) of the Hotel's gross room revenue. The Partnership also pays a monthly program fee of four percent (4%) of the Hotel's gross revenue. The amount of the monthly program fee is subject to change; however, the increase cannot exceed one percent (1%) of the Hotel gross room revenue in any calendar year, and the cumulative increases in the monthly fees will not exceed five percent (5%) of gross room revenue. The Hotel is also subject to certain penalties if fees are not paid timely. The royalty, program and penalty fees are referred to collectively as "Franchise fees." Franchise fees for the years ended June 30, 2014 and 2013 were $3,806,000 and $3,374,000, respectively.

The Partnership also pays Hilton a monthly information technology recapture charge of up to 0.75% of the Hotel's gross revenues. Due to the difficult economic environment, Hilton agreed to reduce its information technology fees to 0.65%. For the years ended June 30, 2014 and 2013, those charges were $270,000 and $236,000, respectively.

HOTEL MANAGEMENT COMPANY AGREEMENT

On February 2, 2007, the Partnership entered into an agreement with Prism to manage and operate the Hotel as its agent. The agreement was effective for a term of ten years, unless the agreement was extended or earlier terminated as provided in the agreement. Under the management agreement, the Partnership was required to pay the base management fees of up to 2.5% of gross operating revenues of the Hotel (i.e., room, food and beverage, and other operating departments) for the fiscal year. Of that amount, 1.75% of the gross operating revenues was paid monthly. The balance or 0.75% was paid only to the extent that the partially adjusted net operating income (net operating income less capital expenditures) for the fiscal year exceeded the amount of the Hotel’s return for the fiscal year. The base management fee was limited to 1.75% for the period ended January 31, 2014 and year ended June 30, 2013, respectively. In January 2014 the Partnership amended the management agreement to a fixed rate of $20,000 per month. It can also earn an incentive fee of $10,500 for each month that the revenues per room of the Hotel exceed the average revenues per room of a defined set of competing hotels. Management fees paid to Prism during the years ended June 30, 2014 and 2013 were $579,000 and $754,000, respectively.

Effective December 1, 2013, GMP Management, Inc. (GMP), a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement. The management agreement with GMP has a term of 3 years, but may be terminated earlier by the Partnership for cause. Under the agreement, GMP is required to advise the Partnership on the management and operation of the hotel; administer the Partnership's contracts, leases, agreements with hotel managers and franchisors and other contracts and agreements; provide administrative and asset management services, oversee financial reporting, and maintain offices at the Hotel in order to facilitate provision of services. GMP is paid an annual base management fee of $325,000 per year, increasing by 5% per year, payable in monthly installments, and to reimbursement for reasonable and necessary costs and expenses incurred by GMP in performing its obligations under the agreement. During the year ended June 30, 2014, GMP was reimbursed for $235,000, for the salaries, benefits and local payroll taxes for three key employees. Management fees paid to GMP during the year ended June 30, 2014 were $424,000.

GARAGE OPERATIONS

The Partnership formerly leased the Hotel's parking garage from its owner, Evon, under a lease that was to expire in November 2010. Effective October 1, 2008, Justice and Evon entered into an installment sale agreement whereby Justice purchased all of Evon's right, title, and interest in the remaining term of the garage lease and other related assets. Justice also agreed to assume Evon's contract with Ace Parking Management, Inc. (Ace Parking) for the management of the garage.

The garage is currently operated by Ace Parking for the Partnership pursuant to a Parking Facilities Management Agreement (the "Parking Agreement"). The initial term of the Parking Agreement was to expire on October 31, 2010, with an option to renew for another five-year term.

On October 31, 2010, the Partnership and Ace Parking entered into an amendment of the Parking Agreement to extend the term for a period of sixty two (62) months, commencing on November 1, 2010 and terminating December 31, 2015, subject to either party's right to terminate the agreement without cause on ninety (90) days written notice. The monthly management fee of $2,000 and the accounting fee of $250 remain the same, but the amendment modified how the Excess Profit Fee to be paid to Ace Parking would be calculated.

The amendment provides that, if net operating income (NOI) from the garage operations exceeds $1,800,000 but is less than $2,000,000, then Ace Parking will be entitled to an Excess Profit Fee of one percent (1%) of the total annual NOI. If the annual NOI is $2,000,000 or higher, Ace Parking will be entitled to an Excess Profit Fee equal to two percent (2%) of the total annual NOI. The garage's NOI exceeded the annual NOI of $2,000,000 for the years ended June 30, 2014 and 2013. Base Management and incentive fees to Ace Parking amounted to $44,000 for each of the years ended June 30, 2014 and 2013, respectively.

CHINESE CULTURE FOUNDATION LEASE

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

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

SALES AND REFINANCINGS OF REAL ESTATE PROPERTIES

In February 2014, the Company entered into a contract to sell its 249 unit apartment complex located in Austin, Texas and the adjacent unimproved land for $15,800,000. The purchase/sale agreement provides that purchaser can terminate the agreement with or without cause, however, the potential purchaser would forfeit the earnest money ($208,000) and additional consideration ($250,000) totaling $458,000. The purchaser also has the option to extend the agreement. As of August 31, 2014, the Company has received the $458,000. The Company is currently in the process of negotiating another extension of the purchase agreement.

In June 2014, the Company obtained a second mortgage on its 151-unit apartment located in Morris County, New Jersey in the amount of $2,740,000. The term of the loan is approximately 8 years with the interest rate fixed at 4.51%. The loan matures in August 2022.

In June 2014, the Company obtained a seven month extension of its $992,000 mortgage note payable on the first commercial building located in Los Angeles, California that matured in June 2014. The loan was extended to January 2015. Interest rate on the note remains the same.

In April 2014, the Company refinanced its $526,000 mortgage note payable on the second commercial building located in Los Angeles, California for a new 3-year interest only mortgage in the amount of $1,100,000. The Company received net proceeds of $556,000. The interest rate on the new loan is fixed at 3.25% per annum and the note matures in May 2017.

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

REAL ESTATE PROPERTY MANAGEMENT

In July 2014, the Company terminated its property management agreement with the professional third party property and asset management company that managed its properties located outside of California. Beginning August 2014, the Company began managing its five properties located outside of California in-house, while the properties located in California are still being managed by a third party property management company, with exception to the two commercial buildings which are also managed in-house.

MARKETABLE SECURITIES INVESTMENT POLICIES

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

The Company's securities investments are made under the supervision of a Securities Investment Committee of the Board of Directors. The Committee currently has three members and is chaired by the Company's Chairman of the Board and President, John V. Winfield. The Committee has delegated authority to manage the portfolio to the Company's Chairman and President together with such assistants and management committees he may engage. The Committee has established investment guidelines for the Company's investments. These guidelines presently include: (i) corporate equity securities should be listed on the New York Stock Exchange (NYSE), NYSE MKT, NYSE Arca or the Nasdaq Stock Market (NASDAQ); (ii) the issuer of the listed securities should be in compliance with the listing standards of the respective National Securities Exchanges; and (iii) investment in a particular issuer should not exceed 10% of the market value of the total portfolio. The investment policies do not require the Company to divest itself of investments, which initially meet these guidelines but subsequently fail to meet one or more of the investment criteria. Non-conforming investments require the approval of the Securities Investment Committee. The Committee has in the past approved non-conforming investments and may in the future approve non-conforming investments. The Securities Investment Committee may modify these guidelines from time to time.

The Company may also invest, with the approval of the Securities Investment Committee, in unlisted securities, such as convertible notes, through private placements including private equity investment funds. Those investments in non-marketable securities are carried at cost on the Company's balance sheet as part of other investments and reviewed for impairment on a periodic basis. As of June 30, 2014, the Company had other investments of $15,837,000.

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, 2014, the Company had obligations for securities sold (equities short) of $175,000.

In addition, the Company may utilize margin for its marketable securities purchases through the use of standard margin agreements with national brokerage firms. The use of available leverage is guided by the business judgment of management and is subject to any internal investment guidelines, which may be imposed by the Securities Investment Committee. The margin used by the Company may fluctuate depending on market conditions. The use of leverage could be viewed as risky and the market values of the portfolio may be subject to large fluctuations. As of June 30, 2014, the Company had a margin balance of $2,925,000 and incurred $618,000 and $635,000 in margin interest expense during the years ended June 30, 2014 and 2013, respectively.

As Chairman of the Securities Investment Committee, the Company's President and Chief Executive officer, John V. Winfield, directs the investment activity of the Company in public and private markets pursuant to authority granted by the Board of Directors. Mr. Winfield also serves as Chief Executive Officer and Chairman of Santa Fe and Portsmouth and oversees the investment activity of those companies. Depending on certain market conditions and various risk factors, the Chief Executive Officer, his family, Santa Fe and Portsmouth may, at times, invest in the same companies in which the Company invests. The Company encourages such investments because it places personal resources of the Chief Executive Officer and his family members, and the resources of Santa Fe and Portsmouth, at risk in connection with investment decisions made on behalf of the Company.

Further information with respect to investment in marketable securities and other investments of the Company is set forth in Management Discussion and Analysis of Financial Condition and Results of Operations section and Notes 5 and 6 of the Notes to Consolidated Financial Statements.

Seasonality

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

Competition

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

The Hotel is located in an area of intense competition from other hotels in the Financial District and San Francisco in general. The Hotel is somewhat limited by having only 15,000 square feet of meeting room space. Other hotels, with greater meeting room space, may have a competitive advantage by being able to attract larger groups and small conventions. Increased competition from new hotels, or hotels that have been recently undergone substantial renovation, could have an adverse effect on occupancy, average daily rate (“ADR”) and room revenue per available room (“RevPar”) and put pressure on the Partnership to make additional capital improvements to the Hotel to keep pace with the competition.

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

Our highest priority remains guest satisfaction. We believe that enhancing the guest experience differentiates the Hotel from our competition by building the most sustainable guest loyalty. During fiscal 2013, we completed a significant, “green” project that retrofits all of our guest room windows with new “double-pane” inserts that result in greater energy savings and better sound attenuation for our guests. We have also upgraded our common areas of the Hotel and improved our restaurant facilities, food and beverage services and now provide advanced technological amenities throughout our lobby. Our guest responses to these improvements have been very positive. The Hotel also remains a leader in implementing Hilton’s Huanying (“Welcome”) program that features a tailored experience for Chinese travelers. We continue taking steps that further develop our ties with the local Chinese community and the city of San Francisco, representing good corporate citizenship and promoting important, new business opportunities.

Moving forward, we will continue to focus on cultivating more international business, especially from China, and capturing a greater percentage of the higher rated business, leisure and group travel. We will also continue in our efforts to upgrade our guest rooms and facilities and explore new and innovative ways to differentiate the Hotel from its competition, as well as focusing on returning our food and beverage operations to profitability. During the last twelve months, we have seen steady improvement in business and leisure travel. If that trend in the San Francisco market and the hotel industry continues, it should translate into an increase in room revenues and profitability. However, like all hotels, it will remain subject to the uncertain domestic and global economic environment and other risk factors beyond our control, such as the effect of natural disasters.

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

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

- natural disasters; and

- adverse effects of downturns and recessionary conditions in international, national and/or local economies and market conditions.

Competition – Rental Properties

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

Environmental Matters

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

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

Although the Phase I assessments and other environmental reports we have reviewed disclose certain conditions on our properties and the use of hazardous substances in operation and maintenance activities that could pose a risk of

environmental contamination or liability, we are not aware of any environmental liability that we believe would have a material adverse effect on our business, financial position, results of operations or cash flows.

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

EMPLOYEES

As of June 30, 2014, the Company had a total of 7 full-time employees in its corporate office. Effective July 2002, the Company entered into a client service agreement with Insperity, a professional employer organization serving as an off-site, full service human resource department for its corporate office. Insperity personnel management services are delivered by entering into a co-employment relationship with the Company’s employees. In July 2014, the Company terminated its relationship with Insperity and entered into a client service agreement with ADP, another professional employer organization that provides similar services. The agreement with ADP began in August 2014. The employees and the Company are not party to any collective bargaining agreement, and the Company believes that its employee relations are satisfactory.

The administrative and accounting employees of Justice and management of the Hotel are not unionized and the Company believes that their relationships with the Hotel are satisfactory and consistent with the market in San Francisco.

As of June 30, 2014, the Partnership had approximately 268 employees. Approximately 72% of those employees were represented by one of three labor unions, and their terms of employment were determined under collective bargaining agreements (CBAs). During the year ended June 30, 2014, CBAs for the Local 2 (Hotel and Restaurant Employees), Local 856 (International Brotherhood of Teamsters), and Local 39 (stationary engineers) were renewed. Negotiation of collective bargaining agreements, which includes not just terms and conditions of employment, but scope and coverage of employees, is a regular and expected course of business operations for the Partnership.

The Partnership expects and anticipates that the terms and conditions of the CBAs will have an impact on wage and benefit costs, operating expenses, and certain Hotel operations during the life of each CBA, and these terms and conditions are taken into account in the Hotel operating and budgetary practices.

ADDITIONAL INFORMATION

The Company files annual and quarterly reports on Forms 10-K and 10-Q, current reports on Form 8-K and other information with the Securities and Exchange Commission ("SEC" or the "Commission"). The public may read and copy any materials that we file with the Commission at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, on official business days during the hours of 10:00 a.m. to 3:00 p.m. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Commission also maintains an Internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission.

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

Item 1A. Risk Factors.

Not required for smaller reporting companies.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

SAN FRANCISCO HOTEL PROPERTY

The Hotel is owned directly by the Partnership. The Hotel is centrally located near the Financial District in San Francisco, one block from the Transamerica Pyramid. The 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, built in 1970. The Hotel has 543 well-appointed guest rooms and luxury suites situated on 22 floors. 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 5-level underground parking 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.

Since the Hotel recently completed renovations, there is no present program for any further major renovations; however, the Partnership expects to expend at least 4% of gross annual Hotel revenues each year for capital improvements and requirements. In the opinion of management, the Hotel is adequately covered by insurance.

HOTEL FINANCINGS

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

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

The Mortgage Loan is secured by the Partnership's principal asset, the Hilton San Francisco-Financial District (the "Property"). The Mortgage Loan bears an interest rate of 5.28% per annum and matures on January 1, 2024. The term of the Mortgage Loan is 10 years with interest only due in the first three years and equal monthly principal and interest payments based upon a 30 year amortization schedule for the remaining seven years of the Mortgage Loan term. The Mortgage Loan also requires payments for impounds related to property tax, insurance and capital improvement reserves. As additional security for the Mortgage Loan, there is a limited guaranty ("Mortgage Guaranty") executed by the Company in favor of Mortgage Lender.

The Mezzanine Loan is secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The Mezzanine Loan bears interest at 9.75% per annum and matures on January 1, 2024. Interest only payments are due monthly. As additional security for the Mezzanine Loan, there is a limited guaranty executed by the Company in favor of Mezzanine Lender (the "Mezzanine Guaranty" and, together with the Mortgage Guaranty, the "Guaranties").

The Guaranties are limited to what are commonly referred to as "bad boy" acts, including: (i) fraud or intentional misrepresentations; (ii) gross negligence or willful misconduct; (iii) misapplication or misappropriation of rents, security deposits, insurance or condemnation proceeds; and (iv) failure to pay taxes or insurance. The Guaranties will be full recourse guaranties under identified circumstances, including failure to maintain "single purpose" status which is a factor in a consolidation of Operating or Mezzanine in a bankruptcy of another person, transfer or encumbrance of the Property in violation of the applicable loan documents, Operating or Mezzanine incurring debts that are not permitted, and the Property becoming subject to a bankruptcy proceeding. Pursuant to the Guaranties, the Company is required to maintain a certain minimum net worth and liquidity. As of June 30, 2014, the Company is in compliance with both requirements.

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

On July 27, 2005, Justice entered into a first mortgage loan with The Prudential Insurance Company of America in a principal amount of $30,000,000 (the "Prudential Loan"). The term of the Prudential Loan is for 120 months at a fixed interest rate of 5.22% per annum. The Prudential Loan calls for monthly installments of principal and interest in the amount of approximately $165,000, calculated on a 30-year amortization schedule. The Loan is collateralized by a first deed of trust on the Partnership's Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Prudential Loan is without recourse to the limited and general partners of Justice. This loan was paid off in full on December 18, 2013 in connection to the refinancing of the loans and partnership redemption.

In March 2007, Justice entered into a second mortgage loan with The Prudential Insurance Company of America (the "Second Prudential Loan") in a principal amount of $19,000,000. The term of the Second Prudential Loan is for approximately 100 months and matures on August 5, 2015, the same date as the Partnership's first mortgage loan with Prudential. The Second Prudential Loan is at a fixed interest rate of 6.42% per annum and calls for monthly installments of principal and interest in the amount of approximately $119,000, calculated on a 30-year amortization schedule. The Loan is collateralized by a second deed of trust on the Partnership's Hotel property, including all improvements and personal property thereon and an assignment of all present and future leases and rents. The Loan is without recourse to the limited and general partners of Justice. This loan was paid off in full on December 18, 2013 in connection to the refinancing of the loans and partnership redemption.

RENTAL PROPERTIES

As June 30, 2014, the Company's investment in real estate consisted of twenty one properties located throughout the United States, with a concentration in Texas and Southern California. These properties include seventeen apartment complexes, two single-family houses as strategic investments and two commercial real estate properties. All properties are operating properties. In addition to the properties, the Company owns approximately 4.1 acres of unimproved real estate in Texas and 2 acres of unimproved land in Maui, Hawaii.

MANAGEMENT OF RENTAL PROPERTIES

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

Effective June 17, 2013, InterGroup entered into an unrelated third party Property Management Agreement with R & K Interests, Inc., doing business as Investors' Property Services (“IPS”) to provide property management services for all of the Company's rental properties located outside the state of California . The properties subject to the agreement are the Company's apartment complexes located in Las Colinas TX, Austin TX, St. Louis MO, Parsippany NJ and Florence KY. Subject to its other terms and conditions, the agreement is for consecutive one (1) year renewable terms but may be terminated by the parties upon thirty (30) days advance written notice. The agreement provides for compensation to IPS of 2.8% of the gross income from operations of the properties (as defined) as a property management fee and certain other fees as set forth in the agreement for any additional services.

Effective July 1, 2013, InterGroup also entered into an Asset Management Agreement with Delta Alliance Capital Management, LLC, to provide asset management services covering all of the Company's rental properties and its two commercial buildings. Delta Alliance is a related firm to IPS. Delta Alliance was formed to acquire commercial real estate holdings and assist and advise clients in monitoring the operations of similar real estate holdings. Subject to its other terms and conditions, the agreement is for consecutive one (1) year renewable terms but may be terminated by the parties upon thirty (30) days advance written notice. The agreement provides for compensation to Delta Alliance of 0.5% of the gross income from operations of all the properties as an asset management fee.

In July 2014, both agreements with IPS and Delta Alliance were terminated and the Company brought the management of the properties located outside of California back in-house. During the year ended June 30, 2014, total management fees paid to these two firms totaled $381,000.

Effective August 1, 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 was for an original term of twelve months ending on July 31, 2006 and continues on a month-to-month basis, until terminated upon 30 days prior written notice. The Management Agreement provides for a monthly fee equal to 4% of the monthly gross receipts from the properties with resident managers and a fee of 4 1/2% of monthly gross receipts for properties without resident managers. During the years ended June 30, 2014 and 2013, the management fees were $159,000 and $138,000, respectively.

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 residential rental property leases are short-term leases, with no lease extending beyond one year.

Description of Properties

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, 2014 were approximately $694,000. The outstanding mortgage balance was approximately $18,970,000 at June 30, 2014 and the maturity date of the mortgage is December 1, 2022.

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, 2014 were approximately $216,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $10,279,000 at June 30, 2014 and the maturity date of the mortgage is July 31, 2022. In June 2014, the Company obtained a second mortgage on this property in the amount of $2,740,000. The term of the loan is approximately 8 years with the interest rate fixed at 4.51%. The loan matures in August 2022.

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, 2014, real estate property taxes were approximately $147,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $5,943,000 at June 30, 2014 and the maturity date of the mortgage is May 31, 2023.

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, 2014, real estate property taxes were approximately $46,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $3,722,000 at June 30, 2014 and the maturity date of the mortgage is July 1, 2014.

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, 2014, real estate taxes were approximately $224,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $6,505,000 at June 30, 2014 and the maturity date of the mortgage is July 1, 2023. The Company also owns approximately 4.1 acres of unimproved land and a single family house 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 served as the Company's corporate offices until it was leased out, effective October 1, 2009 and the Company leased a new space for its corporate office. The Company acquired the building on March 4, 1999 for $1,876,000. The property taxes for the year ended June 30, 2014 were approximately $30,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $992,000 at June 30, 2014. In June 2014, the Company obtained a seven month extension on this mortgage that matured in June 2014. The loan was extended to January 2015. Interest rate on the note remains the same.

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, 2014 were approximately $14,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. In April 2014, the Company refinanced its $526,000 mortgage note payable for a new 3-year interest only mortgage in the amount of $1,100,000. The Company received net proceeds of $556,000. The interest rate on the new loan is fixed at 3.25% per annum and the note matures in May 2017.

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,

2013, real estate property taxes were approximately $21,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $2,008,000 at June 30, 2014 and the maturity date of the mortgage is January 1, 2022.

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, 2014, real estate property taxes were approximately $61,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $3,084,000 at June 30, 2014 and the maturity date of the mortgage is December 1, 2020.

The third Los Angeles apartment complex is a 12,700 square foot apartment with 14 units. The Company acquired the property on October 20, 1999 at an initial cost of approximately $2,150,000. For the year ended June 30, 2014, real estate property taxes were approximately $35,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $1,780,000 at June 30, 2014 and the maturity date of the mortgage is March 1, 2021.

The fourth Los Angeles apartment complex is a 10,500 square foot apartment with 9 units. The Company acquired the property on November 10, 1999 at an initial cost of approximately $1,675,000. For the year ended June 30, 2014, real estate property taxes were approximately $27,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $1,213,000 at June 30, 2014 and the maturity date of the mortgage is March 1, 2021.

The fifth Los Angeles apartment complex is a 26,100 square foot two-story apartment with 31 units. The Company acquired the property on May 26, 2000 at an initial cost of approximately $7,500,000. For the year ended June 30, 2014, real estate property taxes were approximately $107,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $5,475,000 at June 30, 2014 and the maturity date of the mortgage is December 1, 2020.

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, 2014, real estate property taxes were approximately $69,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $6,399,000 at June 30, 2014 and the maturity date of the mortgage is September 1, 2022.

The seventh Los Angeles apartment complex is a 3,000 square foot apartment with 4 units. The Company acquired the property on July 19, 2000 at an initial cost of approximately $1,070,000. For the year ended June 30, 2014, 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 $383,000 at June 30, 2014 and the maturity date of the mortgage is September 1, 2042.

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, 2014, real estate property taxes were approximately $15,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $648,000 at June 30, 2014 and the maturity date of the mortgage is September 1, 2042.

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, 2014, real estate property taxes were approximately $21,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $949,000 at June 30, 2014 and the maturity date of the mortgage is September 1, 2042.

The tenth 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, 2014, real estate property taxes were approximately $19,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. In July 2013, the Company refinanced its $466,000 adjustable rate mortgage note payable on this property for a new 30-year mortgage in the amount of $500,000. The interest rate on the new loan is fixed at 3.50% per annum for the first five years and variable for the remaining of the term. The note matures in July 2043. The outstanding mortgage balance was approximately $491,000 at June 30, 2014

The eleventh 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, 2014, real estate property taxes were approximately $12,000. Depreciation is recorded on the straight-line method based upon an estimated useful Life of 40 years. The outstanding mortgage balance was approximately $388,000 at June 30, 2014 and the maturity date of the mortgage is September 1, 2042.

The twelfth apartment which is located in Marina del Rey, California, is a 6,316 square foot two-story apartment with 9 units. The Company acquired the property on April 29, 2011 at an initial cost of approximately $4,000,000. For the year ended June 30, 2014, real estate property taxes were approximately $52,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 27.5 years. The outstanding mortgage balance was approximately $1,427,000 at June 30, 2014 and the maturity date of the mortgage is May 1, 2021.

The first Los Angeles single-family house is a 2,771 square foot home. The Company acquired the property on November 9, 2000 at an initial cost of approximately $660,000. For the year ended June 30, 2014, 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 $417,000 at June 30, 2014 and the maturity date of the mortgage is September 1, 2042.

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, 2014, real estate property taxes were approximately $12,000. Depreciation is recorded on the straight-line method, based upon an estimated useful life of 40 years. The outstanding mortgage balance was approximately $445,000 at June 30, 2014 and the maturity date of the mortgage is September 1, 2042.

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

MORTGAGES

Further information with respect to mortgage notes payable of the Company is set forth in Note 10 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, 2014 are provided below.

Property	Economic Occupancy	Physical Occupancy
1. Las Colinas,TX	80 %	95 %
2. Morris County, NJ	92 %	98 %
3. St. Louis, MO	80 %	90 %
4. Florence, KY	80 %	90 %
5. Austin, TX	88 %	95 %
6. Los Angeles, CA (1)	83 %	97 %
7. Los Angeles, CA (2)	77 %	97 %
8. Los Angeles, CA (3)	96 %	97 %
9. Los Angeles, CA (4)	98 %	98 %
10. Los Angeles, CA (5)	74 %	97 %
11. Los Angeles, CA (6)	96 %	97 %
12. Los Angeles, CA (7)	89 %	91 %
13. Los Angeles, CA (8)	92 %	92 %
14. Los Angeles, CA (9)	80 %	85 %
15. Los Angeles, CA (10)	93 %	94 %
16. Los Angeles, CA (11)	100 %	100 %
17. Marina del Rey, CA (12)	85 %	97 %

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.

One of the Company’s two commercial properties in Los Angeles, California is currently leased. This lease ends in September 2014. The second commercial building was leased in August 2014.

Item 3. Legal Proceedings.

In August 2012, two current and four former employees of the Hotel commenced a putative wage and hour class action against the Partnership. The Complaint alleged that the Partnership failed to provide compliant meal periods, failed to authorize and permit compliant rest periods, failed to pay all regular and overtime wages due, failed to provide accurate itemized wage statements, and failed to pay all wages owed upon termination of employment.

In February 2013, the Partnership agreed to settle the class action lawsuit for $525,000. The amount was accrued as of June 30, 2013 and is included as part of “Accounts payable and accrued liabilities” in the Consolidated Balance Sheet. Prism Hotels L.P. agreed to reimburse the Partnership for 50% of the total amount of the settlement and pay up to $300,000 of legal fees and defense costs incurred in defense of the lawsuit. During fiscal 2013, the Partnership incurred legal costs of $365,000 associated with the lawsuit, of which Prism agreed to pay $300,000 in accordance with the agreement. The amount due to Prism at June 30, 2013 for the management fee was applied against the receivable for the reimbursement of the settlement and legal costs. The Partnership insurance carrier awarded $225,000 in insurance proceeds as a result of a claim related to the settlement. Of the total proceeds, 50%, or $112,500, was allocated to the Partnership and the remaining amount was allocated to Prism. The insurance reimbursement awarded to the Partnership was offset against the related legal expense included as part of “General and administrative” expenses in the statements of income and partners’ accumulated deficit. During the year ended June 30, 2014 the Partnership paid the entire settlement of $525,000.

The City of San Francisco’s Tax Collector’s office has claimed that Justice owes the City of San Francisco $2.1 million based on the Tax Collector’s interpretation of the San Francisco Business and Tax Regulations Code relating to Transient Occupancy Tax and Tourist Improvement District Assessment. This amount exceeds Justice’s estimate of the taxes owed, and Justice has disputed the claim and is seeking to discharge all penalties and interest charges imposed by the Tax Collector. The Company paid the full amount in March 2014 as part of the appeals process but is reflecting the amount on the balance sheet in “Other Assets, Net” as it is currently under protest.

Several legal matters are pending relating to the redemption transaction described in Note 2 of the consolidated financial statements. As previously stated in Note 2, on December 17, 2013, Documentary Transfer Tax of approximately $4.7 million was paid to the City and County of San Francisco (“CCSF”). CCSF required payment of the Documentary Transfer Tax as a condition to record the transfer of the Hotel to Operating and other documents related to the Loan Agreements. While the Partnership believes the amount of Documentary Transfer tax that was assessed by CCSF was incorrect, the tax was paid, under protest, to allow for the consummation of the redemption transaction, the Loan Agreements and the recording of all related documents. The Partnership has challenged CCSF’s imposition of the tax and filed a refund claim with the CCSF. No prediction can be made as to whether CCSF’s calculation of the tax will be upheld, or whether any portion of the tax will be refunded.

On February 13, 2014, Evon filed a complaint in San Francisco Superior Court against the Partnership, Portsmouth, and a limited partner and related party asserting contract and tort claims based on Justice’s withholding of $4.7 million from a payment due to Holdings to pay the transfer tax described in Note 2 and Note 18 of the consolidated financial statements. On April 1, 2014, Defendants removed the action to the United States District Court for the Northern District of California. Evon dismissed its complaint on April 8, 2014 and, that same day, filed a second complaint in San Francisco Superior Court substantially similar to the dismissed complaint, except for the omission of a federal cause of action. Evon’s current operative complaint in the action asserts causes of action for breach of contract and breach of the implied covenant of good faith and fair dealing against Justice only; breach of fiduciary duty against Portsmouth only; conversion against Justice and Portsmouth; and fraud/concealment against Justice, Portsmouth and a Justice limited partner and related party. In July 2014, Justice paid to Holdings a total of $4.7 million, the amount Evon claims was incorrectly withheld from Holdings to pay the transfer tax described in Note 18 of the consolidated financial statements. No prediction can be given as to the ultimate outcome of this matter.

On April 21, 2014, the Partnership commenced an arbitration action against Glaser Weil Fink Howard Avchen & Shapiro, LLP (formerly known as Glaser Weil Fink Jacobs Howard Avchen & Shapiro, LLP), Brett J. Cohen, Gary N. Jacobs, Janet S. McCloud, Paul B. Salvaty, and Joseph K. Fletcher III (collectively, the “Respondents”) in connection with the redemption transaction. The arbitration is pending before JAMS in Los Angeles. No prediction can be given as to the outcome of this matter.

On June 27, 2014, the Partnership commenced an action in San Francisco Superior Court against Evon, Holdings, and those partners who elected the alternative redemption structure. The action seeks a declaration of the correct interpretation of (i) the special allocations sections of the Amended and Restated Agreement of Limited Partnership of Justice Investors, a California Limited Partnership, with an effective date of January 1, 2013; and (ii) whether certain partners who elected the alternative redemption structure breached the governing Limited Partnership Interest Redemption Option Agreement. The complaint states that these declarations are relevant to preparation of the Partnership’s 2013 and 2014 state and federal tax returns and the associated Forms K-1 to be issued to affected current and former partners. No prediction can be given as to the outcome of this matter.

The Partnership has timely filed its 2013 federal and state partnership income tax returns, however, depending on the ultimate outcome of the Partnership’s declaratory relief action filed in San Francisco Superior Court, the Partnership’s

2013 federal and state partnership income tax returns may be amended.

The Company is also involved from time to time in various claims in the ordinary course of business. Management does not believe that the impact of such matters will have a material effect on the financial conditions or result of operations when resolved.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

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

MARKET INFORMATION

The Company's Common Stock is listed and trades on the NASDAQ Capital Market tier of the NASDAQ Stock Market, LLC under the symbol: “INTG”. The following table sets forth the high and low sales prices for the Company’s common stock for each quarter of the last two fiscal years ended June 30, 2014 and 2013 as reported by NASDAQ.

Fiscal 2014	High	Low
First Quarter (7/ 1 to 9/30)	$21.01	$18.02
Second Quarter (10/1 to 12/31)	$20.04	$18.30
Third Quarter (1/1 to 3/31)	$19.43	$18.31
Fourth Quarter (4/1 to 6/30)	$19.49	$17.18

Fiscal 2013	High	Low
First Quarter (7/ 1 to 9/30)	$24.00	$21.91
Second Quarter (10/1 to 12/31)	$23.81	$18.01
Third Quarter (1/1 to 3/31)	$23.90	$19.91
Fourth Quarter (4/1 to 6/30)	$23.50	$20.00

As of June 30, 2014, the approximate number of holders of record of the Company’s Common Stock was 328. Such number of owners was determined from the Company’s shareholders records and does not include beneficial owners of the Company’s Common Stock whose shares are held in names of various brokers, clearing agencies or other nominees.

DIVIDENDS

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

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS.

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

ISSUER PURCHASES OF EQUITY SECURITIES

The Company did not have any purchases of its common stock for its own account, during the fourth quarter of its fiscal year ending June 30, 2014:

The Company has only one stock repurchase program. The program was initially announced on January 13, 1998 and was amended on February 10, 2003, October 12, 2004 and June 3, 2009. The total number of shares authorized to be repurchased pursuant to those prior authorizations was 995,000, adjusted for stock splits. On November 15, 2012, the Board of Directors authorized the Company to purchase up to an additional 100,000 shares of Company's common stock. As of June, 30, 2014, that total amount of shares authorized for repurchase is approximately 97,000. The purchases will be made, in the discretion of management, from time to time, in the open market or through privately negotiated third party transactions depending on market conditions and other factors. The Company's repurchase program has no expiration date and can be amended and increased, from time to time, in the discretion of the Board of Directors. No plan or program expired during the period covered by the table.

Item 6. Selected Financial Data.

Not required for smaller reporting companies.

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

RESULTS OF OPERATIONS

As of June 30, 2014, the Company owned approximately 80.9% of the common shares of its subsidiary, Santa Fe and Santa Fe owned approximately 68.8% of the common shares of Portsmouth Square, Inc. InterGroup also directly owns approximately 12.9% of the common shares of Portsmouth. The Company's principal sources of revenue continue to be derived from the general and limited partnership interests of its subsidiary, Portsmouth, in the Justice Investors limited partnership (“Justice” or the “Partnership”), rental income from its investments in multi-family real estate properties and income received from investment of its cash and securities assets. Justice owns a 543 room hotel property located at 750 Kearny Street, San Francisco, California 94108, known as the “Hilton San Francisco Financial District” (the “Hotel”) and related facilities, including a five-level underground parking garage. The financial statements of Justice have been consolidated with those of the Company.

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

The parking garage that is part of the Hotel property is managed by Ace Parking pursuant to a contract with the Partnership. Portsmouth also receives management fees as a general partner of Justice for its services in overseeing and managing the Partnership’s assets. Those fees are eliminated in consolidation.

In December 2013, the Partnership determined to restructure its ownership to facilitate a refinancing of the Hotel and redeem the interests of certain Partners, including Evon. In the course of this refinancing, restructuring and redemption, the Partnership created Justice Holdings Company, LLC (“Holdings”), a Delaware Limited Liability Company, Justice Operating Company, LLC (“Operating”) and Justice Mezzanine Company, LLC (“Mezzanine”). Holdings and Mezzanine are both a wholly-owned subsidiaries of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the Mezzanine borrower and in December 2013, the Partnership conveyed ownership of the Hotel to Operating.

On December 18, 2013, the Partnership completed an Offer to Redeem any and all limited partnership interests not held by Portsmouth and the Loan Agreements, as defined below. In addition, the Partnership approved amendments to the Amended and Restated Agreement of Limited Partnership, which amendments became effective upon the completion of the Offer to Redeem and the consummation of the Loan Agreements. Such amendments are described below. As a result, Portsmouth, which prior to the Offer to Redeem owned 50% of the then outstanding limited partnership interests now controls approximately 93% of the voting interest in Justice and is now its sole General Partner.

Pursuant to the Offer to Redeem, the Partnership has accepted tenders, for cash, from Evon, a general partner and seventy-three of the limited partners representing approximately 29.173% of partnership interests outstanding prior to the Offer to Redeem for $1,385,000 for each 1% tendered. On December 19, 2013, Justice distributed the amounts due each of these former partners pursuant to the terms of the tender offer.

In addition, the Partnership has accepted the election of holders of approximately 17.146% of the limited partnership interests outstanding prior to the Offer to Redeem to participate in an alternate redemption structure. Under that alternative redemption structure, the Partnership paid to Holdings $1,385,000 for each 1% tendered. Those partners who elected the alternative redemption structure may within 12 months of December 18, 2013, designate property for Holdings to purchase and then require Holdings to transfer that property to the partner in redemption of that partner's interest in the Partnership. The governing agreement also provides for other possible methods of redeeming the interests of the partners who elected the alternate redemption structure. During the year ended June 30, 2014, a total of $2,928,000 was redeemed under the alternative redemption structure. As of June 30, 2014, the current and deferred payments related to the alternative redemption structure, which are held by Justice's wholly owned subsidiary, Holdings, are classified as restricted cash and, together with the expenses discussed below, total $16,163,000 and are classified on the balance sheet as redemption payable.

The Partnership incurred approximately $6,681,000 in restructuring costs relating to the Offer to Redeem and related financing transactions, including a one-time management fee of $1,550,000, approximately $431,000 in legal, accounting and other professional expenses, and payment of a Documentary Transfer Tax of approximately $4.7 million to the City and County of San Francisco ("CCSF"). CCSF required payment of the Documentary Transfer Tax as a condition to record the transfer of the Hotel to Operating and other documents related to the Loan Agreements. While the Partnership believes the amount of Documentary Transfer tax that was assessed by CCSF was incorrect, the tax was paid, under protest, to allow for the consummation of the redemption transaction, the Loan Agreements and the recording of all related documents. The Partnership has challenged CCSF's imposition of the tax and filed a refund claim with the CCSF. No prediction can be made as to whether CCSF's calculation of the tax will be upheld, or whether any portion of the tax will be refunded.

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

As a result of the ownership structure implemented in December 2013, the Partnership is the indirect sole owner of a 543-room hotel property located at 750 Kearny Street, San Francisco, California, now known as the Hilton San Francisco Financial District (the Hotel) and related facilities including a five level underground parking garage. The Hotel is operated by Operating as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. Operating also has a Management Agreement with Prism Hospitality L.P. (Prism) to perform management functions for the Hotel. The management agreement with Prism had an original term of ten years and can be terminated at any time with or without cause by the Partnership owner. Effective January 2014, the management agreement with Prism was amended by the Partnership. Effective December 1, 2013, GMP Management, Inc., a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement, which is for a term of 3 years, but which can be terminated earlier by the Partnership for cause.

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

In addition to the operations of the Hotel, the Company also generates income from the ownership and management of real estate. Properties include seventeen apartment complexes, two commercial real estate properties, and two single-family houses as strategic investments. The properties are located throughout the United States, but are concentrated in Texas and Southern California. The Company also has investments in unimproved real property. All of the Company's operating real estate properties with exception of the two commercial properties were managed by professional third party property management companies. In July 2014, the Company terminated its property and asset management agreements with the professional third party property management company that managed its properties located outside of California. Beginning August 2014, the Company began managing its five properties located outside of California in-house, while the properties located in California are still being managed by a third party property management company, with exception to the two commercial buildings which are also managed in-house.

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.

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Fiscal Year Ended June 30, 2014 Compared to Fiscal Year Ended June 30, 2013

The Company had a net loss of $6,748,000 for the year ended June 30, 2014 compared to net income of $625,000 for the year ended June 30, 2013. The significant change in the net (loss) income is primarily attributable to the costs related to the restructuring and redemption of the limited partners of Justice Investors and the related refinancing of the mortgage note on the Hotel. This is partially offset by the continued improvement of Hotel operations prior to the non-recurring expenses and to a lesser extent, improvement in the real estate operations and gains on marketable securities.

The Company had net loss from Hotel operations of $10,664,000 for the fiscal year ended June 30, 2014, compared to net income of $2,864,000 for the fiscal year ended June 30, 2013. The change in the net (loss) income is primarily attributable the costs related to the restructuring and the redemption of the limited partners of Justice and the related refinancing of the mortgage note on the Hotel. This is partially offset by the increase revenues at the Hotel resulting from higher average room rates partially offset by the related increase in operating expenses.

The following table sets forth a more detailed presentation of Hotel operations for the years ended June 30, 2014 and 2013.

For the year ended June 30,	2014	2013
Hotel revenues:		
Hotel rooms	$41,502,000	$36,378,000
Food and beverage	5,862,000	6,617,000
Garage	2,893,000	2,786,000
Other operating departments	706,000	784,000
Total hotel revenues	50,963,000	46,565,000
Operating expenses, excluding non-recurring charges, depreciation and amortization	(40,805,000)	(38,635,000)
Operating income before non-recurring charges, interest and depreciation and amortization	10,158,000	7,930,000
Hotel restructuring costs	(6,681,000)	-
Hotel occupancy tax - penalty fees	(1,278,000)	-
Income before loss on extinguishment of debt, loss on disposal of assets , interest, depreciation and amortization	2,199,000	7,930,000
Loss on extinguishment of debt	(3,910,000)	-
Loss on disposal of assets	(1,092,000)	-
Interest expense - mortgage	(4,960,000)	(2,612,000)
Interest expense - occupancy tax	(328,000)	-
Depreciation and amortization expense	(2,573,000)	(2,454,000)
Net (loss) income from Hotel operations	$(10,664,000)	$2,864,000

For the year ended June 30, 2014, the Hotel generated operating income of $10,158,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of $50,963,000 compared to operating income of $7,930,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of $46,565,000 for the year ended June 30, 2013. Room revenues increased by $5,124,000 for the year ended June 30, 2014 compared to the year ended June 30, 2013 primarily as the result of higher room rates from the improving economy and increased tourism. Food and beverage revenues decreased by $755,000 due to the closing of certain outlets that were not profitable and garage revenues increased by $107,000 for the same period due to the increase in transient parking.

Major factors for the increase in operating expenses were an increase in contractual union wages and benefits in all operating departments and higher commissions paid for certain group and city-wide convention business in the current period. Franchise and management fees, which are based on a percentage of revenues, also increased as well as costs for certain promotions for Hilton Honors members during the current period. However, management fees which are based on a percentage of revenues, also decreased as the result of the new revised agreement. Justice paid a flat rate fee beginning in January of 2014.

The following table sets forth the average daily room rate, average occupancy percentage and room revenue per available room ("RevPAR") of the Hotel for the year ended June 30, 2014 and 2013.

Nine Months Ended March 31,	**Average Daily Rate**	**Average Occupancy %**	**RevPAR**
2014	$ 229	92 %	$ 209
2013	$ 205	90 %	$ 184

Room revenues remained strong as the San Francisco market continued to have good demand for higher rated business. The Hotel's average daily rate increased by $24 for the year ended June 30, 2014 compared to the year ended June 30, 2013, while occupancy percentages increased to 92% from 90%. As a result, the Hotel was able to achieve a RevPAR number that was $25 higher than the comparative prior year period.

The Partnership incurred approximately $6,681,000 in restructuring costs relating to the Offer to Redeem and related financing transactions, including a one-time management fee of $1,550,000, approximately $431,000 in legal, accounting and other professional expenses, and payment of a Documentary Transfer Tax of approximately $4.7 million to the City and County of San Francisco ("CCSF"). CCSF required payment of the Documentary Transfer Tax as a condition to record the transfer of the Hotel to Operating and other documents related to the Loan Agreements. While the Partnership believes the amount of Documentary Transfer tax that was assessed by CCSF was incorrect, the tax was paid, under protest, to allow for the consummation of the redemption transaction, the Loan Agreements and the recording of all related documents. The Partnership has challenged CCSF's imposition of the tax and filed a refund claim with the CCSF. No prediction can be made as to whether CCSF's calculation of the tax will be upheld, or whether any portion of the tax will be refunded.

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

The City of San Francisco's Tax Collector's office has claimed that Justice owes the City of San Francisco $2.1 million based on the Tax Collector's interpretation of the San Francisco Business and Tax Regulations Code relating to Transient Occupancy Tax and Tourist Improvement District Assessment. This amount exceeds Justice's estimate of the taxes owed, and Justice has disputed the claim and is seeking to discharge all penalties and interest charges imposed by the Tax Collector. The Company paid the full amount in March 2014 as part of the appeals process but is reflecting the amount on the balance sheet in "Other Assets, Net" as it is currently under protest.

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

Our highest priority is guest satisfaction. We believe that enhancing the guest experience differentiates the Hotel from our competition by building the most sustainable guest loyalty. During fiscal 2013, we completed a significant, "green" project that retrofits all of our guest room windows with new "double-pane" inserts that result in greater energy savings and better sound attenuation for our guests. We have also upgraded our common areas of the Hotel and improved our restaurant facilities, food and beverage services and now provide advanced technological amenities throughout our lobby. Our guest responses to these improvements have been very positive. The Hotel also remains a leader in implementing Hilton's Huanying ("Welcome") program that features a tailored experience for Chinese travelers. We continue taking steps that further develop our ties with the local Chinese community and the city of San Francisco, representing good corporate citizenship and promoting important, new business opportunities.

Moving forward, we will continue to focus on cultivating more international business, especially from China, and capturing a greater percentage of the higher rated business, leisure and group travel. We will also continue in our efforts to upgrade our guest rooms and facilities and explore new and innovative ways to differentiate the Hotel from its competition, as well as focusing on returning our food and beverage operations to profitability. During the last twelve months, we have seen steady improvement in business and leisure travel. If that trend in the San Francisco market and the hotel industry continues, it should translate into an increase in room revenues and profitability. However, like all hotels, it will remain subject to the uncertain domestic and global economic environment and other risk factors beyond our control, such as the effect of natural disasters.

Revenue from real estate operations increased to $16,332,000 for the year ended June 30, 2014 from $15,474,000 for the year ended June 30, 2013. The increase in real estate revenues is primarily due to improved occupancy and increased rents at our properties and a one-time $249,000 storm damage insurance claim received by the Company on three of its properties. Real estate operating expenses increased to $8,982,000 for the year ended June 30, 2014 from $8,529,000 for the year ended June 30, 2013 primarily as the result of higher repairs and maintenance related costs. Mortgage interest expense related to real estate decreased to $3,026,000 for fiscal 2014 from $3,556,000 for fiscal 2013 as the result of management taking advantage of the lower interest rate environment and refinancing its largest mortgages during fiscal 2013 and also additional smaller mortgages in fiscal 2014. Management continues to review and analyze the Company's real estate operations to improve occupancy and rental rates and to reduce expenses and improve efficiencies. In July 2014, the Company terminated its property management agreement with the professional third party property management company that managed its properties located outside of California. Beginning August 2014, the Company began managing its five properties located outside of California in-house, while the properties located in California are still being managed by a third party property management company, with exception to the two commercial buildings which are also managed in-house.

The Company had a net gain on marketable securities of $998,000 for the year ended June 30, 2014 compared to a net loss on marketable securities of $856,000 for the year ended June 30, 2013. For the year ended June 30, 2014, the Company had a net realized gain of $870,000 and a net unrealized gain of $128,000. For the year ended June 30, 2013, the Company had a net realized gain of $147,000 and a net unrealized loss of $1,003,000. 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, 2014, the Company had an unrealized gain of $181,000 related to other investments compared to an unrealized loss of $216,000 for the year ended June 30, 2013. The gain is due to the increase in the fair value of stock warrants.

The Company and its subsidiaries, Portsmouth and Santa Fe, compute and file income tax returns and prepare discrete income tax provisions for financial reporting. The income tax benefit (expense) during the year ended June 30, 2014 and 2013 represents primarily the income tax effect on the Portsmouth's pretax (loss) income which includes its share in net income (loss) of the Hotel. The Company's tax benefit as a percentage of the Portsmouth's income (loss) before income taxes has increased in fiscal 2014 due to the redemption and a larger ownership in Justice.

MARKETABLE SECURITIES AND OTHER INVESTMENTS

As of June 30, 2014 and 2013, the Company had investments in marketable equity securities of $11,420,000 and $12,624,000, respectively. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as:

As of June 30, 2014 Industry Group	Fair Value	% of Total Investment Securities	
Basic materials	$5,081,000	44.5	%
Technology	1,395,000	12.2	%
REITs and real estate companies	1,001,000	8.8	%
Financial services	820,000	7.2	%
Other	3,123,000	27.3	%
	$11,420,000	100.0	%

As of June 30, 2013 Industry Group	Fair Value	% of Total Investment Securities	
Basic materials	$4,733,000	37.5	%
Technology	2,698,000	21.4	%
Financial services	2,261,000	17.9	%
REITs and real estate companies	878,000	7.0	%
Other	2,054,000	16.2	%
	$12,624,000	100.0	%

The Company's investment portfolio is diversified with 35 different equity positions. The Company holds four equity securities that comprise of more than 10% of the equity value of the portfolio. The largest security represents 44.2% of the portfolio and consists of the common stock of Comstock Mining, Inc. ("Comstock" - NYSE MKT: LODE) which is included in the basic materials industry group. The amount of the Company's investment in any particular issuer may increase or decrease, and additions or deletions to its securities portfolio may occur, at any time. While it is the internal policy of the Company to limit its initial investment in any single equity to less than 10% of its total portfolio value, that investment could eventually exceed 10% as a result of equity appreciation or reduction of other positions. A significant percentage of the portfolio consists of common stock in Comstock that was obtained through dividend payments by Comstock on its 7.5% Series A-1 Convertible Preferred Stock. Marketable securities are stated at fair value as determined by the most recently traded price of each security at the balance sheet date.

The Company also holds a $13,231,000 investment in Comstock Series A-1 Convertible Preferred Stock which is carried at cost and included in Other investments, net.

The following table shows the net gain or loss on the Company's marketable securities and the associated margin interest and trading expenses for the respective years.

For the years ended June 30,	2014	2013

Net gain (loss) on marketable securities	$998,000	$(856,000)
Net unrealized gain (loss) on other investments	181,000	(216,000)
Impairment loss on other investments	(101,000)	(105,000)
Dividend and interest income	1,064,000	1,082,000
Margin interest expense	(618,000)	(635,000)
Trading expenses	(1,181,000)	(1,073,000)
	$343,000	$(1,803,000)

FINANCIAL CONDITION AND LIQUIDITY

The Company's cash flows are primarily generated from its Hotel operations, and general partner management fees and limited partnership distributions from Justice Investors, its real estate operations and from the investment of its cash in marketable securities and other investments.

On December 18, 2013, the Partnership completed an Offer to Redeem any and all limited partnership interests not held by Portsmouth and the Loan Agreements, as defined below. In addition, the Partnership approved amendments to the Amended and Restated Agreement of Limited Partnership, which amendments became effective upon the completion of the Offer to Redeem and the consummation of the Loan Agreements. Such amendments are described below. As a result, Portsmouth, which prior to the Offer to Redeem owned 50% of the then outstanding limited partnership interests now controls approximately 93% of the voting interest in Justice and is now its sole General Partner.

Pursuant to the Offer to Redeem, the Partnership has accepted tenders, for cash, from Evon, a general partner and seventy-three of the limited partners representing approximately 29.173% of partnership interests outstanding prior to the Offer to Redeem for $1,385,000 for each 1% tendered. On December 19, 2013, Justice distributed the amounts due each of these former partners pursuant to the terms of the tender offer.

In addition, the Partnership has accepted the election of holders of approximately 17.146% of the limited partnership interests outstanding prior to the Offer to Redeem to participate in an alternate redemption structure. Under that alternative redemption structure, the Partnership paid to Holdings $1,385,000 for each 1% tendered. Those partners who elected the alternative redemption structure may within 12 months of December 18, 2013, designate property for Holdings to purchase and then require Holdings to transfer that property to the partner in redemption of that partner's interest in the Partnership. The governing agreement also provides for other possible methods of redeeming the interests of the partners who elected the alternate redemption structure. As of June 30, 2014, the current and deferred payments related to the alternative redemption structure, which are held by Justice's wholly owned subsidiary, Holdings, are classified as restricted cash and, together with the expenses discussed below, total $16,163,000 and are classified on the balance sheet as redemption payable.

The Partnership incurred approximately $6,681,000 in restructuring costs relating to the Offer to Redeem and related financing transactions, including a one-time management fee of $1,550,000, approximately $431,000 in legal, accounting and other professional expenses, and payment of a Documentary Transfer Tax of approximately $4.7 million to the City and County of San Francisco ("CCSF"). CCSF required payment of the Documentary Transfer Tax as a condition to record the transfer of the Hotel to Operating and other documents related to the Loan Agreements. While the Partnership believes the amount of Documentary Transfer tax that was assessed by CCSF was incorrect, the tax was paid, under protest, to allow for the consummation of the redemption transaction, the Loan Agreements and the recording of all related documents. The Partnership has challenged CCSF's imposition of the tax and filed a refund claim with the CCSF. No prediction can be made as to whether CCSF's calculation of the tax will be upheld, or whether any portion of the tax will be refunded.

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

To fund redemption of limited partnership interests and to repay the prior mortgage, Justice obtained a $97,000,000 mortgage loan and a $20,000,000 mezzanine loan.

The mortgage loan are secured by the Partnership's principal asset, the Hilton San Francisco-Financial District. The mortgage loan initially bears an interest rate of 5.28% per annum and matures in January 2024. As additional security for the mortgage loan, there is a limited guaranty executed by the Company in favor of mortgage lender.

The mezzanine loan is a secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The mezzanine loan initially bears interest at 9.75% per annum and matures in January 2024. As additional security for the mezzanine loan, there is a limited guaranty executed by the Company in favor of mezzanine lender.

The new Justice Compensation Agreement that became effective on December 1, 2008, when Portsmouth assumed the role of managing general partner of Justice, has provided additional cash flows to the Company. Under the new Compensation Agreement, Portsmouth is now entitled to 80% of the minimum base fee to be paid to the general partners of $285,000, while under the prior agreement, Portsmouth was entitled to receive only 20% of the minimum base fee. The general partner fees paid to Portsmouth for the year ended June 30, 2014 and 2013 was $475,000 and $401,000, respectively.

Despite an uncertain economy, the Hotel has continued to generate positive cash flows. While the debt service requirements related the new loans, may create some additional risk for the Company and its ability to generate cash flows in the future, management believes that cash flows from the operations of the Hotel and the garage will continue to be sufficient to meet all of the Partnership's current and future obligations and financial requirements. Management also believes that there is sufficient equity in the Hotel assets to support future borrowings, if necessary, to fund any new capital improvements and other requirements.

On July 2, 2014, the Partnership obtained from the Intergroup Corporation (parent company of Portsmouth) an unsecured loan in the principal amount of $4,250,000 at 12% per year fixed interest, with a term of 2 years, payable interest only each month. Intergroup received a 3% loan fee. The loan may be prepaid at any time without penalty. The proceeds of the loan were applied to the July 2014 payments to Holdings described in Note 20 of the notes to the consolidated financial statements.

In June 2014, the Company obtained a second mortgage on its 151-unit apartment located in Morris County, New Jersey in the amount of $2,740,000. The term of the loan is approximately 8 years with the interest rate fixed at 4.51%. The loan matures in August 2022.

In June 2014, the Company obtained a seven month extension of its $992,000 mortgage note payable on the first commercial building located in Los Angeles, California that matured in June 2014. The loan was extended to January 2015. Interest rate on the note remains the same.

In April 2014, the Company refinanced its $526,000 mortgage note payable on the second commercial building located in Los Angeles, California for a new 3-year interest only mortgage in the amount of $1,100,000. The Company received net proceeds of $556,000. The interest rate on the new loan is fixed at 3.25% per annum and the note matures in May 2017.

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

In May 2013, the Company refinanced its $5,671,000 mortgage note payable on its 264-unit apartment building located in St. Louis, Missouri for a new 10-year mortgage in the amount of $6,045,000. The interest rate on the new loan is fixed at 4.05% per annum for ten years, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in May 2023.

In November 2012, the Company refinanced its $17,509,000 mortgage note payable on its 358-unit apartment building located in Las Colinas, Texas for a new 10-year mortgage in the amount of $19,500,000. The interest rate on the new loan is fixed at 3.73% per annum for ten years, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2022. The Company received net proceeds of approximately $529,000 from the refinancing.

In September 2012, the Company refinanced its $388,000 adjustable rate mortgage note payable on its 2-unit apartment located in Los Angeles, California for a new 30-year fixed rate mortgage in the amount of $400,000. The interest rate on the new loan is 4.25% per annum. The note matures in September 2042.

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

In August 2012, the Company refinanced three mortgages on three properties located in Los Angeles, California with mortgage note payable balances totaling $1,243,000 for three new 30-year mortgages totaling $1,285,000. The interest rate on the three loans is fixed at 4.25% for the first five years and variable thereafter, with monthly principal and interest payments based on a 30-year amortization schedule. The notes mature in September 2042.

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

Management believes that its cash, securities assets, real estate and the cash flows generated from those assets and from partnership distributions and management fees, will be adequate to meet the Company's current and future obligations. Additionally, management believes there is significant appreciated value in the Hotel and other real estate properties to support additional borrowings if necessary.

MATERIAL CONTRACTUAL OBLIGATIONS

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

	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter
Mortgage notes payable	$192,360,000	$2,679,000	$5,064,000	$2,289,000	$3,088,000	$3,239,000	$176,001,000
Other notes payable	282,000	166,000	66,000	50,000	-	-	-

Interest	79,924,000	10,311,000	10,098,000	9,964,000	9,397,000	8,740,000	31,414,000
Total	$272,566,000	$13,156,000	$15,228,000	$12,303,000	$12,485,000	$11,979,000	$207,415,000

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no material off balance sheet arrangements.

IMPACT OF INFLATION

Hotel room rates are typically impacted by supply and demand factors, not inflation, since rental of a hotel room is usually for a limited number of nights. Room rates can be, and usually are, adjusted to account for inflationary cost increases. Since Prism has the power and ability under the terms of its management agreement to adjust hotel room rates on an ongoing basis, there should be minimal impact on partnership revenues due to inflation. Partnership revenues are also subject to interest rate risks, which may be influenced by inflation. For the two most recent fiscal years, the impact of inflation on the Company's income is not viewed by management as material.

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

CRITICAL ACCOUNTING POLICIES

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

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

Not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

The Intergroup Corporation:

We have audited the accompanying consolidated balance sheets of The InterGroup Corporation and its subsidiaries (the Company) As of June 30, 2014 and 2013, and the related consolidated statements of operations, shareholders' (deficit) equity and cash flows for each of the years in the two-year period ended June 30, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The InterGroup Corporation and its subsidiaries as of June 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended June 30, 2014 in conformity with accounting principles generally accepted in the United States of America.

/s/ Burr Pilger Mayer, Inc.

San Francisco, California

September 26, 2014

THE INTERGROUP CORPORATION

CONSOLIDATED BALANCE SHEETS

As of June 30,	2014	2013
ASSETS		
Investment in hotel, net	$41,897,000	$41,728,000
Investment in real estate, net	63,697,000	65,262,000
Investment in marketable securities	11,420,000	12,624,000
Other investments, net	15,837,000	15,280,000
Cash and cash equivalents	4,705,000	1,453,000
Restricted cash - redemption	16,163,000	-
Restricted cash	3,982,000	2,448,000
Other assets, net	7,759,000	5,891,000
Total assets	$165,460,000	$144,686,000
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY		
Liabilities:		
Accounts payable and other liabilities	$4,083,000	$3,666,000
Accounts payable and other liabilities - hotel	15,161,000	8,804,000
Redemption payable	16,163,000	-
Due to securities broker	2,925,000	2,762,000
Obligations for securities sold	175,000	2,565,000
Other notes payable	282,000	1,595,000
Mortgage notes payable - hotel	117,000,000	43,413,000
Mortgage notes payable - real estate	75,360,000	73,512,000
Deferred income taxes	943,000	4,617,000
Total liabilities	232,092,000	140,934,000
Commitments and contingencies		
Shareholders' (deficit) equity:		
Preferred stock, $.01 par value, 100,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 4,000,000 shares authorized; 3,383,364 and 3,363,361 issued; 2,381,638 and 2,361,835 outstanding, respectively	33,000	33,000
Additional paid-in capital	10,092,000	9,714,000
Retained earnings (Accumulated deficit)	(39,401,000)	9,899,000
Treasury stock, at cost, 1,001,726 and 1,001,526 shares	(11,818,000)	(11,813,000)
Total InterGroup shareholders' (deficit) equity	(41,094,000)	7,833,000
Noncontrolling interest	(25,538,000)	(4,081,000)
Total shareholders' (deficit) equity	(66,632,000)	3,752,000
Total liabilities and shareholders' equity	$165,460,000	$144,686,000

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

THE INTERGROUP CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended June 30,	2014	2013
Revenues:		
Hotel	$50,963,000	$46,565,000
Real estate	16,332,000	15,474,000
Total revenues	67,295,000	62,039,000
Costs and operating expenses:		
Hotel operating expenses	(40,805,000)	(38,635,000)
Hotel restructuring costs	(6,681,000)	-
Hotel occupancy tax - penalty fees	(1,278,000)	-
Real estate operating expenses	(8,982,000)	(8,529,000)
Depreciation and amortization expense	(4,723,000)	(4,577,000)
General and administrative expense	(2,168,000)	(1,949,000)
Total costs and operating expenses	(64,637,000)	(53,690,000)
Income from operations	2,658,000	8,349,000
Other income (expense):		
Interest expense - mortgage	(7,986,000)	(6,168,000)
Interest expense - occupancy tax	(328,000)	-
Loss on extinguishment of debt	(3,910,000)	-
Loss on disposal of assets	(1,092,000)	-
Net gain (loss) on marketable securities	998,000	(856,000)
Net unrealized gain (loss) on other investments and derivatives	181,000	(216,000)
Impairment loss on other investments	(101,000)	(105,000)
Dividend and interest income	1,064,000	1,082,000
Trading and margin interest expense	(1,799,000)	(1,708,000)
Net other expense	(12,973,000)	(7,971,000)
Income (loss) before income taxes	(10,315,000)	378,000
Income tax benefit	3,567,000	247,000
Net (loss) income	(6,748,000)	625,000
Less: Net loss (income) attributable to the noncontrolling interest	2,056,000	(1,340,000)
Net loss attributable to InterGroup	$(4,692,000)	$(715,000)
Net (loss) income per share		
Basic	$(2.85)	$0.27
Diluted	$(2.85)	$0.26
Net loss per share attributable to InterGroup		
Basic	$(1.98)	$(0.30)
Diluted	$(1.98)	$(0.30)
Weighted average number of common shares outstanding	2,368,861	2,354,990

Weighted average number of diluted common shares outstanding	2,368,861	2,407,128

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

THE INTERGROUP CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	InterGroup Shareholders' Equity (Deficit)	Noncontrolling Interest	Total Sharehold Equity (Deficit)
Balance at June 30, 2012	3,346,588	$33,000	$9,417,000	$10,614,000	$(11,757,000)	$8,307,000	$(4,721,000)	$3,586,00
Net (loss) income	-	-	-	(715,000)	-	(715,000)	1,340,000	625,000
Issuance of stock for compensation	3,528	-	88,000	-	-	88,000	-	88,000
Issuance of stock related to stock options exercised	5,000	-	52,000	-	-	52,000	-	52,000
Conversion of RSU to stock	8,245	-	-	-	-	-	-	-
Stock options expense	-	-	324,000	-	-	324,000	-	324,000
Investment in Santa Fe	-	-	(105,000)	-	-	(105,000)	(51,000)	(156,00
Investment in Portsmouth	-	-	(62,000)	-	-	(62,000)	(13,000)	(75,000
Purchase of treasury stock	-	-	-	-	(56,000)	(56,000)	-	(56,000
Distributions to noncontrolling interest		-	-	-	-	-	(600,000)	(600,00
Dividends to noncontrolling		-	-	-	-	-	(36,000)	(36,000

interest								
Balance at June 30, 2013	3,363,361	33,000	9,714,000	9,899,000	(11,813,000)	7,833,000	(4,081,000)	3,752,00
Net (loss) income	-	-	-	(4,692,000)	-	(4,692,000)	(2,056,000)	(6,748,0
Redemption of limited partnership interest		-	-	(65,298,000)	-	(65,298,000)	1,146,000	(64,152,
Allocation of accumulated deficit of Justice to noncontrolling interest relating ot the redemption of limited parthership interests		-	-	20,690,000	-	20,690,000	(20,690,000)	-
Stock options expense	-	-	476,000	-	-	476,000	-	476,000
Issuance of stock for compensation	4,192	-	88,000	-	-	88,000	-	88,000
Issuance of stock related to stock options exercised	7,616	-	35,000	-	-	35,000	-	35,000
Conversion of RSU to stock	8,195	-	-	-	-	-	-	-
Investment in Santa Fe	-	-	(213,000)	-	-	(213,000)	137,000	(76,000
Investment in Portsmouth	-	-	(8,000)	-	-	(8,000)	6,000	(2,000
Purchase of treasury stock	-	-	-	-	(5,000)	(5,000)	-	(5,000
Balance at June 30, 2014	3,383,364	$33,000	$10,092,000	$(39,401,000)	$(11,818,000)	$(41,094,000)	$(25,538,000)	$(66,632,

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

THE INTERGROUP CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30,	2014	2013
Cash flows from operating activities:		
Net (loss) income	$(6,748,000)	$625,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net unrealized loss on marketable securities	128,000	1,003,000
Unrealized (gain) loss on other investments and derivative instruments	(181,000)	216,000
Impairment loss on other investments	101,000	105,000
Gain on insurance recovery	(249,000)	(404,000)
Loss on extinguishment of debt	3,910,000	-
Loss on disposal of assets	1,092,000	-
Depreciation and amortization	4,723,000	4,577,000
Stock compensation expense	564,000	412,000
Changes in assets and liabilities:		
Investment in marketable securities	1,076,000	(4,646,000)
Other assets, net	(2,005,000)	(536,000)
Accounts payable and other liabilities	6,774,000	723,000
Due to securities broker	163,000	1,033,000
Obligations for securities sold	(2,390,000)	1,834,000
Deferred taxes	(3,674,000)	(364,000)
Net cash provided by operating activities	3,284,000	4,578,000
Cash flows from investing activities:		
Investment in hotel, net	(3,696,000)	(3,486,000)
Investment in real estate, net	(337,000)	(1,930,000)
Proceeds from (payments for) other investments	(477,000)	60,000
Investment in Santa Fe	(76,000)	(156,000)
Investment in Portsmouth	(2,000)	(75,000)
Net cash used in investing activities	(4,588,000)	(5,587,000)
Cash flows from financing activities:		
Proceeds from mortgage notes payable	156,660,000	39,240,000
Payments of mortgage and other notes payable	(86,448,000)	(37,767,000)
Restricted cash for redemption and mortgage impounds	(17,697,000)	(471,000)
Redemption payments and dividends to noncontrolling interest	(2,928,000)	-
Distributions to noncontrolling interest	(45,061,000)	(636,000)
Purchase of treasury stock	(5,000)	(56,000)
Proceeds from exercise of options	35,000	52,000
Net cash provided by financing activities	4,556,000	362,000
Net increase (decrease) in cash and cash equivalents	3,252,000	(647,000)
Cash and cash equivalents at the beginning of the year	1,453,000	2,100,000

Cash and cash equivalents at the end of the year	$4,705,000	$1,453,000
Supplemental information:		
Income tax paid	$180,000	$327,000
Interest paid	$8,932,000	$6,803,000

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

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THE INTERGROUP CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES:

Description of the Business

The InterGroup Corporation, a Delaware 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, 2014, the Company had the power to vote 84.8% of the voting shares of Santa Fe Financial Corporation ("Santa Fe"), a public company (OTCBB: SFEF). This percentage includes the power to vote an approximately 4% interest in the common stock in Santa Fe owned by the Company's Chairman and President pursuant to a voting trust agreement entered into on June 30, 1998.

Santa Fe's primary business is conducted through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. ("Portsmouth"), a public company (OTCBB: PRSI). Portsmouth has a 93% limited partnership interest in Justice and is the sole general partner. InterGroup also directly owns approximately 12.9% of the common stock of Portsmouth. The financial statements of Justice are consolidated with those of the Company.

Justice owns a 543-room hotel property located at 750 Kearny Street, San Francisco California, known as the *Hilton San Francisco Financial District* (the Hotel) and related facilities including a five level underground parking garage. The Hotel is operated by the partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. Justice also has a Management Agreement with Prism Hospitality L.P. (Prism) to perform the day-to-day management functions of the Hotel. The parking garage that is part of the Hotel property is managed by Ace Parking pursuant to a contract with the Partnership.

Management believes that the revenues expected to be generated from the operations of the hotel, garage and leases will be sufficient to meet all of the Partnership's current and future obligations and financial requirements. Management also believes that there is significant value in the Hotel to support additional borrowings, if necessary.

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

Principles of Consolidation

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

Investment in Hotel, Net

The Hotel property and equipment are stated at cost less accumulated depreciation. Building improvements are being depreciated on a straight-line basis over their useful lives ranging from 3 to 39 years. Furniture, fixtures, and equipment are being depreciated on a straight-line basis over their useful lives ranging from 3 to 7 years.

Repairs and maintenance are charged to expense as incurred. Costs of significant renewals and improvements are capitalized and depreciated over the shorter of its remaining estimated useful life or life of the asset. The cost of assets sold or retired and the related accumulated depreciation are removed from the accounts; any resulting gain or loss is included in other income (expenses).

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated undiscounted net cash flow, before interest, the Partnership will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. If impairment is recognized, the reduced carrying amount of the asset will be accounted for as its new cost. For a depreciable asset, the new cost will be depreciated over the asset’s remaining useful life. Generally, fair values are estimated using discounted cash flow, replacement cost or market comparison analyses. The process of evaluating for impairment requires estimates as to future events and conditions, which are subject to varying market and economic factors. Therefore, it is reasonably possible that a change in estimate resulting from judgments as to future events could occur which would affect the recorded amounts of the property. No impairment losses were recorded for the years ended June 30, 2014 and 2013.

Investment in Real Estate, Net

Rental properties are stated at cost less accumulated depreciation. Depreciation of rental property is provided on the straight-line method based upon estimated useful lives of 5 to 40 years for buildings and improvements and 5 to 10 years for equipment. Expenditures for repairs and maintenance are charged to expense as incurred and major improvements are capitalized.

The Company also reviews its rental property assets for impairment. No impairment losses on the investment in real estate have been recorded for the years ended June 30, 2014 and 2013.

The fair value of the tangible assets of an acquired property, which includes land, building and improvements, is determined by valuing the property as if they were vacant, and incorporates costs during the lease-up periods considering current market conditions and costs to execute similar leases such lost rental revenue and tenant improvements. The value of tangible assets are depreciated using straight-line method based upon the assets estimated useful lives.

Investment in Marketable Securities

Marketable securities are stated at fair 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 consolidated statements of operations.

Other Investments, Net

Other investments include non-marketable securities (carried at cost, net of any impairments loss), non –marketable warrants (carried at fair value) and certain convertible preferred securities, received in exchange for debt instruments, carried at a book basis, initially determined using the estimated fair value on the exchange date. The Company has no significant influence or control over the entities that issue these investments. These investments are reviewed on a periodic basis for other-than-temporary impairment. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (i) the length of time an investment is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near term prospects of the issuer and (iv) our ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. For the years ended June 30, 2014 and 2013, the Company recorded impairment losses related to other investments of $101,000 and $105,000, respectively. As of June 30, 2014 and 2013, the allowance for impairment losses was $4,727,000 and $4,626,000, respectively.

Derivative Financial Instruments

The Company has investments in stock warrants which are considered derivative instruments.

Derivative financial instruments consist of financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value on the Company’s consolidated balance sheets.

For the investment in stock warrants, the Company used the Black-Scholes option valuation model to estimate the fair value these instruments which requires management to make significant assumptions including trading volatility, estimated terms, and risk free rates. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based models are highly volatile and sensitive to changes in the trading market price of the underlying common stock, which has a high-historical volatility. Since derivative financial instruments are initially and subsequently carried at fair values, the Company's consolidated statement of operations will reflect the volatility in these estimate and assumption changes.

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. capital addition reserves for the Hotel, tenant security deposits that are invested in certificates of deposit and the funds held by Holdings to implement the alternate redemption structure for those partners who elected that structure.

Other Assets, Net

Other assets include accounts receivable, prepaid insurance, loan fees, franchise fees, license fees, inventory, occupancy tax deposits and other miscellaneous assets. Loan fees are stated at cost and amortized over the term of the loan using the effective interest method. Franchise fees are stated at cost and amortized over the life of the agreement (15 years). License fees are stated at cost and amortized over 10 years.

Accounts receivable from the Hotel and rental property customers are carried at cost less an allowance for doubtful accounts that is based on management's assessment of the collectability of accounts receivable. The Company extends unsecured credit to its customers but mitigates the associated credit risk by performing ongoing credit evaluations of its customers. As of June 30, 2014 and 2013, the balance of allowance for doubtful accounts was $62,000 and $19,000, respectively.

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.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities include trade payables, advance deposits and other liabilities.

Treasury Stock

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

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. Accounting standards for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1–inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2–inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3–inputs to the valuation methodology are unobservable and significant to the fair value.

Revenue Recognition

Room revenue is recognized on the date upon which a guest occupies a room and/or utilizes the Hotel's services. Food and beverage revenues are recognized upon delivery. Garage revenue is recognized when a guest uses the garage space. The Company records a liability for payments collected in advance of revenue recognition. This liability is included in Accounts payable and other liabilities. Rental revenue is recognized on the straight-line method of accounting whereby contractual rent payment increases are recognized evenly over the lease term, regardless of when the rent payments are received by Justice. The leases contain provisions for base rent plus a percentage of the lessees' revenues, which are recognized when 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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $434,000 and $419,000 for the years ended June 30, 2014 and 2013, respectively.

Income Taxes

Deferred income taxes are calculated under the liability method. Deferred income tax assets and liabilities are based on differences between the financial statement and tax basis of assets and liabilities at the current enacted tax rates. Changes in deferred income tax assets and liabilities are included as a component of income tax expense. Changes in deferred income tax assets and liabilities attributable to changes in enacted tax rates are charged or credited to income tax expense in the period of enactment. Valuation allowances are established for certain deferred tax assets where realization is not likely.

Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold based on the technical merits of the positions.

Earnings (Loss) Per Share

Basic income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted income (loss) per share is similar to the computation of basic earnings per share except that the weighted-average number of common shares is increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued. The Company's only potentially dilutive common shares are stock options and restricted stock units (RSUs). As of June 30, 2014, the Company had 37,738 stock options were considered potentially dilutive common shares. As of June 30, 2013, the Company had 52,138 stock options and RSUs that were considered potentially dilutive common shares. The basic and diluted earnings per share were the same for the year ended June 30, 2014 because the Company had a net loss.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Reclassifications

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

Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standard Update ("ASU") No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* ("ASU 2013-11"). ASU 2013-11 will become effective for the Company on July 1, 2014. The Company is currently evaluating the impact ASU 2013-11 but believes that this ASU will not have a significant impact on its Consolidated Financial Statements as it relates primarily as to how items are presented in the financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)"("ASU 2014-08"). The amendments in ASU 2014-08 provide guidance for the recognition of discontinued operations, change the requirements for reporting discontinued operations in ASC 205-20, "Discontinued Operations" ("ASC 205-20") and require additional disclosures about discontinued operations. ASU 2014-08 is effective for the Company for periods beginning after December 15, 2014. Early application is permitted, but only for disposals that have not been reported in financial statements previously issued or available for issuance. The Company is currently evaluating the impact ASU 2014-08 but believes that this ASU will not have a significant impact on its Consolidated Financial Statements as it relates primarily as to how items are presented in the financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts from Customers (Topic 606)" ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Company for periods beginning after December 15, 2017. Early application is permitted for the annual reporting period beginning after December 15, 2016. The Company is currently evaluating the impact ASU 2014-09 will have on its Consolidated Financial Statements.

NOTE 2 - JUSTICE INVESTORS

On July 14, 2005, the FASB issued Staff Position (FSP) SOP 78-9-1, "Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5" which was codified into ASC Topic 910-810, "Real Estate – General – Consolidation", 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" which was codified into ASC 810-20, "Consolidation", eliminated the concept of "important rights"(ASC Topic 970-810) and replaces it with the concepts of "kick out rights" and "substantive participating rights". In accordance with guidance set forth in ASC Topic 970-20, Portsmouth has applied the principles of accounting applicable for investments in subsidiaries due to its substantial limited partnership interest and general partnership rights and has consolidated the financial statements of Justice with those of the Company effective as of July 1, 2006. For the years ended June 30, 2014 and 2013, the results of operations for Justice were consolidated with those of the Company.

Effective December 1, 2008, Portsmouth and Evon, as the two general partners of Justice, entered into a 2008 Amendment to the Limited Partnership agreement (the Amendment) that provided for a change in the respective roles of the general partners. Pursuant to the Amendment, Portsmouth assumed the role of managing general partner and Evon continued on as the co-general partner of Justice. The Amendment was ratified by approximately 98% of the limited partnership interests. The Partnership Agreement was amended and restated in its entirety to comply with the new provisions of the California Corporations Code known as the "Uniform Limited Partnership Act of 2008." The Amendment did not result in any material modifications of the rights or obligations of the general and limited partners. The Amendment also provides that future amendments to the limited partnership agreement may be made only upon the consent of the general partners and at least seventy five percent (75%) of the interests of the limited partners. Consent of at least 75% of the interests of the limited partners is required to remove a general partner pursuant to the Amendment.

Concurrent with the Amendment, a new General Partner Compensation Agreement (the Compensation Agreement) was entered into on December 1, 2008, among Justice, Portsmouth and Evon to terminate and supersede all prior compensation agreements for the general partners. Pursuant to the Compensation Agreement, the general partners of Justice will be entitled to receive an amount equal to 1.5% of the gross annual revenues of the partnership (as defined), less $75,000 to be used as a contribution toward the cost of Justice engaging an asset manager. In no event shall the annual compensation be less than a minimum base of approximately $285,000, with eighty percent (80%) of that amount being allocated to Portsmouth for its services as managing general partner and twenty percent (20%) allocated to Evon as the co-general partner. Compensation earned by the general partners in each calendar year in excess of the minimum base will be payable in equal fifty percent (50%) shares to Portsmouth and Evon. As described below, the Compensation Agreement was amended upon the completion of the Offer to Redeem on December 18, 2013.

In December 2013, the Partnership determined to restructure its ownership to facilitate a refinancing of the Hotel and redeem the interests of certain Partners, including Evon. In the course of this refinancing, restructuring and redemption, the Partnership created Justice Holdings Company, LLC ("Holdings"), a Delaware Limited Liability Company, Justice Operating Company, LLC ("Operating") and Justice Mezzanine Company, LLC ("Mezzanine"). Holdings and Mezzanine are both a wholly-owned subsidiaries of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the Mezzanine borrower and in December 2013, the Partnership conveyed ownership of the Hotel to Operating.

On December 18, 2013, the Partnership completed an Offer to Redeem any and all limited partnership interests not held by Portsmouth and the Loan Agreements, as defined below. In addition, the Partnership approved amendments to the Amended and Restated Agreement of Limited Partnership, which amendments became effective upon the completion of the Offer to Redeem and the consummation of the Loan Agreements. Such amendments are described below. As a result, Portsmouth, which prior to the Offer to Redeem owned 50% of the then outstanding limited partnership interests now controls approximately 93% of the voting interest in Justice and is now its sole General Partner.

Pursuant to the Offer to Redeem, the Partnership has accepted tenders, for cash, from Evon, a general partner and seventy-three of the limited partners representing approximately 29.173% of partnership interests outstanding prior to the Offer to Redeem for $1,385,000 for each 1% tendered. On December 19, 2013, Justice distributed the amounts due each of these former partners pursuant to the terms of the tender offer.

In addition, the Partnership has accepted the election of holders of approximately 17.146% of the limited partnership interests outstanding prior to the Offer to Redeem to participate in an alternate redemption structure. Under that alternative redemption structure, the Partnership paid to Holdings $1,385,000 for each 1% tendered. Those partners who elected the alternative redemption structure may within 12 months of December 18, 2013, designate property for Holdings to purchase and then require Holdings to transfer that property to the partner in redemption of that partner's interest in the Partnership. The governing agreement also provides for other possible methods of redeeming the interests of the partners who elected the alternate redemption structure. During the year ended June 30, 2014, a total of $2,928,000 was redeemed under the alternative redemption structure. As of June 30, 2014, the current and deferred payments related to the alternative redemption structure, which are held by Justice's wholly owned subsidiary, Holdings, are classified as restricted cash and, together with the expenses discussed below, total $16,163,000 and are classified on the balance sheet as redemption payable.

The Partnership incurred approximately $6,681,000 in restructuring costs relating to the Offer to Redeem and related financing transactions, including a one-time management fee of $1,550,000, approximately $431,000 in legal, accounting and other professional expenses, and payment of a Documentary Transfer Tax of approximately $4.7 million to the City and County of San Francisco ("CCSF"). CCSF required payment of the Documentary Transfer Tax as a condition to record the transfer of the Hotel to Operating and other documents related to the Loan Agreements. While the Partnership believes the amount of Documentary Transfer tax that was assessed by CCSF was incorrect, the tax was paid, under protest, to allow for the consummation of the redemption transaction, the Loan Agreements and the recording of all related documents. The Partnership has challenged CCSF's imposition of the tax and filed a refund claim with the CCSF. No prediction can be made as to whether CCSF's calculation of the tax will be upheld, or whether any portion of the tax will be refunded.

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

As a result of the ownership structure implemented in December 2013, the Partnership is the indirect sole owner of a 543-room hotel property located at 750 Kearny Street, San Francisco, California, now known as the Hilton San Francisco Financial District (the Hotel) and related facilities including a five level underground parking garage. The Hotel is operated by Operating as a full service Hilton brand hotel pursuant to a Franchise License Agreement with Hilton Hotels Corporation. Operating also has a Management Agreement with Prism Hospitality L.P. (Prism) to perform management functions for the Hotel. The management agreement with Prism had an original term of ten years and can be terminated at any time with or without cause by the Partnership owner. Effective January 2014, the management agreement with Prism was amended by the Partnership. Effective December 1, 2013, GMP Management, Inc., a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement, which is for a term of 3 years, but which can be terminated earlier by the Partnership for cause.

As of June 30, 2014, the Partnership had an accumulated deficit. That accumulated deficit is primarily attributable to the redemption of certain limited partners, effective December 18, 2013. The Partnership utilized the book value method to record the redemption of the limited partners. Under book value (bonus) method the remaining partners continue the existing partnership, recording no changes to the book values of the partnership's assets and liabilities. As a result, any revaluation of the existing partnership's assets or liabilities that might be undertaken is solely to determine the settlement price to the outgoing partner. The partner's withdrawal from the partnership is recorded by adjusting the remaining partners' capital accounts with the amount of the bonus, which is allocated according to their income sharing ratio. The amount of adjustment is equal to the difference between the settlement price paid to the withdrawing partner and the book value of his share of total partnership capital at the time he withdraws. Justice Partner’s capital was reduced by approximately $64.1 million for the redemption.

Management believes that the revenues and cash flows expected to be generated from the operations of the Hotel, garage and leases will be sufficient to meet all of the Partnership’s current and future obligations and financial requirements. Management also believes that there is significant appreciated value in the Hotel and other real estate properties in excess of the net book value to support additional borrowings, if necessary.

NOTE 3 – INVESTMENT IN HOTEL, NET

Investment in hotel consisted of the following as of:

June 30, 2014	Cost	Accumulated Depreciation	Net Book Value
Land	$2,738,000	$-	$2,738,000
Furniture and equipment	23,306,000	(20,072,000)	3,234,000
Building and improvements	59,828,000	(23,903,000)	35,925,000
	$85,872,000	$(43,975,000)	$41,897,000

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

The Partnership leases certain equipment under agreements that are classified as capital leases. The cost of equipment under capital leases was $2,131,000 at June 30, 2014 and 2013. The accumulated depreciation on capital leases was $2,098,000 and $1,930,000 as of June 30, 2014 and 2013, respectively.

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

NOTE 4 - INVESTMENT IN REAL ESTATE, NET

At June 30, 2014, the Company's investment in real estate consisted of twenty-three properties located throughout the United States. These properties include eighteen apartment complexes, two single-family houses as strategic investments, and two commercial real estate properties. The Company also owns two unimproved real estate properties located in Austin, Texas and Maui, Hawaii.

Investment in real estate included the following:

As of June 30,	2014	2013
Land	$25,781,000	$25,781,000
Buildings, improvements and equipment	74,039,000	73,453,000
Accumulated depreciation	(36,123,000)	(33,972,000)
	$63,697,000	$65,262,000

In February 2014, the Company entered into a contract to sell its 249 unit apartment complex located in Austin, Texas and the adjacent unimproved land for $15,800,000. The purchase/sale agreement provides that purchaser can terminate the agreement with or without cause, however, the potential purchaser would forfeit the earnest money ($208,000) and additional consideration ($250,000) totaling $458,000. The purchaser also has the option to extend the agreement. As of August 31, 2014, the Company has received the $458,000. The Company is currently in the process of negotiating another extension of the purchase agreement.

NOTE 5 - INVESTMENT IN MARKETABLE SECURITIES

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

At June 30, 2014 and 2013, all of the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments are included in earnings. Trading securities are summarized as follows:

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain	Fair Value
As of June 30, 2014					
Corporate Equities	$10,369,000	$ 2,717,000	$ (1,666,000)	$ 1,051,000	$11,420,000
As of June 30, 2013					
Corporate Equities	$11,314,000	$ 3,391,000	$ (2,081,000)	$ 1,310,000	$12,624,000

As of June 30, 2014 and 2013, the Company had $1,615,000 and $1,670,000, respectively, of unrealized losses related to securities held for over one year.

Net loss on marketable securities on the statement of operations is comprised of realized and unrealized gains (losses). Below is the composition of the two components for the years ended June 30, 2014 and 2013, respectively.

For the year ended June 30,	2014	2013
Realized gain on marketable securities	$870,000	$147,000
Unrealized gain (loss) on marketable securities	128,000	(1,003,000)
Net gain (loss) on marketable securities	$998,000	$(856,000)

NOTE 6 – OTHER INVESTMENTS, NET

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

Other investments, net consist of the following:

Type	June 30, 2014	June 30, 2013
Preferred stock - Comstock, at cost	$ 13,231,000	$ 13,231,000
Private equity hedge fund, at cost	1,650,000	1,774,000
Corporate debt and equity instruments, at cost	269,000	269,000
Other preferred stock	480,000	-
Warrants - at fair value	207,000	6,000
	$ 15,837,000	$ 15,280,000

As of June 30, 2014 and 2013, the Company had investments in corporate debt and equity instruments which had attached warrants that were considered derivative instruments. These warrants have an allocated cost basis of $420,000 and $400,000, respectively, as of June 30, 2014 and 2013 and a fair value of $207,000 and $6,000, respectively, as of June 30, 2014 and 2013. During the year ended June 30, 2014 and 2013, the Company had an unrealized gain of $181,000 and an unrealized loss of $216,000, respectively, related to these warrants.

NOTE 7 - FAIR VALUE MEASUREMENTS

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

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

As of June 30, 2014	Level 1	Level 2	Level 3	Total
Assets:				
Other investments - warrants	$-	$ -	$207,000	$207,000
Investment in marketable securities:				
Basic materials	5,081,000	-	-	5,081,000
Technology	1,395,000	-	-	1,395,000
REITs and real estate companies	1,001,000	-	-	1,001,000
Financial services	820,000	-	-	820,000
Other	3,123,000	-	-	3,123,000
	11,420,000	-	-	11,420,000
	$11,420,000	$ -	$207,000	$11,627,000

As of June 30, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents - money market	$3,000	$ -	$-	$3,000
Other investments - warrants		-	6,000	6,000
Investment in marketable securities:				
Basic materials	4,733,000	-	-	4,733,000
Technology	2,698,000	-	-	2,698,000
Financial services	2,261,000	-	-	2,261,000
REITs and real estate companies	878,000	-	-	878,000
Other	2,054,000	-	-	2,054,000
	12,624,000	-	-	12,624,000
	$12,627,000	$ -	$6,000	$12,633,000

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The fair values of investments in marketable securities are determined by the most recently traded price of each security at the balance sheet date. The fair value of the warrants was determined based upon a Black-Scholes option valuation model.

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

Assets	Level 1	Level 2	Level 3	June 30, 2014	Net loss for the year ended June 30, 2014
Other non-marketable investments	$ -	$ -	$15,630,000	$ 15,630,000	$ (101,000)

Assets	Level 1	Level 2	Level 3	June 30, 2013	Net loss for the year ended June 30, 2013
Other non-marketable investments	$ -	$ -	$15,274,000	$ 15,274,000	$ (105,000)

Other investments in non-marketable securities are carried at cost net of any impairment loss. The Company has no significant influence or control over the entities that issue these investments. These investments are reviewed on a periodic basis for other-than-temporary impairment. When determining the fair value of these investments on a non-recurring basis, the Company uses valuation techniques such as the market approach and the unobservable inputs include factors such as conversion ratios and the stock price of the underlying convertible instruments. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (i) the length of time an investment is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near term prospects of the issuer and (iv) our ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 8 – OTHER ASSETS, NET

Other assets consist of the following as of June 30:

	2014	2013
Accounts receivable, net	$1,964,000	$1,957,000

Prepaid expenses	1,120,000	581,000
Occupancy tax deposit	1,061,000	-
Inventory - hotel	653,000	918,000
Miscellaneous assets, net	2,961,000	2,435,000
Total other assets	$7,759,000	$5,891,000

Amortization expense of loan fees and franchise costs for the years ended June 30, 2014 and 2013 was $88,000 and $72,000, respectively.

NOTE 9 – OTHER NOTES PAYABLE

The Partnership had a $2,500,000 unsecured revolving line of credit facility with East West Bank that was to mature on April 30, 2010. Effective April 29, 2010, the Partnership obtained a modification from the bank which converted its revolving line of credit facility to a term loan.

The modification provided that the Partnership will pay the balance on its line of credit facility over a period of four years, to mature on April 30, 2014. This term loan called for monthly principal and interest payments, calculated on a six-year amortization schedule. Pursuant to the modification, the annual floating interest rate was reduced by 0.5% to the WSJ Prime Rate plus 2.5% (with a minimum floor rate of 5.0% per annum). The term note was paid off in full in December 2013 in connection to the partnership redemption.

During fiscal 2013, Justice entered into a financing agreement with Ace Parking Management, Inc. to purchase equipment. The note bears 11.5% interest and is payable in equal monthly installments (principal and interest) through April 2018. As of June 30, 2014 and 2013, the note payable balance was $182,000 and $219,000, respectively.

The Partnership had short-term financing agreements with a financial institution for the payment of its general, property, and workers' compensation insurance. The notes payable under these financing agreements bore interest at 4% per annum and was payable in equal monthly installments (principal and interest) through July 2013. This note payable was paid in full during the year ended June 30, 2014. The Partnership obtained a new short term financing agreement with a financial institution for such insurance during the year ended June 30, 2014. The notes payable under these financing agreements bear interest at 5.0% per annum and was payable in equal monthly installments (principal and interest) through July 2014. The outstanding balance was $91,000 and $71,000 as of June 2014 and 2013, respectively.

NOTE 10 - MORTGAGE NOTES PAYABLE

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

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

The Mortgage Loan is secured by the Partnership's principal asset, the Hilton San Francisco-Financial District (the "Property"). The Mortgage Loan bears an interest rate of 5.28% per annum and matures on January 1, 2024. The term of the Mortgage Loan is 10 years with interest only due in the first three years and equal monthly principal and interest payments based upon a 30 year amortization schedule for the remaining seven years of the Mortgage Loan term. The

Mortgage Loan also requires payments for impounds related to property tax, insurance and capital improvement reserves. As additional security for the Mortgage Loan, there is a limited guaranty (“Mortgage Guaranty”) executed by the Company in favor of Mortgage Lender.

The Mezzanine Loan is secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The Mezzanine Loan bears interest at 9.75% per annum and matures on January 1, 2024. Interest only is payable monthly. As additional security for the Mezzanine Loan, there is a limited guaranty executed by the Company in favor of Mezzanine Lender (the “Mezzanine Guaranty” and, together with the Mortgage Guaranty, the “Guaranties”).

The Guaranties are limited to what are commonly referred to as “bad boy” acts, including: (i) fraud or intentional misrepresentations; (ii) gross negligence or willful misconduct; (iii) misapplication or misappropriation of rents, security deposits, insurance or condemnation proceeds; and (iv) failure to pay taxes or insurance. The Guaranties will be full recourse guaranties under identified circumstances, including failure to maintain “single purpose” status which is a factor in a consolidation of Operating or Mezzanine in a bankruptcy of another person, transfer or encumbrance of the Property in violation of the applicable loan documents, Operating or Mezzanine incurring debts that are not permitted, and the Property becoming subject to a bankruptcy proceeding. Pursuant to the Guaranties, the Company is required to maintain a certain minimum net worth and liquidity. As of June 30, 2014, the Company is in compliance with both requirements.

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

In June 2014, the Company obtained a second mortgage on its 151-unit apartment located in Morris County, New Jersey in the amount of $2,740,000. The term of the loan is approximately 8 years with the interest rate fixed at 4.51%. The loan matures in August 2022.

In June 2014, the Company obtained a seven month extension of its $992,000 mortgage note payable on the first commercial building located in Los Angeles, California that matured in June 2014. The loan was extended to January 2015. Interest rate on the note remains the same.

In April 2014, the Company refinanced its $526,000 mortgage note payable on the second commercial building located in Los Angeles, California for a new 3-year interest only mortgage in the amount of $1,100,000. The Company received net proceeds of $556,000. The interest rate on the new loan is fixed at 3.25% per annum and the note matures in May 2017.

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

Mortgage notes payable secured by real estate and hotel As of June 30, 2014 and 2013 are summarized as follows:

	As of June 30, 2014							
Property	Number of Units	Note Origination Date		Note Maturity Date		Mortgage Balance	Interest Rate	
SF Hotel	543 rooms	December	2013	January	2024	$ 97,000,000	5.28	%
SF Hotel	543 rooms	December	2013	January	2024	20,000,000	9.75	%
		Mortgage notes payable - hotel				$ 117,000,000		
Austin	249	June	2003	July	2023	$ 6,505,000	5.46	%
Florence	157	June	2005	July	2015	3,722,000	4.96	%
Las Colinas	358	November	2012	December	2022	18,970,000	3.73	%
Morris County	151	July	2012	July	2022	10,279,000	3.51	%
Morris County	151	June	2014	August	2022	2,740,000	4.51	%
St. Louis	264	May	2013	May	2023	5,943,000	4.05	%
Los Angeles	4	September	2012	September	2042	383,000	4.25	%
Los Angeles	2	September	2012	September	2042	388,000	4.25	%
Los Angeles	1	August	2012	September	2042	417,000	4.25	%
Los Angeles	31	January	2010	December	2020	5,475,000	4.85	%
Los Angeles	30	August	2007	September	2022	6,399,000	5.97	%
Los Angeles	27	November	2010	December	2020	3,085,000	4.85	%
Los Angeles	14	April	2011	March	2021	1,780,000	5.89	%
Los Angeles	12	December	2011	January	2022	2,008,000	4.25	%
Los Angeles	9	April	2011	May	2021	1,427,000	5.60	%
Los Angeles	9	April	2011	March	2021	1,213,000	5.89	%
Los Angeles	8	July	2013	July	2043	491,000	3.50	%
Los Angeles	7	August	2012	September	2042	949,000	3.85	%
Los Angeles	4	August	2012	September	2042	649,000	3.85	%
Los Angeles	1	September	2012	September	2042	445,000	4.25	%
Los Angeles	Office	March	2009	March	2015	992,000	5.02	%
Los Angeles	Office	April	2014	May	2017	1,100,000	3.25	%
		Mortgage notes payable - real estate				$ 75,360,000		

Property	Number of Units	Note Origination Date		Note Maturity Date		Mortgage Balance	Interest Rate	
	As of June 30, 2013							
SF Hotel	543 rooms	July	2005	August	2015	$ 26,043,000	5.22	%
SF Hotel	543 rooms	March	2005	August	2015	17,370,000	6.42	%
		Mortgage notes payable - hotel				$ 43,413,000		
Austin	249	June	2003	July	2023	$ 6,694,000	5.46	%
Florence	157	June	2005	July	2014	3,802,000	4.96	%
Las Colinas	358	November	2012	December	2022	19,326,000	3.73	%
Morris County	151	July	2012	July	2022	10,556,000	3.51	%
St. Louis	264	May	2013	May	2023	6,045,000	4.05	%
Los Angeles	4	September	2012	September	2042	390,000	4.25	%
Los Angeles	2	September	2012	September	2042	395,000	4.25	%
Los Angeles	1	August	2012	September	2042	425,000	4.25	%
Los Angeles	31	January	2010	December	2020	5,570,000	4.85	%
Los Angeles	30	August	2007	September	2022	6,505,000	5.97	%
Los Angeles	27	November	2010	December	2020	3,138,000	4.85	%
Los Angeles	14	April	2011	March	2021	1,805,000	5.89	%
Los Angeles	12	December	2011	January	2022	2,045,000	4.25	%
Los Angeles	9	April	2011	May	2021	1,447,000	5.60	%
Los Angeles	9	April	2011	March	2021	1,230,000	5.89	%
Los Angeles	8	May	2001	November	2029	466,000	2.49	%
Los Angeles	7	August	2012	September	2042	967,000	3.85	%
Los Angeles	4	August	2012	September	2042	661,000	3.85	%
Los Angeles	1	September	2012	September	2042	453,000	4.25	%
Los Angeles	Office	March	2009	March	2014	1,036,000	5.02	%
Los Angeles	Office	September	2000	December	2013	556,000	6.00	%
		Mortgage notes payable - real estate				$ 73,512,000		

In May 2013, the Company refinanced its $5,671,000 mortgage note payable on its 264-unit apartment building located in St. Louis, Missouri for a new 10-year mortgage in the amount of $6,045,000. The interest rate on the new loan is fixed at 4.05% per annum for ten years, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in May 2023.

In November 2012, the Company refinanced its $17,509,000 mortgage note payable on its 358-unit apartment building located in Las Colinas, Texas for a new 10-year mortgage in the amount of $19,500,000. The interest rate on the new loan is fixed at 3.73% per annum for ten years, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2022. The Company received net proceeds of approximately $529,000 from the refinancing.

In September 2012, the Company refinanced its $388,000 adjustable rate mortgage note payable on its 2-unit apartment located in Los Angeles, California for a new 30-year fixed rate mortgage in the amount of $400,000. The interest rate on the new