

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2019**

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 **0-4057**

**PORTSMOUTH SQUARE, INC.**

(Exact name of registrant as specified in its charter)

CALIFORNIA  
(State or other jurisdiction of  
Incorporation or organization)

94-1674111  
(I.R.S. Employer  
Identification No.)

11620 Wilshire Boulevard, Suite 350, Los Angeles, California 90025  
(Address of principal executive offices)(Zip Code)

(310) 889-2500  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

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

**Title of each class:**

NONE

**Trading Symbol(s)**

NONE

**Name of each exchange on which registered:**

NONE

The number of shares outstanding of registrant's Common Stock, as of May 2, 2019 was 734,183.

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**PART 1  
FINANCIAL INFORMATION**

**Item 1 – Condensed Consolidated Financial Statements**

**PORTSMOUTH SQUARE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)**

<b>As of</b>	<b>March 31, 2019</b>	<b>June 30, 2018</b>
<b>ASSETS</b>		
Investment in hotel, net	\$ 33,186,000	\$ 34,278,000
Investment in real estate, net	973,000	973,000
Investment in marketable securities	1,877,000	2,507,000
Other investments, net	196,000	267,000
Cash and cash equivalents	9,111,000	7,623,000
Restricted cash	7,952,000	7,060,000
Accounts receivable - hotel, net	622,000	1,809,000
Other assets, net	892,000	731,000
Deferred tax assets	4,390,000	5,159,000
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 59,199,000</u>	<u>\$ 60,407,000</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities	\$ 10,182,000	\$ 12,119,000
Due to securities broker	446,000	490,000
Obligations for securities sold	244,000	512,000
Related party and other notes payable	8,363,000	8,641,000
Capital Leases	1,256,000	1,355,000
Mortgage notes payable - hotel, net	113,538,000	114,372,000
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>134,029,000</u>	<u>137,489,000</u>
<b>Shareholders' deficit:</b>		
Common stock, no par value: Authorized shares - 750,000; 734,183 shares issued and outstanding shares as of March 31, 2019 and June 30, 2018	2,092,000	2,092,000
Accumulated deficit	<u>(71,471,000)</u>	<u>(73,475,000)</u>
Total Portsmouth shareholders' deficit	<u>(69,379,000)</u>	<u>(71,383,000)</u>
Noncontrolling interest	<u>(5,451,000)</u>	<u>(5,699,000)</u>
Total shareholders' deficit	<u>(74,830,000)</u>	<u>(77,082,000)</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and shareholders' deficit	<u>\$ 59,199,000</u>	<u>\$ 60,407,000</u>

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

**PORTSMOUTH SQUARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

For the three months ended March 31,	<u>2019</u>	<u>2018</u>
<b>Revenue - Hotel</b>	\$ 15,469,000	\$ 14,344,000
<b>Costs and operating expenses</b>		
Hotel operating expenses	(11,378,000)	(10,573,000)
Hotel depreciation and amortization expense	(561,000)	(619,000)
General and administrative expense	(274,000)	(356,000)
<b>Total costs and operating expenses</b>	<u>(12,213,000)</u>	<u>(11,548,000)</u>
Income from operations	3,256,000	2,796,000
Other income (expense)		
Interest expense - mortgage	(1,852,000)	(1,792,000)
Interest expense - related party	(89,000)	(126,000)
Loss on disposal of assets	(398,000)	-
Net gain on marketable securities	7,000	94,000
Net gain (loss) on marketable securities - Comstock	137,000	(249,000)
Net unrealized loss on other investments	-	(11,000)
Impairment loss on other investments	(36,000)	-
Dividend and interest income	105,000	13,000
Trading and margin interest expense	(41,000)	(41,000)
<b>Total other expense, net</b>	<u>(2,167,000)</u>	<u>(2,112,000)</u>
Income before income taxes	1,089,000	684,000
Income tax (expense) benefit	(280,000)	101,000
<b>Net income</b>	809,000	785,000
Less: Net income attributable to the noncontrolling interest	(78,000)	(75,000)
<b>Net income attributable to Portsmouth</b>	<u>\$ 731,000</u>	<u>\$ 710,000</u>
<b>Basic and diluted net income per share attributable to Portsmouth</b>	<u>\$ 1.00</u>	<u>\$ 0.97</u>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<u>734,183</u>	<u>734,183</u>

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

**PORTSMOUTH SQUARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

For the nine months ended March 31,

	<u>2019</u>	<u>2018</u>
<b>Revenue - Hotel</b>	\$ 45,276,000	\$ 41,968,000
<b>Costs and operating expenses</b>		
Hotel operating expenses	(33,424,000)	(31,905,000)
Hotel depreciation and amortization expense	(1,748,000)	(1,902,000)
General and administrative expense	(596,000)	(718,000)
Total costs and operating expenses	<u>(35,768,000)</u>	<u>(34,525,000)</u>
Income from operations	<u>9,508,000</u>	<u>7,443,000</u>
Other income (expense)		
Interest expense - mortgage	(5,463,000)	(5,498,000)
Interest expense - related party	(270,000)	(387,000)
Loss on disposal of assets	(398,000)	-
Net (loss) gain on marketable securities	(220,000)	100,000
Net loss on marketable securities - Comstock	(89,000)	(1,156,000)
Net unrealized loss on other investments	-	(11,000)
Impairment loss on other investments	(36,000)	(72,000)
Dividend and interest income	125,000	29,000
Trading and margin interest expense	(136,000)	(139,000)
Total other expense, net	<u>(6,487,000)</u>	<u>(7,134,000)</u>
Income before income taxes	3,021,000	309,000
Income tax expense	(769,000)	(3,063,000)
<b>Net income (loss)</b>	2,252,000	(2,754,000)
Less: Net income attributable to the noncontrolling interest	(248,000)	(127,000)
Net income (loss) attributable to Portsmouth	<u>\$ 2,004,000</u>	<u>\$ (2,881,000)</u>
Basic and diluted net income (loss) per share attributable to Portsmouth	<u>\$ 2.73</u>	<u>\$ (3.92)</u>
Weighted average number of common shares outstanding - basic and diluted	<u>734,183</u>	<u>734,183</u>

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

**PORTSMOUTH SQUARE, INC**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT**  
**(Unaudited)**

	<u>Common Stock</u>		<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total Portsmouth Shareholders' Deficit</u>	<u>Noncontrolling Interest</u>	<u>Total Shareholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>				
<b>Balance at June 30, 2018</b>	734,183	\$ 2,092,000	\$ (73,475,000)	\$ (71,383,000)	\$ (5,699,000)	\$ (77,082,000)
Net income			1,321,000	1,321,000	161,000	1,482,000
<b>Balance at September 30, 2018</b>	734,183	2,092,000	(72,154,000)	(70,062,000)	(5,538,000)	(75,600,000)
Net income (loss)			(48,000)	(48,000)	9,000	(39,000)
<b>Balance at December 31, 2018</b>	734,183	2,092,000	(72,202,000)	(70,110,000)	(5,529,000)	(75,639,000)
Net income			731,000	731,000	78,000	809,000
<b>Balance at March 31, 2019</b>	<u>734,183</u>	<u>\$ 2,092,000</u>	<u>\$ (71,471,000)</u>	<u>\$ (69,379,000)</u>	<u>\$ (5,451,000)</u>	<u>\$ (74,830,000)</u>
	<u>Common Stock</u>		<u>Retained Earnings (Accumulated Deficit)</u>	<u>Total Portsmouth Shareholders' Deficit</u>	<u>Noncontrolling Interest</u>	<u>Total Shareholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>				
<b>Balance at June 30, 2017</b>	734,183	\$ 2,092,000	\$ (77,120,000)	\$ (75,028,000)	\$ (6,514,000)	\$ (81,542,000)
Net income			334,000	334,000	73,000	407,000
<b>Balance at September 30, 2017</b>	734,183	2,092,000	(76,786,000)	(74,694,000)	(6,441,000)	(81,135,000)
Net loss			(3,925,000)	(3,925,000)	(21,000)	(3,946,000)
<b>Balance at December 31, 2017</b>	734,183	2,092,000	(80,711,000)	(78,619,000)	(6,462,000)	(85,081,000)
Net income			710,000	710,000	75,000	785,000
<b>Balance at March 31, 2018</b>	<u>734,183</u>	<u>\$ 2,092,000</u>	<u>\$ (80,001,000)</u>	<u>\$ (77,909,000)</u>	<u>\$ (6,387,000)</u>	<u>\$ (84,296,000)</u>

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

**PORTSMOUTH SQUARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

<b>For the nine months ended March 31,</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,252,000	\$ (2,754,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net unrealized loss on marketable securities	377,000	1,189,000
Unrealized loss on other investments	-	11,000
Loss on disposal of assets	398,000	-
Deferred taxes	769,000	3,063,000
Impairment loss on other investments	36,000	72,000
Depreciation and amortization	1,604,000	1,941,000
Changes in operating assets and liabilities:		
Investment in marketable securities	253,000	1,006,000
Accounts receivable	1,187,000	468,000
Other assets	(161,000)	195,000
Accounts payable and other liabilities	(1,937,000)	(1,121,000)
Due to securities broker	(44,000)	(466,000)
Obligations for securities sold	(268,000)	(639,000)
Net cash provided by operating activities	<u>4,466,000</u>	<u>2,965,000</u>
<b>Cash flows from investing activities:</b>		
Payments for hotel furniture, equipment and building improvements	(983,000)	(191,000)
Proceeds from other investments	35,000	21,000
Net cash used in investing activities	<u>(948,000)</u>	<u>(170,000)</u>
<b>Cash flows from financing activities:</b>		
Payments of mortgage and other notes payable	(1,138,000)	(1,222,000)
Net cash used in financing activities	<u>(1,138,000)</u>	<u>(1,222,000)</u>
<b>Net increase in cash, cash equivalents, and restricted cash</b>	2,380,000	1,573,000
Cash, cash equivalents, and restricted cash at the beginning of the period	14,683,000	7,160,000
Cash, cash equivalents, and restricted cash at the end of the period	<u>\$ 17,063,000</u>	<u>\$ 8,733,000</u>
Supplemental information:		
Interest paid	\$ 5,770,000	\$ 5,940,000
Taxes paid	\$ 68,000	\$ 10,000
Non-cash transaction:		
Additions to Hotel equipment through capital lease	\$ 71,000	\$ -

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

**PORTSMOUTH SQUARE, INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The condensed consolidated financial statements included herein have been prepared by Portsmouth Square, Inc. (“Portsmouth” or the “Company”), without audit, according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the condensed consolidated financial statements prepared in accordance with generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures that are made are adequate to make the information presented not misleading. Further, the condensed consolidated financial statements reflect, in the opinion of management, all adjustments (which included only normal recurring adjustments) necessary for a fair statement of the financial position, cash flows and results of operations as of and for the periods indicated. It is suggested that these financial statements be read in conjunction with the audited financial statements of Portsmouth and the notes therein included in the Company's Annual Report on Form 10-K for the year ended June 30, 2018. The March 31, 2019 Condensed Consolidated Balance Sheet was derived from the Consolidated Balance Sheet as included in the Company's Form 10-K for the year ended June 30, 2018.

The results of operations for the nine months ended March 31, 2019 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2019.

Portsmouth's primary business is conducted through its general and limited partnership interest in Justice Investors Limited Partnership, a California limited partnership (“Justice” or the “Partnership”). Portsmouth has a 93.1% limited partnership interest in Justice and is the sole general partner. The financial statements of Justice are consolidated with those of the Company.

As of March 31, 2019, Santa Fe Financial Corporation (“Santa Fe”), a public company, owns approximately 68.8% of the outstanding common shares of Portsmouth. Santa Fe is an 81.9%-owned subsidiary of The InterGroup Corporation (“InterGroup”), a public company. InterGroup also directly owns approximately 13.4% of the common stock of Portsmouth.

Justice, through its subsidiaries Justice Operating Company, LLC (“Operating”), Justice Mezzanine Company, LLC (“Mezzanine”) and Kearny Street Parking, LLC (“Parking”) owns a 544-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. Mezzanine and Parking are both wholly-owned subsidiaries of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the borrower under certain mezzanine indebtedness of Justice, and in December 2013, the Partnership conveyed ownership of the Hotel to Operating. The Hotel is operated by the partnership as a full-service Hilton brand hotel pursuant to a Franchise License Agreement with HLT Franchise Holding LLC (“Hilton”) through January 31, 2030.

Justice entered into a Hotel management agreement (“HMA”) with Interstate Management Company, LLC (“Interstate”) to manage the Hotel with an effective takeover date of February 3, 2017. The term of the management agreement is for an initial period of ten years commencing on the takeover date and automatically renews for successive one (1) year periods, to not exceed five years in the aggregate, subject to certain conditions. Under the terms on the HMA, base management fee payable to Interstate shall be one and seven-tenths percent (1.70%) of total Hotel revenue.

The Company began managing the parking garage that is part of the Hotel in-house in 2016. Effective February 3, 2017, Interstate took over the management of the parking garage along with the Hotel.

**Due to Securities Broker**

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.



## **Obligations 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 condensed consolidated statements of operations.

## **Income Tax**

The Company consolidates Justice (“Hotel”) for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax expense during the nine months ended March 31, 2019 and 2018 represent the income tax effect on the Company’s pretax income which includes its share in the net income of the Hotel. For the nine months ended March 31, 2018, a provisional net charge of \$3,313,000 was included in the income tax expense as a result of reducing our deferred tax asset to the lower federal base rate of 21%.

## **Financial Condition and Liquidity**

The Company’s cash flows are primarily generated from its Hotel operations. The Company also receives cash generated from the investment of its cash and marketable securities and other investments.

To fund the redemption of limited partnership interests and to repay the prior mortgage of \$42,940,000, Justice obtained a \$97,000,000 mortgage loan and a \$20,000,000 mezzanine loan. The mortgage loan is secured by the Partnership’s principal asset, the Hotel. The mortgage loan bears an interest rate of 5.275% per annum with interest only payments due through January 2017. Beginning in February 2017, the loan began to amortize over a thirty-year period through its maturity date of January 2024. Outstanding principal balance on the loan was \$94,090,000 and \$95,018,000 as of March 31, 2019 and June 30, 2018, respectively. 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 secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The mezzanine interest only loan 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.

Effective as of May 11, 2017, InterGroup agreed to become an additional guarantor under the limited guaranty and an additional indemnitor under the environmental indemnity for Justice Investors limited partnership’s \$97,000,000 mortgage loan and the \$20,000,000 mezzanine loan. Pursuant to the agreement, InterGroup is required to maintain a certain net worth and liquidity. As of March 31, 2019, InterGroup is in compliance with both requirements.

The Hotel has continued to generate positive operating income. While the debt service requirements related to the 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.

The Company has invested in short-term, income-producing instruments and in equity and debt securities when deemed appropriate. The Company's marketable securities are classified as trading with unrealized gains and losses recorded through the consolidated statements of operations.

Management believes that its cash, marketable securities, and the cash flows generated from the partnership 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 property to support additional borrowings, if necessary.

The following table provides a summary as of March 31, 2019, the Company's material financial obligations which also including interest payments:

	<b>Total</b>	<b>3 Months 2019</b>	<b>Year 2020</b>	<b>Year 2021</b>	<b>Year 2022</b>	<b>Year 2023</b>	<b>Thereafter</b>
Mortgage notes payable	\$ 114,090,000	\$ 470,000	\$ 1,460,000	\$ 1,554,000	\$ 1,639,000	\$ 1,729,000	\$ 107,238,000
Related party and other notes payable	9,619,000	3,383,000	909,000	930,000	946,000	655,000	2,796,000
Interest	33,418,000	2,763,000	6,999,000	6,883,000	6,775,000	6,669,000	3,329,000
Total	<u>\$ 157,127,000</u>	<u>\$ 6,616,000</u>	<u>\$ 9,368,000</u>	<u>\$ 9,367,000</u>	<u>\$ 9,360,000</u>	<u>\$ 9,053,000</u>	<u>\$ 113,363,000</u>

#### Recently Issued and Adopted Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-18, Restricted Cash. ASU 2016-18 requires companies to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Additionally, ASU 2016-18 requires a disclosure of a reconciliation between the statement of financial position and the statement of cash flows when the balance sheet includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. ASU 2016-18 is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively to all periods presented. The Company adopted ASU 2016-18 effective July 1, 2018. The adoption of ASU 2016-18 impacted the presentation of cash flows with inclusion of restricted cash flows for each of the presented periods.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new standard permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). We applied the modified retrospective transition method to all contracts upon the adoption of ASU 2014-09 effective July 1, 2018. We provided the additional required disclosures, but the cumulative adjustment from our comparative periods was zero in our condensed consolidated financial statements. See Note 2.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02), which supersedes existing guidance on accounting for leases in Leases (Topic 840) and generally requires all leases, including operating leases, to be recognized in the statement of financial position as right-of-use assets and lease liabilities by lessees. The provisions of ASU 2016-02 are to be applied using a modified retrospective approach and are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. We intend to adopt the standard on July 1, 2019. The Company is currently reviewing the effect of ASU No. 2016-02.

On June 16, 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the timelier recognition of losses. ASU No. 2016-13 will be effective for us as of January 1, 2020. The Company is currently reviewing the effect of ASU No. 2016-13.

#### NOTE 2 – REVENUE

On July 1, 2018, we adopted ASC 606, *Revenue from Contracts with Customers*, as described in Note 1, using the modified retrospective approach to all contracts resulting in no cumulative adjustment to accumulated deficit. The adoption of this standard did not impact the timing of our revenue recognition based on the short-term, day-to-day nature of our operations.

The following table present our revenues disaggregated by revenue streams.

<b>For the three months ended March 31,</b>	<b>2019</b>	<b>2018</b>
Hotel revenues:		
Hotel rooms	\$ 13,521,000	\$ 11,714,000
Food and beverage	1,218,000	1,748,000
Garage	652,000	756,000
Other operating departments	78,000	126,000
Total hotel revenue	<u>\$ 15,469,000</u>	<u>\$ 14,344,000</u>

<b>For the nine months ended March 31,</b>	<b>2019</b>	<b>2018</b>
Hotel revenues:		
Hotel rooms	\$ 38,608,000	\$ 34,266,000
Food and beverage	4,232,000	5,121,000
Garage	2,160,000	2,272,000
Other operating departments	276,000	309,000
Total hotel revenue	<u>\$ 45,276,000</u>	<u>\$ 41,968,000</u>

#### ***Performance obligations***

We identified the following performance obligations for which revenue is recognized as the respective performance obligations are satisfied, which results in recognizing the amount we expect to be entitled to for providing the goods or services:

- *Cancelable room reservations or ancillary services* are typically satisfied as the good or service is transferred to the hotel guest, which is generally when the room stay occurs.
- *Noncancelable room reservations and banquet or conference reservations* represent a series of distinct goods or services provided over time and satisfied as each distinct good or service is provided, which is reflected by the duration of the room reservation.
- *Other ancillary goods and services* are purchased independently of the room reservation at standalone selling prices and are considered separate performance obligations, which are satisfied when the related good or service is provided to the hotel guest.
- *Components of package reservations* for which each component could be sold separately to other hotel guests are considered separate performance obligations and are satisfied as set forth above.

Hotel revenue primarily consists of hotel room rentals, revenue from accommodations sold in conjunction with other services (e.g., package reservations), food and beverage sales and other ancillary goods and services (e.g., parking). Revenue is recognized when rooms are occupied or goods and services have been delivered or rendered, respectively. Payment terms typically align with when the goods and services are provided. For package reservations, the transaction price is allocated to the performance obligations within the package based on the estimated standalone selling prices of each component.

We do not disclose the value of unsatisfied performance obligations for contracts with an expected length of one year or less. Due to the nature of our business, our revenue is not significantly impacted by refunds. Cash payments received in advance of guests staying at our hotel are refunded to hotel guests if the guest cancels within the specified time period, before any services are rendered. Refunds related to service are generally recognized as an adjustment to the transaction price at the time the hotel stay occurs or services are rendered.

**Contract assets and liabilities**

We do not have any material contract assets as of March 31, 2019 and June 30, 2018 other than trade and other receivables, net on our Condensed Consolidated Balance Sheets. Our receivables are primarily the result of contracts with customers, which are reduced by an allowance for doubtful accounts that reflects our estimate of amounts that will not be collected.

We record contract liabilities when cash payments are received or due in advance of guests staying at our hotel, which are presented within accounts payable and other liabilities on our Condensed Consolidated Balance Sheets. Contract liabilities increased to \$673,000 as of March 31, 2019 from \$571,000 as of June 30, 2018. The increase for the nine months ended March 31, 2019 was primarily driven by deposits received from upcoming groups, offset by \$560,000 revenue recognized that was included in the advanced deposits balance as of June 30, 2018.

**Contract costs**

We consider sales commissions earned to be incremental costs of obtaining a contract with our customers. As a practical expedient, we expense these costs as incurred as our contracts with customers are less than one year.

**NOTE 3 – INVESTMENT IN HOTEL, NET**

Investment in hotel consisted of the following as of:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
<b>March 31, 2019</b>			
Land	\$ 1,124,000	\$ -	\$ 1,124,000
Furniture and equipment	30,379,000	(26,632,000)	3,747,000
Building and improvements	55,488,000	(27,173,000)	28,315,000
	<u>\$ 86,991,000</u>	<u>\$ (53,805,000)</u>	<u>\$ 33,186,000</u>
<b>June 30, 2018</b>			
Land	\$ 1,124,000	\$ -	\$ 1,124,000
Furniture and equipment	29,350,000	(25,877,000)	3,473,000
Building and improvements	55,945,000	(26,264,000)	29,681,000
	<u>\$ 86,419,000</u>	<u>\$ (52,141,000)</u>	<u>\$ 34,278,000</u>

**NOTE 4 – INVESTMENT IN REAL ESTATE**

In August 2007, the Company agreed to acquire 50% interest in InterGroup Uluniu, Inc., a Hawaiian corporation and a 100% owned subsidiary of InterGroup, for \$973,000, which represents an amount equal to the costs paid by InterGroup for the acquisition and carrying costs of approximately two acres of unimproved land held for development located in Maui, Hawaii. As a related party transaction, the fairness of the financial terms of the transaction were reviewed and approved by the independent director of the Company.

**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 transfer to its shareholders through income and/or capital gain.

At March 31, 2019 and June 30, 2018, 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:

<u>Investment</u>	<u>Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Net Unrealized Loss</u>	<u>Fair Value</u>
<b>As of March 31, 2019</b>					
Corporate					
Equities	\$ 7,483,000	\$ 168,000	\$ (5,774,000)	\$ (5,606,000)	\$ 1,877,000
<b>As of June 30, 2018</b>					
Corporate					
Equities	\$ 7,729,000	\$ 385,000	\$ (5,607,000)	\$ (5,222,000)	\$ 2,507,000

As of March 31, 2019, and June 30, 2018, approximately 20% and 18%, respectively, of the investment marketable securities balance above is comprised of the common stock of Comstock Mining, Inc. ("Comstock" - NYSE AMERICAN: LODE).

As of March 31, 2019, and June 30, 2018, the Company had \$5,694,000 and \$5,584,000, respectively, of unrealized losses related to securities held for over one year. As of March 31, 2019, and June 30, 2018, unrealized losses related to the Company's investment in Comstock were \$5,631,000 and \$5,542,000, respectively.

Net gain (loss) on marketable securities on the statement of operations is comprised of realized and unrealized gains (losses). Below is the composition of the net gain (loss) on marketable securities for the three- and nine-months ending March 31, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
<b>For the three months ended March 31,</b>		
Realized (loss) gain on marketable securities	\$ (80,000)	\$ 135,000
Unrealized gain (loss) on marketable securities	87,000	(41,000)
Unrealized gain (loss) on marketable securities related to Comstock	137,000	(249,000)
Net gain (loss) on marketable securities	\$ 144,000	\$ (155,000)
<b>For the nine months ended March 31,</b>		
Realized gain on marketable securities	\$ 68,000	\$ 133,000
Unrealized loss on marketable securities	(288,000)	(33,000)
Unrealized loss on marketable securities related to Comstock	(89,000)	(1,156,000)
Net loss on marketable securities	\$ (309,000)	\$ (1,056,000)

#### **NOTE 6 – OTHER INVESTMENTS, NET**

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

Other investments, net consist of the following:

Type	March 31, 2019	June 30, 2018
Private equity hedge fund, at cost	\$ 137,000	\$ 202,000
Other preferred stock	59,000	65,000
	<u>\$ 196,000</u>	<u>\$ 267,000</u>

#### 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) 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	3/31/2019 Total - Level 1	6/30/2018 Total - Level 1
Assets:		
Investment in marketable securities:		
Basic materials	\$ 531,000	\$ 462,000
Consumer	424,000	-
REITs and real estate companies	241,000	757,000
Energy	159,000	45,000
Healthcare	156,000	424,000
Other	366,000	819,000
	<u>\$ 1,877,000</u>	<u>\$ 2,507,000</u>

The fair values of investments in marketable securities are determined by the most recently traded price of each security at the balance sheet date.

Financial assets that are measured at fair value on a non-recurring basis and are not included in the tables above include "Other investments, net (non-marketable securities)," that were initially measured at cost and have been written down to fair value as a result of impairment. The following table shows the fair value hierarchy for these assets measured at fair value on a non-recurring basis as follows:

Assets	Level 3	March 31, 2019	Net loss for the nine months ended March 31, 2019
Other non-marketable investments	\$196,000	\$ 196,000	\$ (36,000)

Assets	Level 3	June 30, 2018	Net loss for the nine months ended March 31, 2018
Other non-marketable investments	\$ 267,000	\$ 267,000	\$ (72,000)

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

## NOTE 8 – CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statement of cash flows.

As of	<u>3/31/2019</u>	<u>6/30/2018</u>
Cash and cash equivalents	\$ 9,111,000	\$ 7,623,000
Restricted cash	7,952,000	7,060,000
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	<u>\$ 17,063,000</u>	<u>\$ 14,683,000</u>

Restricted cash is comprised of amounts held by lenders for payment of real estate taxes, insurance, replacement and capital addition reserves for the Hotel. It also includes key money received from Interstate that is restricted for capital improvements.

## NOTE 9 - SEGMENT INFORMATION

The Company operates in two reportable segments, the operation of the hotel (“Hotel Operations”) and the investment of its cash in marketable securities and other investments (“Investment Transactions”). These two operating segments, as presented in the consolidated financial statements, reflect how management internally reviews each segment’s performance. Management also makes operational and strategic decisions based on this same information.

Information below represents reporting segments for the three and nine months ended March 31, 2019 and 2018, respectively. Operating income from Hotel operations consists of the operation of the hotel and operation of the garage. Income (loss) from investment transactions consist of net investment gain (loss), impairment loss on other investments, net unrealized gain (loss) on other investments, dividend and interest income and trading and margin interest expense. The other segment consists of corporate general and administrative expenses and the income tax (expense) benefit for the entire Company.

As of and for the three months ended March 31, 2019	Hotel Operations	Investment Transactions	Corporate	Total
Revenues	\$ 15,469,000	\$ -	\$ -	\$ 15,469,000
Segment operating expenses	(11,378,000)	-	(274,000)	(11,652,000)
Segment income (loss)	4,091,000	-	(274,000)	3,817,000
Interest expense - mortgage and related party	(1,941,000)	-	-	(1,941,000)
Loss on disposal of assets	(398,000)	-	-	(398,000)
Depreciation and amortization expense	(561,000)	-	-	(561,000)
Gain from investments	-	172,000	-	172,000
Income tax expense	-	-	(280,000)	(280,000)
Net income (loss)	<u>\$ 1,191,000</u>	<u>\$ 172,000</u>	<u>\$ (554,000)</u>	<u>\$ 809,000</u>
Total assets	<u>\$ 51,611,000</u>	<u>\$ 2,073,000</u>	<u>\$ 5,515,000</u>	<u>\$ 59,199,000</u>

For the three months ended March 31, 2018	Hotel Operations	Investment Transactions	Corporate	Total
Revenues	\$ 14,344,000	\$ -	\$ -	\$ 14,344,000
Segment operating expenses	(10,573,000)	-	(356,000)	(10,929,000)
Segment income (loss)	3,771,000	-	(356,000)	3,415,000
Interest expense - mortgage and related party	(1,918,000)	-	-	(1,918,000)
Depreciation and amortization expense	(619,000)	-	-	(619,000)
Loss from investments	-	(194,000)	-	(194,000)
Income tax benefit	-	-	101,000	101,000
Net income (loss)	<u>\$ 1,234,000</u>	<u>\$ (194,000)</u>	<u>\$ (255,000)</u>	<u>\$ 785,000</u>

<b>As of and for the nine months ended March 31, 2019</b>	<b>Hotel Operations</b>	<b>Investment Transactions</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 45,276,000	\$ -	\$ -	\$ 45,276,000
Segment operating expenses	(33,424,000)	-	(596,000)	(34,020,000)
Segment income (loss)	11,852,000	-	(596,000)	11,256,000
Interest expense - mortgage and related party	(5,733,000)	-	-	(5,733,000)
Loss on disposal of assets	(398,000)	-	-	(398,000)
Depreciation and amortization expense	(1,748,000)	-	-	(1,748,000)
Loss from investments	-	(356,000)	-	(356,000)
Income tax expense	-	-	(769,000)	(769,000)
Net income (loss)	\$ 3,973,000	\$ (356,000)	\$ (1,365,000)	\$ 2,252,000
Total assets	\$ 51,611,000	\$ 2,073,000	\$ 5,515,000	\$ 59,199,000

<b>For the nine months ended March 31, 2018</b>	<b>Hotel Operations</b>	<b>Investment Transactions</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 41,968,000	\$ -	\$ -	\$ 41,968,000
Segment operating expenses	(31,905,000)	-	(718,000)	(32,623,000)
Segment income (loss)	10,063,000	-	(718,000)	9,345,000
Interest expense - mortgage and related party	(5,885,000)	-	-	(5,885,000)
Depreciation and amortization expense	(1,902,000)	-	-	(1,902,000)
Loss from investments	-	(1,249,000)	-	(1,249,000)
Income tax expense	-	-	(3,063,000)	(3,063,000)
Net income (loss)	\$ 2,276,000	\$ (1,249,000)	\$ (3,781,000)	\$ (2,754,000)

#### **NOTE 10 - RELATED PARTY AND OTHER FINANCING TRANSACTIONS**

On July 2, 2014, the Partnership obtained from InterGroup 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 loan was extended to June 30, 2019. The balance of this loan was \$3,000,000 as of March 31, 2019 and June 30, 2018, and are included in the related party and other note payable in the consolidated balance sheets.

Also included in the balance of related party note payable at March 31, 2019 is the obligation to Hilton (Franchisor) in the form of a self-exhausting, interest free development incentive note which is reduced by approximately \$316,000 annually through 2030 by Hilton if the Partnership is still a Franchisee with Hilton. The outstanding balance of the note as of March 31, 2019 and June 30, 2018, was \$3,404,000 and \$3,642,000, respectively.

On February 1, 2017, Justice entered into an HMA with Interstate to manage the Hotel with an effective takeover date of February 3, 2017. The term of the management agreement is for an initial period of 10 years commencing on the takeover date and automatically renews for an additional year not to exceed five years in aggregate subject to certain conditions. The HMA also provides for Interstate to advance a key money incentive fee to the Hotel for capital improvements in the amount of \$2,000,000 under certain terms and conditions described in a separate key money agreement. The key money contribution shall be amortized in equal monthly amounts over an eight (8) year period commencing on the second (2<sup>nd</sup>) anniversary of the takeover date. The \$2,000,000 is included in restricted cash in the condensed consolidated balance sheets as of March 31, 2019 and June 30, 2018. Unamortized portion of the key money as of March 31, 2019 and June 30, 2018 were \$1,958,000 and \$2,000,000, respectively, and are included in the related party note payable in the condensed consolidated balance sheets.

In April 2017, Portsmouth obtained from InterGroup an unsecured short-term loan in the amount of \$1,000,000 at 5% per year fixed interest, with a term of five months and maturing September 6, 2017. On September 1<sup>st</sup> 2017, the short-term loan was extended to September 15, 2017 and paid off on September 13, 2017.



As of March 31, 2019, the Company had capital lease obligations outstanding of \$1,256,000. These capital leases expire in various years through 2023 at rates ranging from 5.77% to 6.53% per annum. Minimum future lease payments for assets under capital leases as of March 31, 2019 are as follows:

<b>For the year ending June 30,</b>	
2019	\$ 102,000
2020	405,000
2021	405,000
2022	397,000
2023	90,000
	Total minimum lease payments 1,399,000
	Less interest on capital lease (143,000)
	Present value of future minimum lease payments \$ 1,256,000

Future minimum principal payments for all related party and other financing transactions are as follows:

<b>For the year ending June 30,</b>	
2019	\$ 3,383,000
2020	909,000
2021	930,000
2022	946,000
2023	655,000
Thereafter	2,796,000
	\$ 9,619,000

Effective May 12, 2017, InterGroup agreed to become an additional guarantor under the limited guaranty and an additional indemnitor under environmental indemnity for Justice Investors limited partnership's \$97,000,000 mortgage loan and the \$20,000,000 mezzanine loan, in order to maintain certain minimum net worth and liquidity guarantor covenant requirements that Portsmouth was unable to satisfy independently as of March 31, 2017.

In connection with the redemption of the limited partnership interest of Justice, Justice Operating Company, LLC agreed to pay a total of \$1,550,000 in fees to certain officers and directors of the Company for services rendered in connection with the redemption of the partnership interests, refinancing of the Justices properties and reorganization of Justice. This agreement was superseded by a letter dated December 11, 2013 from Justice, in which Justice assumed the payment obligations of Justice Operating Company, LLC. As of June 30, 2018, \$200,000 of these fees remain payable. The balance was paid in full as of March 31, 2019.

As of September 30, 2017, Justice had an outstanding accounts payable balance to InterGroup for \$116,000 for management of the Hotel from June to December of 2016. The balance was paid in full as of December 31, 2017.

The Company's Board of Directors is currently comprised of directors John V. Winfield, William J. Nance, John C. Love, Jerold R. Babin, and Yvonne L. Murphy. All of the Company's directors also serve as directors of InterGroup. Messrs. Winfield, Nance and Love also serve on the Board of Santa Fe.

John V. Winfield serves as Chief Executive Officer and Chairman of the Company, Santa Fe, and InterGroup. Depending on certain market conditions and various risk factors, the Chief Executive Officer, Santa Fe and InterGroup 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 the resources of Santa Fe and InterGroup, at risk in connection with investment decisions made on behalf of the Company.

## **Item 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

The Company may from time to time make forward-looking statements and projections concerning future expectations. When used in this discussion, the words “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “may,” “could,” “might” and similar expressions, are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties, such as national and worldwide economic conditions, including the impact of recessionary conditions on tourism, travel and the lodging industry, the impact of terrorism and war on the national and international economies, including tourism and securities markets, energy and fuel costs, natural disasters, general economic conditions and competition in the hotel industry in the San Francisco area, seasonality, labor relations and labor disruptions, actual and threatened pandemics such as swine flu, partnership distributions, the ability to obtain financing at favorable interest rates and terms, securities markets, regulatory factors, litigation and other factors discussed below in this Report and in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018, that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as to the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### **RESULTS OF OPERATIONS**

The Company's principal source of revenue continues to be derived from its general and limited partnership interest in the Justice Investors Limited Partnership (“Justice” or the “Partnership”) inclusive of hotel room revenue, food and beverage revenue, garage revenue, and revenue from other operating departments. Justice owns 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 (the “License Agreement”) with Hilton. The Partnership entered into the License Agreement on December 10, 2004. The term of the License Agreement was for an initial 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. On June 26, 2015, the Partnership and Hilton entered into an amended franchise agreement which extended the License Agreement through 2030, modified the monthly royalty rate, extended geographic protection to the Partnership and also provided the Partnership certain key money cash incentives to be earned through 2030. The key money cash incentives were received on July 1, 2015.

On February 1, 2017, Justice entered into a Hotel management agreement (“HMA”) with Interstate Management Company, LLC (“Interstate”) to manage the Hotel with an effective takeover date of February 3, 2017. The term of HMA is for an initial period of ten years commencing on the takeover date and automatically renews for an additional year not to exceed five years in aggregate subject to certain conditions. The HMA also provides for Interstate to advance a key money incentive fee to the Hotel for capital improvements in the amount of \$2,000,000 under certain terms and conditions described in a separate key money agreement.

The parking garage that is part of the Hotel property was managed by Ace Parking pursuant to a contract with the Partnership. The contract was terminated with an effective termination date of October 4, 2016. The Company began managing the parking garage in-house after the termination of Ace Parking. Effective February 3, 2017, Interstate took over the management of the parking garage along with the Hotel.

### **Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018**

The Company had net income of \$809,000 for the three months ended March 31, 2019 compared to net income of \$785,000 for the three months ended March 31, 2018. The increase in net income is primarily attributable to increased revenue from the Hotel offset by the increase in operating expenses.

## Hotel Operations

The Company had net income from Hotel operations of \$1,191,000 for the three months ended March 31, 2019 compared to net income of \$1,234,000 for the three months ended March 31, 2018. The decrease in net income is primarily attributable to a \$398,000 loss on the disposal of assets.

The following table sets forth a more detailed presentation of Hotel operations for the three months ended March 31, 2019 and 2018.

For the three months ended March 31,	2019	2018
Hotel revenues:		
Hotel rooms	\$ 13,521,000	\$ 11,714,000
Food and beverage	1,218,000	1,748,000
Garage	652,000	756,000
Other operating departments	78,000	126,000
Total hotel revenues	15,469,000	14,344,000
Operating expenses excluding depreciation and amortization	(11,378,000)	(10,573,000)
Operating income before interest, depreciation and amortization	4,091,000	3,771,000
Loss on disposal of assets	(398,000)	-
Interest expense - mortgage	(1,941,000)	(1,918,000)
Depreciation and amortization expense	(561,000)	(619,000)
Net income from Hotel operations	\$ 1,191,000	\$ 1,234,000

For the three months ended March 31, 2019, the Hotel had operating income of \$4,091,000 before interest expense, depreciation and amortization on total operating revenues of \$15,469,000 compared to operating income of \$3,771,000 before interest expense, depreciation and amortization on total operating revenues of \$14,344,000 for the three months ended March 31, 2018. Room revenues increased by \$1,807,000 for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 as a result of taking the optimal amount of group business with ancillary spending while growing higher rated transient segments. Food and beverage revenue decreased by \$530,000 as a result of limiting midweek group business which resulted in fewer in house banquet events. Revenue from garage and other operating departments decreased mainly due to decrease in monthly parking revenue.

Total operating expenses increased by \$805,000 due to increase in group commission, credit card fees, management fees, franchise fees, wages and benefits per labor agreements.

The following table sets forth the average daily room rate, average occupancy percentage and RevPAR of the Hotel for the three months ended March 31, 2019 and 2018.

Three Months Ended March 31,	Average Daily Rate	Average Occupancy %	RevPAR
2019	\$ 290	95%	\$ 276
2018	\$ 250	95%	\$ 239

The Hotel's revenues increased by 7.8% this quarter as compared to the previous comparable quarter. Average daily rate increased by \$40, average occupancy remained at 95%, and RevPAR increased by \$37 for the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

## Investment Transactions

The Company had a net gain on marketable securities of \$144,000 for the three months ended March 31, 2019 compared to a net loss on marketable securities of \$155,000 for the three months ended March 31, 2018. For the three months ended March 31, 2019, the Company had a net realized loss of \$80,000 and a net unrealized gain of \$224,000. For the three months ended March 31, 2018, the Company had a net realized gain of \$135,000 and a net unrealized loss of \$290,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's results of operations. However, the amount of gain or loss on marketable securities 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 see the Marketable Securities section below.

The Company consolidates Justice (Hotel) for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax (expense) benefit during the three months ended March 31, 2019 and 2018 represents the income tax effect on the Company's pretax income which includes its share in the net income of the Hotel.

### Nine Months Ended March 31, 2019 Compared to Nine Months Ended March 31, 2018

The Company had net income of \$2,252,000 for the nine months ended March 31, 2019 compared to net loss of \$2,754,000 for the nine months ended March 31, 2018. The change is primarily attributable to increase in Hotel revenue and reduction in income tax expense.

### Hotel Operations

Net income from Hotel operations was \$3,973,000 for the nine months ended March 31, 2019 compared to net income of \$2,276,000 for the nine months ended March 31, 2018. The increase in net income is primarily due to increase in revenue.

The following table sets forth a more detailed presentation of Hotel operations for the nine months ended March 31, 2019 and 2018.

<b>For the nine months ended March 31,</b>	<b>2019</b>	<b>2018</b>
Hotel revenues:		
Hotel rooms	\$ 38,608,000	\$ 34,266,000
Food and beverage	4,232,000	5,121,000
Garage	2,160,000	2,272,000
Other operating departments	276,000	309,000
Total hotel revenues	45,276,000	41,968,000
Operating expenses excluding depreciation and amortization	(33,424,000)	(31,905,000)
Operating income before interest, depreciation and amortization	11,852,000	10,063,000
Loss on disposal of assets	(398,000)	-
Interest expense - mortgage	(5,733,000)	(5,885,000)
Depreciation and amortization expense	(1,748,000)	(1,902,000)
Net income from Hotel operations	<u>\$ 3,973,000</u>	<u>\$ 2,276,000</u>

For the nine months ended March 31, 2019, the Hotel had operating income of \$11,852,000 before interest, depreciation and amortization on total operating revenues of \$45,276,000 compared to operating income of \$10,063,000 before interest, depreciation and amortization on total operating revenues of \$41,968,000 for the nine months ended March 31, 2018. Room revenues increased by \$4,342,000 for the nine months ended March 31, 2019 compared to the nine months ended March 31, 2018 primarily as the result of taking the optimal amount of group business with ancillary spending while growing higher rated transient segments. Food and beverage revenue decreased by \$889,000 as the result of limiting midweek group business. Garage revenue decreased by \$112,000 due to decrease in monthly parking revenue. Revenue from other operating departments decreased by \$33,000 as a result of decrease in movies revenues and forfeited deposits.

Total operating expenses increased by \$1,519,000 due to increase in wages and benefits per labor agreements, group commission, credit card fees, franchise fees, and management fees.

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 nine months ended March 31, 2019 and 2018.

Nine Months Ended March 31,	Average Daily Rate	Average Occupancy %	RevPAR
2019	\$ 269	96%	\$ 259
2018	\$ 248	92%	\$ 229

The Hotel’s total revenues increased by 7.9% for the nine months ended March 31, 2019 as compared to the nine months ended March 31, 2018. Average daily rate increased by \$21 and RevPAR increased by \$30 for the nine months ended March 31, 2019 compared to the nine months ended March 31, 2018. Average occupancy increased by 4% during the nine months ended March 31, 2019 versus the comparable period.

#### Investment Transactions

The Company had a net loss on marketable securities of \$309,000 for the nine months ended March 31, 2019 compared to a net loss on marketable securities of \$1,056,000 for the nine months ended March 31, 2018. For the nine months ended March 31, 2019, the Company had a net realized gain of \$68,000 and a net unrealized loss of \$377,000. For the nine months ended March 31, 2018, the Company had a net realized gain of \$133,000 and a net unrealized loss of \$1,189,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company’s results of operations. However, the amount of gain or loss on marketable securities 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 see the Marketable Securities section below.

The Company consolidates Justice (Hotel) for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax expense during the nine months ended March 31, 2019 and 2018 represents the income tax effect on the Company’s pretax income which includes its share in the net income of the Hotel.

#### MARKETABLE SECURITIES

The following table shows the composition of the Company’s marketable securities portfolio as of March 31, 2019 and June 30, 2018 by selected industry groups.

As of December 31, 2018 Industry Group	Fair Value	% of Total Investment Securities
Basic materials	\$ 531,000	28.3%
Consumer	424,000	22.6%
Other	366,000	19.5%
REITs and real estate companies	241,000	12.8%
Energy	159,000	8.5%
Healthcare	156,000	8.3%
	<u>\$ 1,877,000</u>	<u>100.0%</u>

As of June 30, 2018 Industry Group	Fair Value	% of Total Investment Securities
REITs and real estate companies	\$ 757,000	30.2%
Basic materials	462,000	18.4%
Healthcare	424,000	16.9%
Technology	399,000	15.9%
Energy	45,000	1.8%
Other	420,000	16.8%
	<u>\$ 2,507,000</u>	<u>100.0%</u>

As of March 31, 2019, 20% of the Company's investment in marketable securities portfolio consists of the common stock of Comstock Mining, Inc. which is included in the basic materials industry group.

The following table shows the net gain (loss) on the Company's marketable securities and the associated margin interest and trading expenses for the respective periods:

<b>For the three months ended March 31,</b>	<b>2019</b>	<b>2018</b>
Net gain (loss) on marketable securities	\$ 144,000	\$ (155,000)
Unrealized loss on other investments	-	(11,000)
Impairment loss on other investments	(36,000)	-
Dividend and interest income	105,000	13,000
Margin interest expense	(8,000)	(13,000)
Trading and management expenses	(33,000)	(28,000)
	<u>\$ 172,000</u>	<u>\$ (194,000)</u>

<b>For the nine months ended March 31,</b>	<b>2019</b>	<b>2018</b>
Net loss on marketable securities	\$ (309,000)	\$ (1,056,000)
Unrealized loss on other investments	-	(11,000)
Impairment loss on other investments	(36,000)	(72,000)
Dividend and interest income	125,000	29,000
Margin interest expense	(37,000)	(55,000)
Trading and management expenses	(99,000)	(84,000)
	<u>\$ (356,000)</u>	<u>\$ (1,249,000)</u>

#### **FINANCIAL CONDITION AND LIQUIDITY**

The Company's cash flows are primarily generated from its Hotel operations and general partner management fees. The Company also receives cash generated from the investment of its cash and marketable securities and other investments.

To fund the 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 in December of 2013. The mortgage loan is secured by the Partnership's principal asset, the Hotel. The mortgage loan bears an interest rate of 5.275% per annum and matures in January 2024. Outstanding principal balance on the loan was \$94,090,000 and \$95,018,000 as of March 31, 2019 and June 30, 2018, respectively. 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 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 in January 2024. As additional security for the mezzanine loan, there is a limited guaranty executed by the Company in favor of mezzanine lender. Effective as of May 12, 2017, InterGroup agreed to become an additional guarantor under the limited guaranty and an additional indemnitor under the environmental indemnity for Justice Investors limited partnership's \$97,000,000 mortgage loan and the \$20,000,000 mezzanine loan.

On July 2, 2014, the Partnership obtained from InterGroup (a related party) an unsecured loan in the principal amount of \$4,250,000 at 12% per year fixed interest, with a term of two years, payable interest only each month. InterGroup received a 3% loan fee. The loan may be prepaid at any time without penalty. The current loan balance of \$3,000,000 was extended to June 30, 2019. During the fiscal year ended June 30, 2018, the Partnership made principal payoff of \$1,250,000.

In April 2017, Portsmouth obtained from InterGroup an unsecured short-term loan in the amount of \$1,000,000 at 5% per year fixed interest, with a term of five months and maturing September 6, 2017. On September 1<sup>st</sup> 2017, the short-term loan was extended to September 15, 2017 and paid off on September 13, 2017.

The Company has invested in short-term, income-producing instruments and in equity and debt securities when deemed appropriate. The Company's marketable securities are classified as trading with unrealized gains and losses recorded through the consolidated statements of operations.

Management believes that its cash, marketable securities, and the cash flows generated from the partnership 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 property to support additional borrowings, if necessary.

#### MATERIAL CONTRACTUAL OBLIGATIONS

The following table provides a summary as of March 31, 2019, the Company's material financial obligations which also including interest payments:

	<u>Total</u>	<u>3 Months 2019</u>	<u>Year 2020</u>	<u>Year 2021</u>	<u>Year 2022</u>	<u>Year 2023</u>	<u>Thereafter</u>
Mortgage notes payable	\$ 114,090,000	\$ 470,000	\$ 1,460,000	\$ 1,554,000	\$ 1,639,000	\$ 1,729,000	\$ 107,238,000
Related party and other notes payable	9,619,000	3,383,000	909,000	930,000	946,000	655,000	2,796,000
Interest	33,418,000	2,763,000	6,999,000	6,883,000	6,775,000	6,669,000	3,329,000
Total	<u>\$ 157,127,000</u>	<u>\$ 6,616,000</u>	<u>\$ 9,368,000</u>	<u>\$ 9,367,000</u>	<u>\$ 9,360,000</u>	<u>\$ 9,053,000</u>	<u>\$ 113,363,000</u>

#### 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 the Company has the power and ability 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.

#### CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

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 condensed consolidated 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. There have been no material changes to the Company's critical accounting policies during the nine months ended March 31, 2019 except for the adoption of ASU 2016-18 and ASC 606. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2018 for a summary of the critical accounting policies.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are a smaller reporting company and therefore, we are not required to provide information required by this Item of Form 10-Q.

### **Item 4. Controls and Procedures**

#### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation and on the material weakness noted below, the Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are not effective in ensuring that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

#### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

As stated in the Company's Annual Report on Form 10-K for the year ended June 30, 2017, we identified a material weakness in internal controls over financial reporting related to our deferred income taxes and income tax expense during the fourth quarter of fiscal 2017. During the quarter ended September 30, 2017, we hired a new tax CPA specialist to perform a detailed analysis which was completed for the year ended June 30, 2017. We also assigned our audit committee with oversight responsibilities for the process. The material weakness related to tax provision preparation had not been remediated in fiscal year 2018. While significant progress was made as of June 30, 2018, these controls were not operating completely effectively. The Company has taken further steps, including increased scrutiny over the tax provision preparation process, to remediate the material weakness and improved its internal control over financial reporting during the nine months ended March 31, 2019.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

During the period ending March 31, 2019, there were pending or threatened legal actions as follows:

NONE

### **Item 1A. RISK FACTORS**

As a smaller reporting company, we are not required to provide the information required by this Item.

### **Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There have been no events that are required to be reported under this Item.

### **Item 3. DEFAULTS UPON SENIOR SECURITIES**

There have been no events that are required to be reported under this Item.

### **Item 4. MINE SAFETY DISCLOSURES**

There have been no events that are required to be reported under this Item.

### **Item 5. OTHER INFORMATION**

There have been no events that are required to be reported under this Item.



**Item 6. EXHIBITS**

[31.1](#) [Certification of Principal Executive Officer of Periodic Report Pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\).](#)

[31.2](#) [Certification of Principal Financial Officer of Periodic Report Pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\).](#)

[32.1](#) [Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.](#)

[32.2](#) [Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350](#)

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PORTSMOUTH SQUARE, INC.  
(Registrant)

Date: May 3, 2019

by /s/ John V. Winfield  
John V. Winfield  
President, Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 3, 2019

by /s/ Danfeng Xu  
Danfeng Xu  
Treasurer and Controller  
(Principal Financial Officer)

## CERTIFICATION

I, John V. Winfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Portsmouth Square, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

/s/ John V. Winfield

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John V. Winfield  
President and Chief Executive Officer  
(Principal Executive Officer)

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## CERTIFICATION

I, Danfeng Xu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Portsmouth Square, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

/s/ Danfeng Xu

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Danfeng Xu

Treasurer and Controller

(Principal Financial Officer)

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**Certification of Principal Executive Officer Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of The Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report of Portsmouth Square, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John V. Winfield, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- The Report fully complies with the requirements of Section 13(a) or 5(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John V. Winfield

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John V. Winfield  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 3, 2019

A signed original of this written statement required by Section 906 has been provided to Portsmouth Square, Inc. and will be retained by Portsmouth Square, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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**Certification of Principal Financial Officer Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of The Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report of Portsmouth Square, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Danfeng Xu, Treasurer and Controller of the Company, serving as its Principal Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- The Report fully complies with the requirements of Section 13(a) or 5(d) of the Securities Exchange Act of 1934; and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Danfeng Xu

Danfeng Xu  
Treasurer and Controller  
(Principal Financial Officer)

Date: May 3, 2019

A signed original of this written statement required by Section 906 has been provided to Portsmouth Square, Inc. and will be retained by Portsmouth Square, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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