

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

FORM 10-K

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

For the fiscal year ended June 30, 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 0-6877

**SANTA FE FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

NEVADA  
(State or other jurisdiction of  
Incorporation or organization)

95-2452529  
(I.R.S. Employer  
Identification No.)

12121 Wilshire Boulevard, Suite 610, Los Angeles, California 90025  
(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: None

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

Common Stock, \$.10 Par Value  
(Title of class)

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

Yes  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  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.

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 (§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 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.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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, 2018 was approximately \$6,545,000.

The number of shares outstanding of registrant's Common Stock, as of August 30, 2019 was 1,241,810.

Securities registered pursuant to section 12(b) of the Act: None.

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” and other words or phrases of similar meaning in connection with any discussion of future operating or financial performance. From time to time we also provide forward-looking statements in our Forms 10-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;
- economic volatility and potential recessive trends;
- 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 and 10-Q, and Current Reports on Form 8-K filed, as well as other filings, with the Securities and Exchange Commission.

## PART I

### Item 1. Business.

#### GENERAL

Santa Fe Financial Corporation (“Santa Fe” or the “Company”) and may also be referred to as “we” “us” or “our” in this report) was incorporated under the name of Tri Financial Corporation in the State of Nevada on July 25, 1967 as a wholly owned subsidiary of Crateo, Inc., a public company. On October 31, 1969, Crateo issued a one-for-one stock dividend of all of its shares of Tri Financial to its common shareholders. On September 17, 1970, the name of the Corporation was changed to Santa Fe Financial Corporation.

As of June 30, 2019, approximately 82.2% of the outstanding common stock of Santa Fe was owned by The InterGroup Corporation (“InterGroup”), a public company (NASDAQ: INTG). As of June 30, 2019, Santa Fe owned approximately 68.8% of the outstanding common stock of Portsmouth Square, Inc. (“Portsmouth”), a public company (OTC Market Inc.’s Pink: PRSI). InterGroup also directly owns approximately 13.4% of the common stock of Portsmouth.

The Company’s principal source of operating revenue has been, and continues to be, derived from the management of its 68.8% owned subsidiary, Portsmouth. Portsmouth’s primary business is conducted through its general and limited partnership interest in Justice Investors Limited Partnership (“Justice” or the “Partnership”), a California limited partnership. Portsmouth controls approximately 93.3% of the voting interest in Justice and is the sole general partner of Justice. The financial statements of Justice are consolidated with those of the Company.

Justice, through its subsidiaries Justice Operating Company, LLC (“Operating”) and Justice Mezzanine Company, LLC (“Mezzanine”), 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. Kearny Street Parking LLC (“Parking”) is the operator of the garage. Mezzanine is a wholly-owned subsidiary 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). Justice had a ten-year management agreement with Prism Hospitality L.P. (“Prism”) to perform certain management functions for the Hotel. Prism’s management agreement was terminated upon its expiration date of February 2, 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 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, not to 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 (1.70%) of total Hotel revenue.

The Company also derives rental income from two multi-family, residential rental properties located in the Los Angeles area. The Company may also look for new real estate investment opportunities in hotels, apartments, office buildings and shopping centers. The acquisition of any new real estate investments will depend on the Company’s ability to find suitable investment opportunities and the availability of sufficient financing to acquire such investments. To help fund any such acquisition, the Company 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.

#### HILTON HOTELS FRANCHISE LICENSE AGREEMENT

The Partnership entered into a Franchise License Agreement (the “License Agreement”) with the HLT Existing Franchise Holding LLC (“Hilton”) on December 10, 2004. The term of the License Agreement was for an initial period of fifteen years commencing on the date the Hotel began operating as a Hilton hotel, with an option to extend the License Agreement for another five years, subject to certain conditions. On June 26, 2015, Operating and Hilton entered into an amended franchise agreement that, among other things, extended the License Agreement through 2030, and also provided the Partnership with certain key money cash incentives to be earned through 2030.

## **HOTEL MANAGEMENT COMPANY AGREEMENT**

On February 1, 2017, Justice entered into a Hotel management agreement with Interstate Management Company, LLC 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, not to 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 (1.70%) of total Hotel revenue. For the fiscal years ended June 30, 2019 and 2018, Interstate management fees were \$1,206,000 and \$957,000, respectively, and are included in Hotel operating expenses in the consolidated statements of operations. As part of the Hotel management agreement, Interstate, through the Partnership's wholly-owned subsidiary, Kearny Street Parking LLC, manages the parking garage in-house.

## **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 Culture Center, which the Foundation had right to occupy pursuant to a 50-year nominal rent lease that began in 1967.

The amended lease, among other things, 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. As of June 30, 2019, monthly event space fee is \$6,200. 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. Subject to certain conditions as set forth in the amended lease, the Foundation is entitled to reserve for a maximum of 75 days per calendar year for use of the event space. In the event that the Partnership needs the event space during one of the dates previously reserved by the Foundation, the Partnership shall pay the Foundation \$4,000 per day for using the event space. During the fiscal years ended June 30, 2019 and 2018, the Partnership paid the Foundation \$13,000 and \$50,000, respectively, for using the event space on previously reserved dates by the Foundation.

## **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, publicly traded investment funds, mortgage backed securities, securities issued by REITs 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"). 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 generally follows certain 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 applicable national securities exchange; and (iii) investment in a particular issuer should not exceed 10% of the market value of the total portfolio. The investment guidelines 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. The Committee has in the past approved non-conforming investments and may in the future approve non-conforming investments. The Committee may modify these guidelines from time to time.

The Company may also invest, with the approval of the 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, 2019 and 2018, the Company had other investments of \$351,000 and \$474,000, respectively.

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, 2019 and 2018, the Company had obligations for securities sold (equities short) of \$625,000 and \$919,000, respectively.

In addition, the Company may utilize margin for its marketable securities purchases through the use of standard margin agreements with national brokerage firms. 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. Margin balances due at June 30, 2019 and 2018 were \$396,000 and \$1,068,000, respectively.

As Chairman of the Committee, the Company's Chairman and President, 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 Portsmouth and InterGroup and oversees the investment activity of those companies. Depending on certain market conditions and various risk factors, the Chief Executive Officer, Portsmouth and InterGroup may, at times, invest in the same companies in which the Company invests. Such investments align the interests of the Company with the interests of these related parties because it places the personal resources of the Chief Executive Officer and the resources of Portsmouth and InterGroup, at risk in substantially the same manner as the Company 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 high occupancy and room rates during the entire year except for the weeks starting Thanksgiving through the end of the calendar year due to the holiday season. These seasonal patterns can be expected to cause fluctuations in the quarterly revenues of 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 San Francisco market is a very competitive market with a high supply of guest rooms and meeting space in the area. During fiscal year 2019, we implemented advanced state of the art internet system which included a rewiring of the entire hotel with the best possible Ethernet cabling and fiber. Specifically, the complete overhaul of the infrastructure of the Internet in the guest rooms and meeting space will enable the Hotel to compete in this market. This investment is allowing the Hotel to go to market with measurable statistics that will help win the much-coveted technology company meetings. We installed 55" and 65" 4K smart televisions in all guest rooms and common areas during fiscal year 2019. In fiscal 2018, an architecture firm was contracted to design the new guest rooms which have recently been approved by Hilton and the model rooms are in the works. We plan to bring back 14 guest rooms on the 5th floor as part of the initial phase of this renovation project and the next phase will include additional rooms being added on the 26th and 27th floors. We anticipate our window washing equipment to be completed within the second quarter of fiscal year 2020.

Our highest priority is guest satisfaction. We believe that enhancing the guest experience differentiates the Hotel from our competition and is critical to the Hotel's objective of building sustainable guest loyalty. In order to make a large impact on guest experience, the Hotel will continue training team members on Hilton brand standards and guest satisfaction, hiring and retaining talents in key operations, and enhancing the arrival experience.

The Hotel's location in the San Francisco Financial District lends itself to greater opportunities over its competitors when it comes to developing relationships with the Financial District entities and the customers who regularly do business in the downtown area. The ability to capitalize on the strong midweek demand of the individual business traveler to the Financial District has been the focus during the timeframe of strong growth in the market. The Hotel will continue to focus on self-contained group business that contributes to the Food and Beverage operation and make use of the properties meeting space capabilities. Closure of the Moscone Convention Center has limited banquet revenue contribution in fiscal year 2019 but assisted in strong rate growth year over year. With the Moscone Convention Center returning to full capacity in calendar year 2019, we hope to see more growth in citywide room nights.

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.

### **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, 2014 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 December 2013. 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 property 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 is 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.

### **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.

### **EMPLOYEES**

As of June 30, 2019, the Company had two full-time employees. The employees of the Company are not part of any collective bargaining agreement, and the Company believes that its employee relations are satisfactory.



Effective February 3, 2017, the Partnership had no employees. On February 3, 2017, Interstate assumed all labor union agreements and retained employees of their choice to continue providing services to the Hotel. As of June 30, 2019, approximately 85% of those employees were represented by one of four labor unions, and their terms of employment were determined under various collective bargaining agreements (“CBAs”) to which the Partnership was a party. During the fiscal year ended June 30, 2019, the Partnership renewed the CBA for Local 39 (Stationary Engineers), and Local 665 (Parking Employees). CBA for Local 2 (Hotel and Restaurant Employees) expired on August 13, 2018 and was renewed in August 2019. CBA for Local 856 (International Brotherhood of Teamsters) will expire on December 31, 2022.

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 and Interstate. The Partnership expects and anticipates that the terms of conditions of CBAs will have an impact on wage and benefit costs, operating expenses, and certain hotel operations during the life of each CBA, and incorporates these principles into its 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 our parent company’s website [www.intgla.com](http://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.**

*Adverse changes in the U.S. and global economies could negatively impact our financial performance.*

Due to a number of factors affecting consumers, the outlook for the lodging industry remains uncertain. These factors have resulted at times in the past and could continue to result in the future in fewer customers visiting, or customers spending less, in San Francisco, as compared to prior periods. Leisure travel and other leisure activities represent discretionary expenditures, and participation in such activities tends to decline during economic downturns, during which consumers generally have less disposable income. As a result, in those times customer demand for the luxury amenities and leisure activities that we offer may decline. Furthermore, during periods of economic contraction, revenues may decrease while some of our costs remain fixed or even increase, resulting in decreased earnings.

*Weakened global economic conditions may adversely affect our industry, business and results of operations.*

Our overall performance depends in part on worldwide economic conditions which could adversely affect the tourism industry. According to current economic news reports, the United States and other key international economies may be subject to a recession, characterized by falling demand for a variety of goods and services, restricted credit, going concern threats to financial institutions, major multinational companies and medium and small businesses, poor liquidity, declining asset values, reduced corporate profitability, and volatility in credit, equity and foreign exchange markets. These conditions affect discretionary and leisure spending and could adversely affect our customers’ ability or willingness to travel to destinations for leisure and cutback on discretionary business travel, which could adversely affect our operating results. In addition, in a weakened economy, companies that have competing properties may reduce room rates and other prices which could also reduce our average revenues and harm our operating results.

*We operate a single property located in San Francisco and rely on the San Francisco market. Changes adversely impacting this market could have a material effect on our business, financial condition and results of operations.*

Our business has a limited base of operations and substantially all of our revenues are currently generated by the Hotel. Accordingly, we are subject to greater risks than a more diversified hotel or resort operator and the profitability of our operations is linked to local economic conditions in San Francisco. The combination of a decline in the local economy of San Francisco, reliance on a single location and the significant investment associated with it may cause our operating results to fluctuate significantly and may adversely affect us and materially affect our total profitability.

*We face intense local and increasingly national competition which could impact our operations and adversely affect our business and results of operations.*

We operate in the highly-competitive San Francisco hotel industry. The Hotel competes with other high-quality Northern California hotels and resorts. Many of these competitors seek to attract customers to their properties by providing food and beverage outlets, retail stores and other related amenities, in addition to hotel accommodations. To the extent that we seek to enhance our revenue base by offering our own various amenities, we compete with the service offerings provided by these competitors. Many of the competing properties have themes and attractions which draw a significant number of visitors and directly compete with our operations. Some of these properties are operated by subsidiaries or divisions of large public companies that may have greater name recognition and financial and marketing resources than we do and market to the same target demographic group as we do. Various competitors are expanding and renovating their existing facilities. We believe that competition in the San Francisco hotel and resort industry is based on certain property-specific factors, including overall atmosphere, range of amenities, price, location, technology infrastructure, entertainment attractions, theme and size. Any market perception that we do not excel with respect to such property-specific factors could adversely affect our ability to compete effectively. If we are unable to compete effectively, we could lose market share, which could adversely affect our business and results of operations.

*The San Francisco hotel and resort industry is capital intensive; financing our renovations and future capital improvements could reduce our cash flow and adversely affect our financial performance.*

The Hotel has an ongoing need for renovations and other capital improvements to remain competitive, including replacement, from time to time, of furniture, fixtures and equipment. We will also need to make capital expenditures to comply with applicable laws and regulations.

Renovations and other capital improvements of hotels require significant capital expenditures. In addition, renovations and capital improvements of hotels usually generate little or no cash flow until the project's completion. We may not be able to fund such projects solely from cash provided from our operating activities. Consequently, we will rely upon the availability of debt or equity capital and reserve funds to fund renovations and capital improvements and our ability to carry them out will be limited if we cannot obtain satisfactory debt or equity financing, which will depend on, among other things, market conditions. No assurances can be made that we will be able to obtain additional equity or debt financing or that we will be able to obtain such financing on favorable terms.

Renovations and other capital improvements may give rise to the following additional risks, among others: construction cost overruns and delays; increased prices of materials due to tariffs; temporary closures of all or a portion of the Hotel to customers; disruption in service and room availability causing reduced demand, occupancy and rates; and possible environmental issues.

As a result, renovations and any other future capital improvement projects may increase our expenses, reduce our cash flows and our revenues. If capital expenditures exceed our expectations, this excess would have an adverse effect on our available cash.

*We have substantial debt, and we may incur additional indebtedness, which may negatively affect our business and financial results.*

We have substantial debt service obligations. Our substantial debt may negatively affect our business and operations in several ways, including: requiring us to use a substantial portion of our funds from operations to make required payments on principal and interest, which will reduce funds available for operations and capital expenditures, future business opportunities and other purposes; making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions; limiting our flexibility in planning for, or reacting to, changes in the business and the industry in which we operate; placing us at a competitive disadvantage compared to our competitors that have less debt; limiting our ability to borrow more money for operations, capital or to finance acquisitions in the future; and requiring us to dispose of assets, if needed, in order to make required payments of interest and principal.

*Our business model involves high fixed costs, including property taxes and insurance costs, which we may be unable to adjust in a timely manner in response to a reduction in our revenues.*

The costs associated with owning and operating the Hotel are significant. Some of these costs (such as property taxes and insurance costs) are fixed, meaning that such costs may not be altered in a timely manner in response to changes in demand for services. Failure to adjust our expenses may adversely affect our business and results of operations. Our real property taxes may increase as property tax rates change and as the values of properties are assessed and reassessed by tax authorities. Our real estate taxes do not depend on our revenues, and generally we could not reduce them other than by disposing of our real estate assets.

Insurance premiums have increased significantly in recent years, and continued escalation may result in our inability to obtain adequate insurance at acceptable premium rates. A continuation of this trend would appreciably increase the operating expenses of the Hotel. If we do not obtain adequate insurance, to the extent that any of the events not covered by an insurance policy materialize, our financial condition may be materially adversely affected.

In the future, our property may be subject to increases in real estate and other tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which could reduce our cash flow and adversely affect our financial performance. If our revenues decline and we are unable to reduce our expenses in a timely manner, our business and results of operations could be adversely affected.

*Risk of declining market values in marketable securities.*

The Company invests from time to time in marketable securities. As a result, the Company is exposed to market volatility in connection with these investments. The Company's financial position and financial performance could be adversely affected by worsening market conditions or sluggish performance of such investments.

*Illiquidity risk in nonmarketable securities*

Nonmarketable securities are, by definition, instruments that are not readily salable in the capital markets, and when sold are usually at a substantial discount. Thus, the holder is limited to return on investment from any income producing feature of the instrument, as any sale of such an instrument would be subject to a substantial discount. Thus, a holder may need to hold such instruments for long period of time and not be able to realize a return of their cash investment should there be a need to liquidate to obtain cash at any given time.

*Litigation and legal proceedings could expose us to significant liabilities and thus negatively affect our financial results.*

We are a party, from time to time, to various litigation claims and legal proceedings, government and regulatory inquiries and/or proceedings, including, but not limited to, intellectual property, premises liability and breach of contract claims. Material legal proceedings are described more fully in Note 17, Commitments and Contingencies, to our consolidated financial statements, included in Item 8 of this Annual Report on Form 10-K.

Litigation is inherently unpredictable, and defending these proceedings can result in significant ongoing expenditures and the diversion of our management's time and attention from the operation of our business, which could have a negative effect on our business operations. Our failure to successfully defend or settle any litigation or legal proceedings could result in liabilities that, to the extent not covered by our insurance, could have a material adverse effect on our financial condition, revenue and profitability.

*The threat of terrorism could adversely affect the number of customer visits to the Hotel.*

The threat of terrorism has caused, and may in the future cause, a significant decrease in customer visits to San Francisco due to disruptions in commercial and leisure travel patterns and concerns about travel safety. We cannot predict the extent to which disruptions in air or other forms of travel as a result of any further terrorist act, outbreak of hostilities or escalation of war would adversely affect our financial condition, results of operations or cash flows. The possibility of future attacks may hamper business and leisure travel patterns and, accordingly, the performance of our business and our operations.

*We depend in part, on third party management companies for the future success of our business and the loss of one or more of their key personnel could have an adverse effect on our ability to manage our business and operate successfully and competitively, or could be negatively perceived in the capital markets.*

The Hotel is managed by Interstate. Their ability to manage the Hotel and to operate successfully and competitively is dependent, in part, upon the efforts and continued service of their managers. The departure of key personnel of current or future management companies could have an adverse effect on our business and our ability to operate successfully and competitively, and it could be difficult to find replacements for these key personnel, as competition for such personnel is intense.

*Seasonality and other related factors such as weather can be expected to cause quarterly fluctuations in revenue at the Hotel.*

The hotel and resort industry are seasonal in nature. This seasonality can tend to cause quarterly fluctuations in revenues at the Hotel. Our quarterly earnings may also be adversely affected by other related factors outside our control, including weather conditions and poor economic conditions. As a result, we may have to enter into short-term borrowings in certain quarters in order to offset these quarterly fluctuations in our revenues.

*The hotel industry is heavily regulated and failure to comply with extensive regulatory requirements may result in an adverse effect on our business.*

The hotel industry is subject to extensive regulation and the Hotel must maintain its licenses and pay taxes and fees to continue operations. Our property is subject to numerous laws, including those relating to the preparation and sale of food and beverages, including alcohol. We are also subject to laws governing our relationship with our employees in such areas as minimum wage and maximum working hours, overtime, working conditions, hiring and firing employees and work permits. Also, our ability to remodel, refurbish or add to our property may be dependent upon our obtaining necessary building permits from local authorities. The failure to obtain any of these permits could adversely affect our ability to increase revenues and net income through capital improvements of our property. In addition, we are subject to the numerous rules and regulations relating to state and federal taxation. Compliance with these rules and regulations requires significant management attention. Furthermore, compliance costs associated with such laws, regulations and licenses are significant. Any change in the laws, regulations or licenses applicable to our business or a violation of any current or future laws or regulations applicable to our business or gaming license could require us to make substantial expenditures or could otherwise negatively affect our gaming operations. Any failure to comply with all such rules and regulations could subject us to fines or audits by the applicable taxation authority.

Violations of laws could result in, among other things, disciplinary action. If we fail to comply with regulatory requirements, this may result in an adverse effect on our business.

*Uninsured and underinsured losses could adversely affect our financial condition and results of operations.*

There are certain types of losses, generally of a catastrophic nature, such as earthquakes and floods or terrorist acts, which may be uninsurable or not economically insurable, or may be subject to insurance coverage limitations, such as large deductibles or co-payments. We will use our discretion in determining amounts, coverage limits, deductibility provisions of insurance and the appropriateness of self-insuring, with a view to maintaining appropriate insurance coverage on our investments at a reasonable cost and on suitable terms. Uninsured and underinsured losses could harm our financial condition and results of operations. We could incur liabilities resulting from loss or injury to the Hotel or to persons at the Hotel. Claims, whether or not they have merit, could harm the reputation of the Hotel or cause us to incur expenses to the extent of insurance deductibles or losses in excess of policy limitations, which could harm our results of operations.

In the event of a catastrophic loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in the Hotel, as well as the anticipated future revenue from the property. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the Hotel. In the event of a significant loss, our deductible may be high and we may be required to pay for all such repairs and, as a consequence, it could materially adversely affect our financial condition. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate the Hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed property.

It has generally become more difficult and expensive to obtain property and casualty insurance, including coverage for terrorism. When our current insurance policies expire, we may encounter difficulty in obtaining or renewing property or casualty insurance on our property at the same levels of coverage and under similar terms. Such insurance may be more limited and for some catastrophic risks (for example, earthquake, flood and terrorism) may not be generally available at current levels. Even if we are able to renew our policies or to obtain new policies at levels and with limitations consistent with our current policies, we cannot be sure that we will be able to obtain such insurance at premium rates that are commercially reasonable. If we were unable to obtain adequate insurance on the Hotel for certain risks, it could cause us to be in default under specific covenants on certain of our indebtedness or other contractual commitments that require us to maintain adequate insurance on the Hotel to protect against the risk of loss. If this were to occur, or if we were unable to obtain adequate insurance and the Hotel experienced damage which would otherwise have been covered by insurance, it could materially adversely affect our financial condition and the operations of the Hotel.

In addition, insurance coverage for the Hotel and for casualty losses does not customarily cover damages that are characterized as punitive or similar damages. As a result, any claims or legal proceedings, or settlement of any such claims or legal proceedings that result in damages that are characterized as punitive or similar damages may not be covered by our insurance. If these types of damages are substantial, our financial resources may be adversely affected.

*You may lose all or part of your investment.*

There is no assurance that the Company's initiatives to improve its profitability or liquidity and financial position will be successful. Accordingly, there is substantial risk that an investment in the Company will decline in value.

*The price of the Company's common stock may fluctuate significantly, which could negatively affect the Company and holders of its common stock.*

The market price of the Company's common stock may fluctuate significantly from time to time as a result of many factors, including: investors' perceptions of the Company and its prospects; investors' perceptions of the Company's and/or the industry's risk and return characteristics relative to other investment alternatives; difficulties between actual financial and operating results and those expected by investors and analysts; changes in our capital structure; trading volume fluctuations; actual or anticipated fluctuations in quarterly financial and operational results; volatility in the equity securities market; and sales, or anticipated sales, of large blocks of the Company's common stock.

*The concentrated beneficial ownership of our common stock and the ability it affords to control our business may limit or eliminate other shareholders' ability to influence corporate affairs.*

InterGroup owns more than 80% of the Company's outstanding common stock. Because of this concentrated stock ownership, the Company's largest shareholders will be in a position to significantly influence the election of the Company's board of directors and all other decisions on all matters requiring shareholder approval. As a result, the ability of other shareholders to determine the management and policies of the Company is significantly limited. The interests of these shareholders may differ from the interests of other shareholders with respect to the issuance of shares, business transactions with or sales to other companies, selection of officers and directors and other business decisions. This level of control may also have an adverse impact on the market value of our shares because our largest shareholders may institute or undertake transactions, policies or programs that may result in losses, may not take any steps to increase our visibility in the financial community and/or may sell sufficient numbers of shares to significantly decrease our price per share.

#### **Item 1B. Unresolved Staff Comments.**

None.

#### **Item 2. Properties.**

##### **SAN FRANCISCO HOTEL PROPERTY**

The Hotel is owned by the Partnership through its wholly-owned subsidiary, Justice Operating Company, LLC, a Delaware limited liability company ("Operating"). The Hotel is centrally located in 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 544 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 22,000 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.

The Partnership expects to expend at least 4% of gross annual Hotel revenues each year for capital improvements. In the opinion of management, the Hotel is adequately covered by insurance.

##### **HOTEL FINANCINGS**

On December 18, 2013: (i) 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 and the pay-off of the prior mortgage.

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. The term of the loan is ten years with interest only due in the first three years and principal and interest payments to be made during the remaining seven years of the loan based on a thirty-year amortization schedule. 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 are 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 Partnership is required to maintain a certain minimum net worth and liquidity. 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. Pursuant to the agreement, InterGroup is required to maintain a certain net worth and liquidity. As of June 30, 2019, InterGroup 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 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 two 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 Justice Holdings Company, LLC (“Holdings”) in connection with the redemption of limited partnership interests. The loan was extended to December 31, 2019. As of June 30, 2019, the balance of the loan was \$3,000,000.

In April 2017, Portsmouth obtained from InterGroup an unsecured short-term loan in the principal amount of \$1,000,000 at 5% per year fixed interest, with a term of five months and maturing September 6, 2017. Accrued interest and monthly principal installments in the amount of \$200,000 were due and payable commencing on May 1, 2017 and continuing on the first day of each calendar month thereafter, until five months after the date of the loan at which time any unpaid balance of principal and interest on the note was due and payable. The loan was extended to September 15, 2017 and paid off on September 13, 2017.

On July 31, 2019, Mezzanine refinanced the Mezzanine Loan by entering into a new mezzanine loan agreement (“New Mezzanine Loan Agreement”) with Cred Reit Holdco LLC in the amount of \$20,000,000. The prior Mezzanine Loan was paid off. Interest rate on the new mezzanine loan is 7.25% and the loan matures on January 1, 2024. Interest only payments are due monthly. See Note 18 – Subsequent Events.

## **INVESTMENT IN REAL ESATE**

The property owned and consolidated by the Company's 55.4% subsidiary, InterGroup Woodland Village, Inc. (“Woodland Village”), is a 27-unit apartment complex located Los Angeles, California. The Company's equity interest in Woodland Village was acquired on September 29, 1999 at a cost of \$4,075,000. For the year ended June 30, 2019, real estate property taxes were approximately \$66,000. Depreciation is recorded on the straight-line method based upon an estimated useful life of 40 years. In November 2010, Woodland Village refinanced its \$1,641,000 adjustable rate mortgage note payable on its 27-unit apartment building for a new 10-year fixed rate mortgage in the amount of \$3,260,000. The interest rate on the new loan is fixed at 4.85% per annum, with monthly principal and interest payments based on a 30-year amortization schedule. The note matures in December 2020. With the proceeds, Woodland Village loaned \$831,000 to Santa Fe and \$669,000 to InterGroup under the same terms. The intercompany loan balance of \$676,000 to Santa Fe was eliminated in consolidation. The loan balance of \$584,000 to InterGroup is included in other assets, net in the consolidated balance sheet. As of June 30, 2018, the outstanding mortgage balance was \$2,843,000. In July 2018, InterGroup obtained a revolving \$5,000,000 line of credit (“RLOC”) from CIBC Bank USA (“CIBC”). The RLOC carries a variable interest rate of 30-day LIBOR plus 3%. Interest is paid on a monthly basis. The RLOC and all accrued and unpaid interest are due in July 2019. On July 31, 2018, \$2,969,000 was drawn from the RLOC to pay off the mortgage and a new mortgage note payable was established at Woodland Village due to InterGroup for the amount drawn. The \$2,969,000 mortgage due to InterGroup carries same terms as InterGroup’s RLOC and is included in the mortgage notes payable – real estate in the consolidated balance sheet as of June 30, 2019. In July 2019, InterGroup obtained a modification from CIBC which increased its \$5,000,000 revolving line of credit by \$3,000,000 and extended the maturity date from July 24, 2019 to July 23, 2020. The \$2,969,000 mortgage due to InterGroup was also extended from July 24, 2019 to July 23, 2020.

The second Los Angeles property, which is wholly owned by the Company, is a two-story apartment building with 2 units. The property was acquired on February 1, 2002 at an initial cost of \$785,000. For the year ended June 30, 2019, 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 \$347,000 at June 30, 2019 and the maturity date of the mortgage is September 2042 and is collateralized by the property. The interest rate is fixed at 3.75%.

Both of the properties are managed in-house by the Company.

Woodland Village and Acanto lease units in the apartment buildings on a short-term basis, with no lease extending beyond one year. For the year ended June 30, 2019, the economic occupancy (gross potential less rent below market, vacancy loss, bad debt, discounts and concessions divided by gross potential rent) for Woodland Village and Acanto was 35% and 87%, respectively. The physical occupancy (gross potential rent less vacancy loss divided by gross potential rent) for the year ended June 30, 2019 for Woodland Village and Acanto was 51% and 89%, respectively.

In the opinion of management, both rental properties are adequately covered by insurance.

On August 29, 2007, the Board of Directors authorized an investment of \$973,000 for Portsmouth to acquire a 50% equity interest in InterGroup Uluniu, Inc., a Hawaii corporation (“Uluniu”) in a related party transaction. Uluniu was a 100% owned subsidiary of The InterGroup Corporation (“InterGroup”). Uluniu owns an approximately two-acre parcel of unimproved land located in Kihei, Maui, Hawaii which is held for development. The Company’s investment in Uluniu represents an amount equal to the costs paid by InterGroup for the acquisition and carrying costs of the property. The fairness of the financial terms of the transaction were reviewed and approved by the independent director of the Company.

Uluniu has engaged the services of certain professionals to develop the property. After the completion of this predevelopment phase, Uluniu will determine whether it is more advantageous to sell the entitled property or to commence with construction.

### **Item 3. Legal Proceedings.**

In April 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 alleged legal malpractice against the Respondents and sought declaratory relief regarding provisions of the option agreement in the redemption transaction and regarding the engagement letter with Respondents. Prior to arbitration proceedings, the parties agreed in principle to settle the matter, and entered into a settlement agreement and mutual general release in April 2018. The Respondents agreed to pay \$8,300,000 to the Partnership, which was received in May 2018. For the fiscal year ended June 30, 2018, \$5,575,000 was recorded as a recovery of legal settlement cost and \$2,725,000 was recorded as a reduction of legal expense.

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. 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.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### MARKET INFORMATION

Santa Fe's common stock is traded on OTC Market, Inc.'s Pink tier under the symbol SFEF. The following table sets forth the range of the high and low bid quotations as reported by OTC Market, Inc. for Santa Fe's common stock for each full quarterly period for the years ended June 30, 2019 and 2018. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

|                                | Fiscal 2019 | High     | Low      |
|--------------------------------|-------------|----------|----------|
| First Quarter (7/ 1 to 9/30)   |             | \$ 37.00 | \$ 34.45 |
| Second Quarter (10/1 to 12/31) |             | \$ 38.00 | \$ 37.00 |
| Third Quarter (1/1 to 3/31)    |             | \$ 38.00 | \$ 35.00 |
| Fourth Quarter (4/1 to 6/30)   |             | \$ 35.50 | \$ 34.50 |
|                                | Fiscal 2018 | High     | Low      |
| First Quarter (7/ 1 to 9/30)   |             | \$ 34.05 | \$ 30.50 |
| Second Quarter (10/1 to 12/31) |             | \$ 34.00 | \$ 31.01 |
| Third Quarter (1/1 to 3/31)    |             | \$ 35.50 | \$ 32.50 |
| Fourth Quarter (4/1 to 6/30)   |             | \$ 36.00 | \$ 34.45 |

As of June 30, 2019, the number of holders of record of the Company's Common Stock was approximately 121. 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 the names of various brokers, clearing agencies or other nominees.

#### Dividends

On February 1, 2000, the Board of Directors of the Company determined that it did not foresee the Company paying any cash dividends on its Common Stock in the immediate future. Instead, it is the intent of the Company to deploy its capital in a manner to increase its operating and investment activities.

#### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Santa Fe has no securities authorized for issuance under equity compensation plans.

#### PURCHASES OF EQUITY SECURITIES

Santa Fe did not repurchase any of its own securities during the fourth quarter of its fiscal year ending June 30, 2019 and does not have any publicly announced repurchase program.

#### Item 6. Selected Financial Data.

Not required for smaller reporting companies.

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

#### RESULTS OF OPERATIONS

The Company's principal sources of revenue continue to be derived from the investment of its 68.8% owned subsidiary, Portsmouth, in the Justice Investors limited partnership ("Justice" or the "Partnership"), rental income from its investments in multi-family real estate properties and income received from investment of its cash and securities assets. Justice owns a 544-room hotel property located at 750 Kearny Street, San Francisco, California 94108, known as the "Hilton San Francisco Financial District" (the "Hotel" or the "Property") 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 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 reopening date, upon completion of a major renovation, 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 incentive of \$4,750,000 was 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 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 the 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.

In addition to the operations of the Hotel, the Company also generates income from the ownership and management of real estate. On December 31, 1997, the Company acquired a controlling 55.4% interest in InterGroup Woodland Village, Inc. (“Woodland Village”) from InterGroup. Woodland Village's major asset is a 27-unit apartment complex located in Los Angeles, California. The Company also owns a two-unit apartment building in Los Angeles, California.

#### Fiscal Year Ended June 30, 2019 Compared to Fiscal Year Ended June 30, 2018

The Company had a net income of \$4,264,000 for the year ended June 30, 2019 compared to a net income of \$3,418,000 for the year ended June 30, 2018. The increase in net income is primarily attributable to decrease in provision for income taxes and increase in revenue, offset by increased costs and expenses.

#### Hotel Operations

The Company had net income from Hotel operations of \$4,978,000 for the year ended June 30, 2019 compared to net income of \$12,359,000 for the year ended June 30, 2018. The decrease in net income was primarily attributable to the \$8,300,000 settlement proceeds received related to the Glaser matter which was credited to operating expenses and restructuring costs in fiscal year 2018.

The following table sets forth a more detailed presentation of Hotel operations for the years ended June 30, 2019 and 2018.

| <b>For the year ended June 30,</b>   | <b>2019</b>         | <b>2018</b>          |
|--|---------------------|----------------------|
| Hotel revenues:  |                     |                      |
| Hotel rooms  | \$ 51,243,000       | \$ 46,475,000        |
| Food and beverage  | 5,353,000           | 7,222,000            |
| Garage   | 2,875,000           | 3,011,000            |
| Other operating departments  | 410,000             | 391,000              |
| Total hotel revenues   | 59,881,000          | 57,099,000           |
| Operating expenses, excluding non-recurring charges, interest, depreciation and amortization | (44,466,000)        | (40,103,000)         |
| Operating income before non-recurring charges, interest, depreciation and amortization       | 15,415,000          | 16,996,000           |
| Recovery of legal settlement costs   | -                   | 5,775,000            |
| Income before interest, depreciation and amortization  | 15,415,000          | 22,771,000           |
| Loss on disposal of assets   | (398,000)           | -                    |
| Interest expense – mortgage  | (7,634,000)         | (7,806,000)          |
| Depreciation and amortization expense  | (2,405,000)         | (2,606,000)          |
| Net income from Hotel operations   | <u>\$ 4,978,000</u> | <u>\$ 12,359,000</u> |

For the year ended June 30, 2019, the Hotel generated operating income of \$15,415,000 before non-recurring charges, interest, depreciation, and amortization on total operating revenues of \$59,881,000 compared to operating income of \$16,996,000 before non-recurring charges, interest, depreciation, and amortization on total operating revenues of \$57,099,000 for the year ended June 30, 2018. Room revenues increased by \$4,768,000 for the year ended June 30, 2019 compared to the year ended June 30, 2018 primarily as a result of increased occupancy due to changes of our sales strategy along with maximizing midweek rate by limiting group business over peak days. The Hotel focused on sellout efficiency specifically on shoulder days and months. Food and beverage revenue decreased by \$1,869,000 for the year ended June 30, 2019 compared to the year ended June 30, 2018 primarily due to the strategy of capturing higher rated transient rooms midweek and limiting group discounted business offered which reduced the number of banquet events.

Operating expenses increased by \$4,363,000 for the year ended June 30, 2019 to \$44,466,000 compared to the year ended June 30, 2018 of \$40,103,000 primarily due to the receipt of settlement proceeds related to the Glaser matter in fiscal year 2018. Settlement proceeds of \$8,300,000 were received during fiscal year ended June 30, 2018, of which \$2,725,000 was credited to legal expense. Rooms department operating expenses also increased in fiscal year 2019 by \$1,198,000 primarily due to increased group commissions and labor costs as occupancy increased.

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, 2019 and 2018.

| <b>For the Year<br/>Ended June 30,</b> | <b>Average<br/>Daily Rate</b> | <b>Average<br/>Occupancy %</b> | <b>RevPAR</b> |
|--|-------------------------------|--------------------------------|---------------|
| <b>2019</b>                            | \$ 268                        | 96%                            | \$ 257        |
| <b>2018</b>                            | \$ 250                        | 94%                            | \$ 235        |

The Hotel was able to grow occupancy while increasing rate resulting in a 9% RevPAR growth, far exceeding market performance. The Hotel successfully grew midweek rate while slightly increasing occupancy in a market that is seeing occupancy declines.

We believe that enhancing the Hotel’s technology is critical to remain competitive in the market place and to that end, we are currently working with all Hilton approved vendors to upgrade all technical aspects of the Hotel. Implementation of state-of-the-art systems such as the new internet system from Cisco and 4K smart televisions that are in every room and common areas will set us apart from our competitors. We have made ten additional rooms available by eliminating the Justice administrative office from the Hotel and relocating the accounting department to administrative space and eliminated the unprofitable Wellness Center that was added by previous management. We anticipate that the additional ten rooms will be placed into service within the fiscal year ending June 30, 2020 as design delays pushed the project into our next fiscal year. Additionally, the fitness center which is occupying the equivalent of five rooms and the executive lounge which is occupying the equivalent of three rooms, will be relocated to a different area within the Hotel. The eight equivalent rooms will be placed back into service. Part of this renovation will be funded by the Hotel’s furniture, fixture and equipment reserve account with our lender as well as the \$2,000,000 key money incentive provided by Interstate. Lastly, we anticipate the completion of the installation of a complete exterior building maintenance system by the end of our quarter ending December 31, 2019 which will enable periodic window washing.

#### **Real Estate Operations**

The Company had net loss from real estate operations of \$234,000 for the year ended June 30, 2019 compared to net loss of \$50,000 for the year ended June 30, 2018. The increase in net loss is primarily due to increased interest expense. Real estate operating expenses increased by \$25,000 for the same comparable fiscal years as the result of higher legal expenses. Management continues to review and analyze the Company’s real estate operations to improve occupancy and rental rates, reduce expenses and improve efficiencies.

#### **Investment Transactions**

The Company had a net loss on marketable securities of \$575,000 for the year ended June 30, 2019 compared to a net loss on marketable securities of \$1,072,000 for the year ended June 30, 2018. For the year ended June 30, 2019, the Company had an unrealized loss of \$187,000 related to the Company’s investment in the common stock of Comstock Mining Inc. (“Comstock” - NYSE MKT: LODE). For the year ended June 30, 2018, the Company had an unrealized loss of \$1,729,000 related to the Company’s investment in the common stock of Comstock. As of June 30, 2019 and 2018, such investments represent approximately 19% and 16%, respectively, of the Company’s investment portfolio. For the year ended June 30, 2019, the Company had a net realized loss of \$75,000 and a net unrealized loss of \$500,000. For the year ended June 30, 2018, the Company had a net realized gain of \$314,000 and a net unrealized loss of \$1,386,000. 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.

During the years ended June 30, 2019 and 2018, the Company performed an impairment analysis of its other investments and determined that its investments had other than temporary impairment and recorded impairment losses of \$61,000 and \$124,000, respectively.

The Company and its subsidiary, Portsmouth, compute and file income tax returns and prepare discrete income tax provisions for financial reporting. The income tax benefit (expense) during the years ended June 30, 2019 and 2018 includes the income tax effect on Portsmouth's pretax income which includes its share in net income of the Hotel.

#### MARKETABLE SECURITIES AND OTHER INVESTMENTS

As of June 30, 2019 and 2018, the Company had investments in marketable equity securities of \$2,679,000 and \$4,439,000, respectively. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups:

| <b>As of June 30, 2019</b>      |                     | <b>% of Total</b> |
|---------------------------------|---------------------|-------------------|
| <b>Industry Group</b>           | <b>Fair Value</b>   | <b>Investment</b> |
|                                 |                     | <b>Securities</b> |
| REITs and real estate companies | \$ 816,000          | 30.5%             |
| Consumer cyclical               | 636,000             | 23.7%             |
| Basic materials                 | 537,000             | 20.0%             |
| Financial services              | 331,000             | 12.4%             |
| Other                           | 359,000             | 13.4%             |
|                                 | <u>\$ 2,679,000</u> | <u>100.0%</u>     |

  

| <b>As of June 30, 2018</b>      |                     | <b>% of Total</b> |
|---------------------------------|---------------------|-------------------|
| <b>Industry Group</b>           | <b>Fair Value</b>   | <b>Investment</b> |
|                                 |                     | <b>Securities</b> |
| REITs and real estate companies | \$ 1,484,000        | 33.4%             |
| Healthcare                      | 838,000             | 18.9%             |
| Basic materials                 | 698,000             | 15.7%             |
| Technology                      | 639,000             | 14.4%             |
| Other                           | 780,000             | 17.6%             |
|                                 | <u>\$ 4,439,000</u> | <u>100.0%</u>     |

As of June 30, 2019, the Company's investment portfolio is diversified with 13 different equity positions. The Company holds five equity securities that comprised more than 10% of the equity value of the portfolio. The largest security position represents 19% of the portfolio and consists of the common stock of Comstock which is included in the basic materials industry group.

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.

| <b>For the years ended June 30,</b>      | <b>2019</b>         | <b>2018</b>           |
|--|---------------------|-----------------------|
| Net loss on marketable securities        | \$ (575,000)        | \$ (1,072,000)        |
| Net unrealized loss on other investments | -                   | (21,000)              |
| Impairment loss on other investments     | (61,000)            | (124,000)             |
| Dividend and interest income             | 198,000             | 61,000                |
| Margin interest expense                  | (139,000)           | (163,000)             |
| Trading expenses                         | (197,000)           | (182,000)             |
|  | <u>\$ (774,000)</u> | <u>\$ (1,501,000)</u> |

## FINANCIAL CONDITION AND LIQUIDITY

The Company's cash flows are primarily generated from its Hotel operations and general partner management fees from Justice Investors. 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. 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 31, 2019, Mezzanine refinanced the Mezzanine Loan by entering into a new mezzanine loan agreement ("New Mezzanine Loan Agreement") with Cred Reit Holdco LLC in the amount of \$20,000,000. The prior Mezzanine Loan was paid off. Interest rate on the new mezzanine loan is 7.25% and the loan matures on January 1, 2024. Interest only payments are due monthly. See Note 18 – Subsequent Events.

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 proceeds of the loan were applied to the July 2014 payments to Justice Holdings Company, LLC ("Holdings") in connection with the redemption of limited partnership interests. The loan has a balance of \$3,000,000 as of June 30, 2019 and was extended to December 31, 2019. During the fiscal year ended June 30, 2018, the Partnership made principal paydown of \$1,250,000.

In April 2017, Portsmouth obtained from InterGroup an unsecured short-term loan in the principal amount of \$1,000,000 at 5% per year fixed interest, with a term of five months and maturing September 6, 2017. Accrued interest and monthly principal installments in the amount of \$200,000 were due and payable commencing on May 1, 2017 and continuing on the first day of each calendar month thereafter, until five months after the date of the loan at which time any unpaid balance of principal and interest on the note was due and payable. The 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 those assets and 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 of the Company's material financial obligations which also includes interest.

|                                       | <u>Total</u>          | <u>Year 1</u>        | <u>Year 2</u>       | <u>Year 3</u>       | <u>Year 4</u>       | <u>Year 5</u>         | <u>Thereafter</u>   |
|---------------------------------------|-----------------------|----------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|
| Mortgage notes payable                | \$ 117,061,000        | \$ 4,431,000         | \$ 1,557,000        | \$ 1,642,000        | \$ 1,732,000        | \$ 107,404,000        | \$ 295,000          |
| Related party and other notes payable | 9,707,000             | 3,980,000            | 1,006,000           | 1,022,000           | 744,000             | 567,000               | 2,388,000           |
| Interest                              | 28,843,000            | 6,767,000            | 6,407,000           | 6,295,000           | 6,184,000           | 3,078,000             | 112,000             |
| Total                                 | <u>\$ 155,611,000</u> | <u>\$ 15,178,000</u> | <u>\$ 8,970,000</u> | <u>\$ 8,959,000</u> | <u>\$ 8,660,000</u> | <u>\$ 111,049,000</u> | <u>\$ 2,795,000</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 Interstate 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.

## 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 ongoing basis, including those related to the consolidation of our subsidiaries, to our revenues, allowances for bad debts, accruals, asset impairments, other investments, income taxes and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions.

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

Not required for smaller reporting companies.

### Item 8. Financial Statements and Supplementary Data

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of  
Santa Fe Financial Corporation

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of Santa Fe Financial Corporation and its subsidiaries (the “Company”) as of June 30, 2019 and 2018, the related consolidated statements of operations, shareholders’ deficit and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2019 and 2018, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### *Changes in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2018 the Company changed its method of accounting for revenue recognition due to the adoption of Accounting Standards Codification Topic No. 606.

The Company adopted ASU 2016-18, Restricted Cash, 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.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Irvine, California  
August 30, 2019

We have served as the Company’s auditor since 2017.

**SANTA FE FINANCIAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

| <b>As of June 30,</b>   | <u><b>2019</b></u>          | <u><b>2018</b></u>          |
|---|-----------------------------|-----------------------------|
| <b>ASSETS</b>   |                             |                             |
| Investment in Hotel, net  | \$ 36,336,000               | \$ 37,359,000               |
| Investment in real estate, net  | 4,866,000                   | 4,961,000                   |
| Investment in marketable securities                                     | 2,679,000                   | 4,439,000                   |
| Other investments, net  | 351,000                     | 474,000                     |
| Cash and cash equivalents   | 9,800,000                   | 7,647,000                   |
| Restricted cash   | 11,027,000                  | 7,119,000                   |
| Accounts receivable - Hotel, net  | 848,000                     | 1,799,000                   |
| Other assets, net   | 1,643,000                   | 1,546,000                   |
| Deferred tax assets   | <u>6,402,000</u>            | <u>5,159,000</u>            |
| <b>Total assets</b>   | <u><b>\$ 73,952,000</b></u> | <u><b>\$ 70,503,000</b></u> |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>                            |                             |                             |
| <b>Liabilities:</b>   |                             |                             |
| Accounts payable and other liabilities                                  | \$ 16,765,000               | \$ 15,017,000               |
| Due to securities broker  | 396,000                     | 1,068,000                   |
| Obligations for securities sold   | 625,000                     | 919,000                     |
| Related party and other notes payable                                   | 8,221,000                   | 8,641,000                   |
| Capital leases  | 1,486,000                   | 1,355,000                   |
| Mortgage notes payable - real estate                                    | 3,315,000                   | 3,188,000                   |
| Mortgage notes payable - Hotel  | <u>113,087,000</u>          | <u>114,372,000</u>          |
| <b>Total liabilities</b>  | <u><b>143,895,000</b></u>   | <u><b>144,560,000</b></u>   |
| Commitments and contingencies (Note 17)                                 |                             |                             |
| <b>Shareholders' deficit:</b>   |                             |                             |
| Common stock - par value \$.10 per share;                               |                             |                             |
| Authorized - 2,000,000;   |                             |                             |
| Issued 1,339,638 and outstanding 1,241,810 as of June 30, 2019 and 2018 |                             |                             |
|   | 134,000                     | 134,000                     |
| Additional paid-in capital  | 8,808,000                   | 8,808,000                   |
| Accumulated deficit   | (54,183,000)                | (57,442,000)                |
| Treasury stock, at cost, 97,828 shares as of June 30, 2019 and 2018     | <u>(951,000)</u>            | <u>(951,000)</u>            |
| <b>Total Santa Fe shareholders' deficit</b>                             | <u><b>(46,192,000)</b></u>  | <u><b>(49,451,000)</b></u>  |
| Noncontrolling interest   | <u>(23,751,000)</u>         | <u>(24,606,000)</u>         |
| <b>Total shareholders' deficit</b>                                      | <u><b>(69,943,000)</b></u>  | <u><b>(74,057,000)</b></u>  |
| <b>Total liabilities and shareholders' deficit</b>                      | <u><b>\$ 73,952,000</b></u> | <u><b>\$ 70,503,000</b></u> |

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

**SANTA FE FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the years ended June 30,**

|  | <b>2019</b>         | <b>2018</b>         |
|--|---------------------|---------------------|
| <b>Revenues:</b>   |                     |                     |
| Hotel  | \$ 59,881,000       | \$ 57,099,000       |
| Real estate  | 324,000             | 335,000             |
| <b>Total revenues</b>  | <b>60,205,000</b>   | <b>57,434,000</b>   |
| <b>Costs and operating expenses:</b>                               |                     |                     |
| Hotel operating expenses   | (44,466,000)        | (40,103,000)        |
| Recovery of legal settlement costs                                 | -                   | 5,775,000           |
| Real estate operating expenses                                     | (218,000)           | (193,000)           |
| Depreciation and amortization expense                              | (2,515,000)         | (2,711,000)         |
| General and administrative expense                                 | (1,115,000)         | (1,404,000)         |
| <b>Total costs and operating expenses</b>                          | <b>(48,314,000)</b> | <b>(38,636,000)</b> |
| <b>Income from operations</b>                                      | <b>11,891,000</b>   | <b>18,798,000</b>   |
| <b>Other income (expense):</b>                                     |                     |                     |
| Interest expense - mortgage  | (7,864,000)         | (7,893,000)         |
| Loss on disposal of assets   | (398,000)           | -                   |
| Net loss on marketable securities                                  | (575,000)           | (1,072,000)         |
| Net unrealized loss on other investments                           | -                   | (21,000)            |
| Impairment loss on other investments                               | (61,000)            | (124,000)           |
| Dividend and interest income                                       | 198,000             | 61,000              |
| Trading and margin interest expense                                | (336,000)           | (345,000)           |
| <b>Net other expense</b>   | <b>(9,036,000)</b>  | <b>(9,394,000)</b>  |
| <b>Income before income taxes</b>                                  | <b>2,855,000</b>    | <b>9,404,000</b>    |
| <b>Income tax benefit (expense)</b>                                | <b>1,409,000</b>    | <b>(5,986,000)</b>  |
| <b>Net income</b>  | <b>4,264,000</b>    | <b>3,418,000</b>    |
| Less: Net income attributable to the noncontrolling interest       | (1,005,000)         | (1,922,000)         |
| <b>Net income attributable to Santa Fe</b>                         | <b>\$ 3,259,000</b> | <b>\$ 1,496,000</b> |
| <b>Basic and diluted income per share attributable to Santa Fe</b> | <b>\$ 2.62</b>      | <b>\$ 1.20</b>      |
| <b>Weighted average number of common shares outstanding</b>        | <b>1,241,810</b>    | <b>1,241,810</b>    |

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



**SANTA FE FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT**

|                                     | Common Stock |            | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Treasury<br>Stock | Total<br>Santa Fe<br>Shareholders'<br>Deficit | Noncontrolling<br>Interest | Total<br>Shareholders'<br>Deficit |
|-------------------------------------|--------------|------------|----------------------------------|------------------------|-------------------|---|----------------------------|-----------------------------------|
|                                     | Shares       | Amount     |                                  |                        |                   |   |                            |                                   |
| <b>Balance at July 1,<br/>2017</b>  | 1,339,638    | 134,000    | 8,808,000                        | (58,938,000)           | (951,000)         | (50,947,000)                                  | (26,528,000)               | (77,475,000)                      |
| Net income                          | -            | -          | -                                | 1,496,000              | -                 | 1,496,000                                     | 1,922,000                  | 3,418,000                         |
| <b>Balance at June 30,<br/>2018</b> | 1,339,638    | \$ 134,000 | \$ 8,808,000                     | \$ (57,442,000)        | \$ (951,000)      | \$ (49,451,000)                               | \$ (24,606,000)            | \$ (74,057,000)                   |
| Net income                          | -            | -          | -                                | 3,259,000              | -                 | 3,259,000                                     | 1,005,000                  | 4,264,000                         |
| Investment in Justice               | -            | -          | -                                | -                      | -                 | -   | (150,000)                  | (150,000)                         |
| <b>Balance at June 30,<br/>2019</b> | 1,339,638    | \$ 134,000 | \$ 8,808,000                     | \$ (54,183,000)        | \$ (951,000)      | \$ (46,192,000)                               | \$ (23,751,000)            | \$ (69,943,000)                   |

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

**SANTA FE FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <b>For the years ended June 30,</b>   | <b>2019</b>           | <b>2018</b>           |
|---|-----------------------|-----------------------|
| <b>Cash flows from operating activities:</b>                                      |                       |                       |
| Net Income  | \$ 4,264,000          | \$ 3,418,000          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                       |                       |
| Net unrealized loss on marketable securities                                      | 500,000               | 1,386,000             |
| Unrealized loss on other investments  | -                     | 21,000                |
| Deferred tax asset  | (1,243,000)           | 5,768,000             |
| Impairment loss on other investments  | 61,000                | 124,000               |
| Loss on disposal of assets  | 398,000               | -                     |
| Depreciation and amortization   | 2,289,000             | 2,433,000             |
| Changes in assets and liabilities:  |                       |                       |
| Investment in marketable securities   | 1,260,000             | 49,000                |
| Accounts receivable - hotel, net  | 951,000               | (363,000)             |
| Other assets, net   | (97,000)              | 137,000               |
| Accounts payable and other liabilities  | 1,748,000             | (2,385,000)           |
| Due to securities broker  | (672,000)             | 63,000                |
| Obligations for securities sold   | (294,000)             | (352,000)             |
| Net cash provided by operating activities   | <u>9,165,000</u>      | <u>10,299,000</u>     |
| <b>Cash flows from investing activities:</b>                                      |                       |                       |
| Hotel and real estate investments   | (1,413,000)           | (270,000)             |
| Proceeds from other investments   | 62,000                | 77,000                |
| Investment in Justice   | (150,000)             | -                     |
| Net cash used in investing activities   | <u>(1,501,000)</u>    | <u>(193,000)</u>      |
| <b>Cash flows from financing activities:</b>                                      |                       |                       |
| Net payments of mortgage and other notes payable                                  | (1,603,000)           | (2,610,000)           |
| Net cash used in financing activities   | <u>(1,603,000)</u>    | <u>(2,610,000)</u>    |
| <b>Net increase in cash, cash equivalents and restricted cash:</b>                | <b>6,061,000</b>      | <b>7,496,000</b>      |
| Cash, cash equivalents and restricted cash at the beginning of the year           | 14,766,000            | 7,270,000             |
| Cash, cash equivalents and restricted cash at the end of the year                 | <u>\$ 20,827,000</u>  | <u>\$ 14,766,000</u>  |
| Supplemental information:   |                       |                       |
| Income tax payment  | \$ (50,000)           | \$ (28,000)           |
| Interest paid   | <u>\$ (7,963,000)</u> | <u>\$ (8,056,000)</u> |
| Non-cash transactions:  |                       |                       |
| Additions to Hotel equipment through capital lease                                | \$ 382,000            | \$ 1,364,000          |

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

**SANTA FE FINANCIAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Santa Fe Financial Corporation, a Nevada corporation, ("Santa Fe" or the "Company") owns approximately 68.8% of the outstanding common shares of Portsmouth Square, Inc. ("Portsmouth"), a public company. Santa Fe is an 82.2%-owned subsidiary of The InterGroup Corporation ("InterGroup"), a public company. InterGroup also directly owns approximately 13.4% of the common stock of Portsmouth, a public company. 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 93.3% limited partnership interest in Justice and is the sole general partner.

Justice, through its subsidiaries Justice Operating Company, LLC ("Operating") and Justice Mezzanine Company, LLC ("Mezzanine"), 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. Kearny Street Parking LLC ("Parking") is the operator of the garage. Mezzanine is a wholly-owned subsidiary 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). Justice had a ten-year management agreement with Prism Hospitality L.P. ("Prism") to perform certain management functions for the Hotel. Prism's management agreement was terminated upon its expiration date of February 3, 2017. Effective December 1, 2013, GMP Management, Inc. ("GMP"), a company owned by a Justice limited partner and a related party, also provided management services for the Partnership pursuant to a management services agreement, with a three-year term, subject to the Partnership's right to terminate earlier for cause. In June 2016, GMP resigned. 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 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 the 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 form of a self-exhausting, interest free note payable in the amount of \$2,000,000 in a separate key money agreement. The \$2,000,000 is included in restricted cash balances in the consolidated balance sheets as of June 30, 2019 and 2018. As of June 30, 2019 and 2018, unamortized portion of the key money was \$1,896,000 and \$2,000,000, respectively, and are included in related party and other notes payable in the consolidated balance sheets.

In addition to the operations of the Hotel, the Company also generates revenue from the ownership and management of real estate. On December 31, 1997, the Company acquired a controlling 55.4% interest in InterGroup Woodland Village, Inc. ("Woodland Village") from InterGroup. Woodland Village's major asset is a 27-unit apartment complex located in Los Angeles, California. The Company also owns a two-unit apartment building in Los Angeles, California.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company, Portsmouth and Woodland Village. All significant inter-company transactions and balances have been eliminated.

**Investment in Hotel, net**

Property and equipment are stated at cost. Building improvements are depreciated on a straight-line basis over their useful lives ranging from 3 to 39 years. Furniture, fixtures, and equipment are 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 in accordance with generally accepted accounting principles ("GAAP"). 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, 2019 and 2018.

**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, 2019 and 2018.

**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) and non-marketable warrants (carried at fair value). 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, 2019 and 2018, the Company recorded impairment losses related to other investments of \$61,000 and \$124,000, respectively. As of June 30, 2019 and 2018, the allowance for impairment losses was \$3,894,000 and \$3,833,000, respectively.

**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. As of June 30, 2019 and 2018, the Company does not have any cash equivalents.

**Restricted Cash**

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

**Accounts Receivable - Hotel, net**

Accounts receivable from Hotel 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 Partnership extends unsecured credit to its customers but mitigates the associated credit risk by performing ongoing credit evaluations of its customers.

**Other Assets, net**

Other assets include prepaid insurance, accounts receivable, franchise fees, and other miscellaneous assets. Franchise fees are stated at cost and amortized over the life of the agreement (15 years).

**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.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act significantly revises the future ongoing corporate income tax by, among other things, lowering corporate income tax rates. As the Company has a June 30 fiscal year-end, the lower corporate income tax rate was phased in, resulting in a statutory federal rate of approximately 28% for our fiscal year ending June 30, 2018, and 21% for subsequent fiscal years. The decrease in corporate tax rate reduced the Company’s deferred tax asset to the lower federal base rate of 21%. As a result, a provisional net charge of \$2,723,000 was included in the income tax expense for the year ended June 30, 2018.

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.

#### **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 statement of operations.

#### **Accounts Payable and Other Liabilities**

Accounts payable and other liabilities include trade payables, advance customer deposits, accrued wages, accrued real estate taxes, and other liabilities.

#### **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.

#### **Treasury Stock**

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

#### **Revenue Recognition**

On July 1, 2018, we adopted ASC 606, *Revenue from Contracts with Customers*, 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. See Note 2 – Revenue.

## Advertising Costs

Advertising costs are expensed as incurred and are included in Hotel operating expenses in the consolidated statements of operations. Advertising costs were \$282,000 and \$302,000 for the years ended June 30, 2019 and 2018, respectively.

## Basic and Diluted Loss per Share

Basic loss per share is calculated based upon the weighted average number of common shares outstanding during each fiscal year. As of June 30, 2019 and 2018, the Company did not have any potentially dilutive securities outstanding.

## 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 the recording of allowance for doubtful accounts and allowance for impairment losses which are based on management's assessment of the collectability of accounts receivable and the fair market value of nonmarketable securities, respectively, as of the end of the fiscal year. Actual results may differ from those estimates.

## Debt Issuance Costs

Debt issuance costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of the debt liability and are amortized over the life of the debt. Loan amortization costs are included in interest expense in the consolidated statement of operations.

## Recent Accounting Pronouncements

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 consolidated financial statements. See Note 2 - Revenue.

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 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 adopted ASU 2016-02 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

Our revenue from real estate is primarily rental income from residential property leases which is recorded when due from residents and is recognized monthly as earned. The following table present our Hotel revenue disaggregated by revenue streams.

| For the year ended June 30, | 2019                 | 2018                 |
|-----------------------------|----------------------|----------------------|
| Hotel revenues:             |                      |                      |
| Hotel rooms                 | \$ 51,243,000        | \$ 46,475,000        |
| Food and beverage           | 5,353,000            | 7,222,000            |
| Garage                      | 2,875,000            | 3,011,000            |
| Other operating departments | 410,000              | 391,000              |
| Total Hotel revenue         | <u>\$ 59,881,000</u> | <u>\$ 57,099,000</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 June 30, 2019 and 2018, other than trade and other receivables, net on our 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 consolidated balance sheets. Contract liabilities increased to \$1,215,000 as of June 30, 2019 from \$571,000 as of June 30, 2018. The increase for the fiscal year ended June 30, 2019 was primarily driven by deposits received from upcoming groups, offset by \$563,000 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 - JUSTICE INVESTORS

Justice Investors Limited Partnership, a California limited partnership (“Justice” or the “Partnership”), was formed in 1967 to acquire real property in San Francisco, California, for the development and lease of the Hotel and related facilities. The Partnership has one general partner, Portsmouth Square, Inc., a California corporation (“Portsmouth”) and approximately 23 voting limited partners, including Portsmouth.

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 property in excess of the net book value to support additional borrowings, if necessary.

### NOTE 4 – INVESTMENT IN HOTEL, NET

Investment in Hotel consisted of the following as of:

|                           | <u>Cost</u>          | <u>Accumulated<br/>Depreciation</u> | <u>Net Book<br/>Value</u> |
|---------------------------|----------------------|-------------------------------------|---------------------------|
| <b>June 30, 2019</b>      |                      |                                     |                           |
| Land                      | \$ 1,896,000         | \$ -                                | \$ 1,896,000              |
| Furniture and equipment   | 31,106,000           | (26,876,000)                        | 4,230,000                 |
| Building and improvements | 59,341,000           | (29,131,000)                        | 30,210,000                |
|                           | <u>\$ 92,343,000</u> | <u>\$ (56,007,000)</u>              | <u>\$ 36,336,000</u>      |
| <b>June 30, 2018</b>      |                      |                                     |                           |
| Land                      | \$ 1,896,000         | \$ -                                | \$ 1,896,000              |
| Furniture and equipment   | 29,350,000           | (25,877,000)                        | 3,473,000                 |
| Building and improvements | 59,798,000           | (27,808,000)                        | 31,990,000                |
|                           | <u>\$ 91,044,000</u> | <u>\$ (53,685,000)</u>              | <u>\$ 37,359,000</u>      |

### NOTE 5 – INVESTMENT IN REAL ESTATE, NET

The Company owns and operates a 27-unit and a 2-unit multi-family apartment complex located in Los Angeles, California and owns land held for development located in Maui, Hawaii. As of June 30 2019, and 2018, investment in real estate included the following:

|                                       | <u>2019</u>         | <u>2018</u>         |
|---------------------------------------|---------------------|---------------------|
| Land                                  | \$ 2,430,000        | \$ 2,430,000        |
| Buildings, improvements and equipment | 2,922,000           | 2,912,000           |
| Accumulated depreciation              | (1,463,000)         | (1,354,000)         |
|                                       | 3,889,000           | 3,988,000           |
| Land held for development             | 977,000             | 973,000             |
| Investment in real estate, net        | <u>\$ 4,866,000</u> | <u>\$ 4,961,000</u> |

Depreciation expense for the years ended June 30, 2019 and 2018 was \$109,000 and \$105,000, respectively.



In August 2007, Portsmouth 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 Portsmouth.

#### NOTE 6 - 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 inure to its shareholders through income and/or capital gain.

As of June 30, 2019 and 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<br/>Unrealized Gain</u> | <u>Gross<br/>Unrealized Loss</u> | <u>Net<br/>Unrealized Loss</u> | <u>Fair<br/>Value</u> |
|----------------------------|---------------|----------------------------------|----------------------------------|--------------------------------|-----------------------|
| <b>As of June 30, 2019</b> |               |                                  |                                  |                                |                       |
| Corporate Equities         | \$ 10,922,000 | \$ 449,000                       | \$ (8,692,000)                   | \$ (8,243,000)                 | \$ 2,679,000          |
| <b>As of June 30, 2018</b> |               |                                  |                                  |                                |                       |
| Corporate Equities         | \$ 12,187,000 | \$ 721,000                       | \$ (8,469,000)                   | \$ (7,748,000)                 | \$ 4,439,000          |

As of June 30, 2019 and 2018, approximately 19% and 16% of the investment marketable securities balance above is comprised of the common stock of Comstock Mining Inc ("Comstock").

As of June 30, 2019 and 2018, the Company had \$8,617,000 and \$8,433,000, respectively, of unrealized losses related to securities held for over one year; of which \$8,556,000 and \$8,369,000 are related to its investment in Comstock, 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 two components for the years ended June 30, 2019 and 2018, respectively.

| <b>For the year ended June 30,</b>                           | <b>2019</b>         | <b>2018</b>           |
|--|---------------------|-----------------------|
| Realized (loss) gain on marketable securities                | \$ (75,000)         | \$ 314,000            |
| Unrealized loss on marketable securities related to Comstock | (187,000)           | (1,729,000)           |
| Unrealized (loss) gain on marketable securities              | (313,000)           | 343,000               |
| Net loss on marketable securities                            | <u>\$ (575,000)</u> | <u>\$ (1,072,000)</u> |

#### NOTE 7 - 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 consolidated balance sheet as part of other investments, net of other than temporary impairment losses.

Other investments, net consist of the following:

| <u>Type</u>                        | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|------------------------------------|----------------------|----------------------|
| Private equity hedge fund, at cost | \$ 233,000           | \$ 344,000           |
| Other investments                  | 118,000              | 130,000              |
|                                    | <u>\$ 351,000</u>    | <u>\$ 474,000</u>    |

#### NOTE 8 - 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, 2019**

|                                      | <u>Level 1</u>      |
|--------------------------------------|---------------------|
| Assets:                              |                     |
| Investment in marketable securities: |                     |
| REITs and real estate companies      | \$ 816,000          |
| Consumer cyclical                    | 636,000             |
| Basic materials                      | 537,000             |
| Other                                | 690,000             |
|                                      | <u>\$ 2,679,000</u> |

**As of June 30, 2018**

|                                      | <u>Level 1</u>      |
|--------------------------------------|---------------------|
| Assets:                              |                     |
| Investment in marketable securities: |                     |
| REITs and real estate companies      | \$ 1,484,000        |
| Healthcare                           | 838,000             |
| Basic materials                      | 698,000             |
| Other                                | 1,419,000           |
|                                      | <u>\$ 4,439,000</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. 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, net 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:

| <u>Assets</u>                    | <u>Level 3</u> | <u>June 30, 2019</u> | <u>Net loss for the year ended June 30, 2019</u> |
|----------------------------------|----------------|----------------------|--|
| Other non-marketable investments | \$ 351,000     | \$ 351,000           | \$ (61,000)                                      |

| <u>Assets</u>                    | <u>Level 3</u> | <u>June 30, 2018</u> | <u>Net loss for the year ended June 30, 2018</u> |
|----------------------------------|----------------|----------------------|--|
| Other non-marketable investments | \$ 474,000     | \$ 474,000           | \$ (145,000)                                     |

For fiscal year ended June 30, 2019 and 2018, we received distribution from other non-marketable investments of \$61,000 and \$69,000, respectively.

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 9 – OTHER ASSETS, NET**

Other assets consist of the following as of June 30:

|                                 | <u>2019</u>         | <u>2018</u>         |
|---------------------------------|---------------------|---------------------|
| Inventory - Hotel               | \$ 61,000           | \$ 59,000           |
| Prepaid expenses                | 587,000             | 409,000             |
| Note receivable - related party | 584,000             | 594,000             |
| Miscellaneous assets, net       | 411,000             | 484,000             |
| Total other assets              | <u>\$ 1,643,000</u> | <u>\$ 1,546,000</u> |

**NOTE 10 – RELATED PARTY AND OTHER FINANCING TRANSACTIONS**

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 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 December 31, 2019. The balance of this loan was \$3,000,000 as of June 30, 2019 and 2018, and are included in the related party and other note payable in the consolidated balance sheets.

Also included in the balance of the related party note payable at June 30, 2019 and 2018 is the obligation to Hilton (Franchisor) in the form of a self-exhausting, interest free development incentive note which will be reduced approximately \$316,000 annually through 2030 by Hilton if the Partnership is still a Franchisee with Hilton. As of June 30, 2019 and 2018, the balance of the note was \$3,325,000 and \$3,642,000, respectively.

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 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 the 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 is a self-exhausting, interest free note and 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 balances in the consolidated balance sheets as of June 30, 2019 and 2018. As of June 30, 2019 and 2018, unamortized portion of the key money was \$1,896,000 and \$2,000,000, respectively, and are included in related party and other notes payable in the consolidated balance sheets.

As of June 30, 2019, the Company had capital lease obligations outstanding of \$1,486,000. These capital leases expire in various years through 2023 at rates ranging from 5.77% to 6.25% per annum. Minimum future lease payments for assets under capital leases as of June 30, 2019 are as follows:

| For the year ending June 30, |  |                     |
|------------------------------|--|---------------------|
| 2020                         |  | \$ 493,000          |
| 2021                         |  | 492,000             |
| 2022                         |  | 482,000             |
| 2023                         |  | 182,000             |
|                              | Total minimum lease payments                   | 1,649,000           |
|                              | Less interest on capital lease                 | (163,000)           |
|                              | Present value of future minimum lease payments | <u>\$ 1,486,000</u> |

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

| For the year ending June 30, |  |                     |
|------------------------------|--|---------------------|
| 2020                         |  | \$ 3,980,000        |
| 2021                         |  | 1,006,000           |
| 2022                         |  | 1,022,000           |
| 2023                         |  | 744,000             |
| 2024                         |  | 567,000             |
| Thereafter                   |  | 2,388,000           |
|                              |  | <u>\$ 9,707,000</u> |

## NOTE 11 – 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 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 5.275% per annum and matures in January 2024. The term of the loan is 10 years with interest only due in the first three years and principal and interest on the remaining seven years of the loan based on a thirty-year amortization schedule. 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 are 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 Partnership is required to maintain a certain minimum net worth and liquidity. 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. Pursuant to the agreement, InterGroup is required to maintain a certain net worth and liquidity. As of June 30, 2019, management believes that InterGroup 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 31, 2019, Mezzanine refinanced the Mezzanine Loan by entering into a new mezzanine loan agreement (“New Mezzanine Loan Agreement”) with Cred Reit Holdco LLC in the amount of \$20,000,000. The prior Mezzanine Loan was paid off. Interest rate on the new mezzanine loan is 7.25% and the loan matures on January 1, 2024. Interest only payments are due monthly.

As of June 30, 2019 and 2018, the Company had the following mortgages:

| June 30, 2019         | June 30, 2018         | Interest Rate  | Origination Date  | Maturity Date  |
|-----------------------|-----------------------|--|-------------------|--|
| \$ 93,746,000         | \$ 95,018,000         | Fixed 5.28%  | December 18, 2013 | January 1, 2024  |
| 20,000,000            | 20,000,000            | Fixed 9.75% (Fixed 7.25% effective August 1st, 2019) | December 18, 2013 | January 1, 2024  |
| 113,746,000           | 115,018,000           | Mortgage notes payable - Hotel                       |                   |  |
| (659,000)             | (646,000)             | Net debt issuance costs                              |                   |  |
| <u>\$ 113,087,000</u> | <u>\$ 114,372,000</u> | Total mortgage notes payable - Hotel                 |                   |  |
| \$ 2,969,000          | \$ -                  | Variable (30-day LIBOR plus 3%)                      | July 31, 2018     | July 24, 2019 (extended to July 23, 2020 in July 2019) |
| -                     | \$ 2,844,000          | Fixed 4.85%  | November 4, 2010  | December 1, 2020                                       |
| 346,000               | 356,000               | Fixed 3.75%  | September 1, 2012 | September 1, 2042                                      |
| 3,315,000             | 3,200,000             | Mortgage notes payable - real estate                 |                   |  |
| -                     | (12,000)              | Net debt issuance costs                              |                   |  |
| <u>\$ 3,315,000</u>   | <u>\$ 3,188,000</u>   | Total mortgage notes payable - real estate           |                   |  |

Future minimum payments for all mortgage notes payable are as follows:

| For the year ending June 30, |                       |
|------------------------------|-----------------------|
| 2020                         | \$ 4,431,000          |
| 2021                         | 1,557,000             |
| 2022                         | 1,642,000             |
| 2023                         | 1,732,000             |
| 2024                         | 107,404,000           |
| Thereafter                   | 295,000               |
|                              | <u>\$ 117,061,000</u> |

#### NOTE 12 – MANAGEMENT AGREEMENTS

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 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 the 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 balances in the consolidated balance sheets as of June 30, 2019 and 2018. As of June 30, 2019 and 2018, unamortized portion of the key money was \$1,896,000 and \$2,000,000, respectively, and are included in related party and other notes payable in the consolidated balance sheets. During the years ended June 30, 2019 and 2018, Interstate management fees were \$1,206,000 and \$957,000, respectively, and are included in Hotel operating expenses in the consolidated statements of operations.

#### NOTE 13 – CONCENTRATION OF CREDIT RISK

As of June 30, 2019 and 2018, all accounts receivables are related to Hotel customers. The Hotel had one account that accounted for 32%, or \$272,000 of accounts receivable at June 30, 2019, and two customers that accounted for 32%, or \$572,000 of accounts receivable at June 30, 2018.

The Partnership maintains its cash and cash equivalents and restricted cash with various financial institutions that are monitored regularly for credit quality. At times, such cash and cash equivalents holdings may be in excess of the Federal Deposit Insurance Corporation (“FDIC”) or other federally insured limits.

#### NOTE 14 - INCOME TAXES

The Company and Portsmouth file separate tax returns for both federal and state purposes. The provision for income tax benefit (expense) consists of the following:

| For the years ended June 30,       | 2019                | 2018                  |
|------------------------------------|---------------------|-----------------------|
| Federal                            |                     |                       |
| Current tax benefit (expense)      | \$ 122,000          | \$ (167,000)          |
| Deferred tax benefit (expense)     | 1,168,000           | (4,976,000)           |
|                                    | <u>1,290,000</u>    | <u>(5,143,000)</u>    |
| State                              |                     |                       |
| Current tax benefit (expense)      | 44,000              | (51,000)              |
| Deferred tax benefit (expense)     | 75,000              | (792,000)             |
|                                    | <u>119,000</u>      | <u>(843,000)</u>      |
| Total income tax benefit (expense) | <u>\$ 1,409,000</u> | <u>\$ (5,986,000)</u> |

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act significantly revises the future ongoing corporate income tax by, among other things, lowering corporate income tax rates. As the Company has a June 30 fiscal year-end, the lower corporate income tax rate was phased in, resulting in a statutory federal rate of approximately 28% for our fiscal year ending June 30, 2018, and 21% for subsequent fiscal years. The decrease in corporate tax rate reduced the Company’s deferred tax asset to the lower federal base rate of 21%. As a result, a provisional net charge of \$2,723,000 was included in the income tax expense for the year ended June 30, 2018.

A reconciliation of the statutory federal income tax rate to the effective tax rate is as follows:

| <b>For the years ended June 30,</b>            | <u><b>2019</b></u> | <u><b>2018</b></u> |
|--|--------------------|--------------------|
| Statutory federal tax rate                     | 21.0%              | 27.6%              |
| State income taxes, net of federal tax benefit | 7.4%               | 6.4%               |
| Valuation allowance                            | -85.0%             | 3.8%               |
| Change in federal tax rate                     | -%                 | 31.7%              |
| Other  | 1.1%               | 0.1%               |
|  | <u>-55.5%</u>      | <u>69.6%</u>       |

The components of the Company’s deferred tax assets and (liabilities) as of June 30, 2019 and 2018 are as follows:

|   | <u><b>2019</b></u>  | <u><b>2018</b></u>  |
|---|---------------------|---------------------|
| <b>Deferred tax assets</b>                |                     |                     |
| Net operating loss carryforward           | \$ 6,809,000        | \$ 7,462,000        |
| Investment reserve                        | 1,295,000           | 1,276,000           |
| Capital loss carryforward                 | 714,000             | 685,000             |
| Tax Credits                               | 605,000             | 733,000             |
| Unrealized gains on marketable securities | 797,000             | 648,000             |
| Charitable Contributions                  | 104,000             | 55,000              |
| Accrued vacation                          | 13,000              | 10,000              |
| Interest expense                          | 162,000             | -                   |
| Valuation allowance                       | (524,000)           | (2,610,000)         |
|   | <u>9,975,000</u>    | <u>8,259,000</u>    |
| <b>Deferred tax liabilities</b>           |                     |                     |
| Basis difference in Justice               | (2,636,000)         | (2,166,000)         |
| Depreciation and amortization             | (616,000)           | (625,000)           |
| State taxes                               | (321,000)           | (309,000)           |
|   | <u>(3,573,000)</u>  | <u>(3,100,000)</u>  |
| <b>Net deferred tax assets</b>            | <u>\$ 6,402,000</u> | <u>\$ 5,159,000</u> |

Management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. As of June 30, 2019, because of tax planning to generate taxable income in the future, management has determined that there is sufficient positive evidence to conclude that a significant portion of its deferred tax assets are realizable. As a result, the valuation allowance decreased by \$2,086,000 and \$778,000, respectively, during the fiscal years ended June 30, 2019 and 2018.

As of June 30, 2019, the Company had federal and state operating loss carryforwards of \$25,446,000 and \$16,583,000, respectively. These carryforwards expire in varying amounts through 2037.

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. As of June 30, 2019, it has been determined there are no uncertain tax positions likely to impact the Company.

The Partnership files tax returns as prescribed by the tax laws of the jurisdictions in which it operates and is subject to examination by federal, state and local jurisdictions, were applicable.

As of June 30, 2019, tax years beginning in fiscal 2013 remain open to examination by the major tax jurisdictions, and are subject to the statute of limitations.

#### NOTE 15 – SEGMENT INFORMATION

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

Information below represents reporting segments for the year ended June 30, 2019 and 2018, respectively. Segment income from Hotel operations consists of the operation of the Hotel and operation of the garage. Segment loss from real estate operations consists of the operation of the rental properties. Segment loss from investments consists of net investment loss, dividend and interest income and investment related expenses.

| <b>As of and for the year<br/>ended June 30, 2019</b> | <b>Hotel<br/>Operations</b> | <b>Real Estate<br/>Operations</b> | <b>Investment<br/>Transactions</b> | <b>Other</b>        | <b>Total</b>         |
|---|-----------------------------|-----------------------------------|------------------------------------|---------------------|----------------------|
| Revenues  | \$ 59,881,000               | \$ 324,000                        | \$ -                               | \$ -                | \$ 60,205,000        |
| Segment operating expenses                            | (44,466,000)                | (218,000)                         | -                                  | (1,115,000)         | (45,799,000)         |
| Segment income (loss)                                 | 15,415,000                  | 106,000                           | -                                  | (1,115,000)         | 14,406,000           |
| Interest expense - mortgage                           | (7,634,000)                 | (230,000)                         | -                                  | -                   | (7,864,000)          |
| Loss on disposal of assets                            | (398,000)                   | -                                 | -                                  | -                   | (398,000)            |
| Depreciation and amortization expense                 | (2,405,000)                 | (110,000)                         | -                                  | -                   | (2,515,000)          |
| Loss from investments                                 | -                           | -                                 | (774,000)                          | -                   | (774,000)            |
| Income tax benefit                                    | -                           | -                                 | -                                  | 1,409,000           | 1,409,000            |
| Net income (loss)                                     | <u>\$ 4,978,000</u>         | <u>\$ (234,000)</u>               | <u>\$ (774,000)</u>                | <u>\$ 294,000</u>   | <u>\$ 4,264,000</u>  |
| Total assets  | <u>\$ 58,648,000</u>        | <u>\$ 4,866,000</u>               | <u>\$ 3,030,000</u>                | <u>\$ 7,408,000</u> | <u>\$ 73,952,000</u> |

| <b>As of and for the year<br/>ended June 30, 2018</b> | <b>Hotel<br/>Operations</b> | <b>Real Estate<br/>Operations</b> | <b>Investment<br/>Transactions</b> | <b>Other</b>          | <b>Total</b>         |
|---|-----------------------------|-----------------------------------|------------------------------------|-----------------------|----------------------|
| Revenues  | \$ 57,099,000               | \$ 335,000                        | \$ -                               | \$ -                  | \$ 57,434,000        |
| Segment operating expenses                            | (40,103,000)                | (193,000)                         | -                                  | (1,404,000)           | (41,700,000)         |
| Segment income (loss)                                 | 16,996,000                  | 142,000                           | -                                  | (1,404,000)           | 15,734,000           |
| Recovery of legal settlement costs                    | 5,775,000                   | -                                 | -                                  | -                     | 5,775,000            |
| Interest expense - mortgage                           | (7,806,000)                 | (87,000)                          | -                                  | -                     | (7,893,000)          |
| Depreciation and amortization expense                 | (2,606,000)                 | (105,000)                         | -                                  | -                     | (2,711,000)          |
| Loss from investments                                 | -                           | -                                 | (1,501,000)                        | -                     | (1,501,000)          |
| Income tax expense                                    | -                           | -                                 | -                                  | (5,986,000)           | (5,986,000)          |
| Net income (loss)                                     | <u>\$ 12,359,000</u>        | <u>\$ (50,000)</u>                | <u>\$ (1,501,000)</u>              | <u>\$ (7,390,000)</u> | <u>\$ 3,418,000</u>  |
| Total assets  | <u>\$ 54,417,000</u>        | <u>\$ 4,961,000</u>               | <u>\$ 4,913,000</u>                | <u>\$ 6,212,000</u>   | <u>\$ 70,503,000</u> |

#### NOTE 16 - RELATED PARTY TRANSACTIONS

As discussed in Note 10 – Related Party and Other Financing Transactions, on July 2, 2014, the Partnership obtained from the InterGroup Corporation an unsecured loan in the principal amount of \$4,250,000. The balance of this loan was \$3,000,000 as of June 30, 2019 and 2018, and are included in the related party and other notes payable in the consolidated balance sheets. The loan matures on December 31, 2019.

In connection with the redemption of limited partnership interests 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 partnership interests, refinancing of Justice's 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 remained payable and were paid off as of June 30, 2019.

Certain shared costs and expenses, primarily administrative expenses, rent and insurance are allocated among the Company and InterGroup based on management's estimate of the pro rata utilization of resources. For the years ended June 30, 2019 and 2018, these expenses were approximately \$144,000 for each respective year.

Five of the Portsmouth directors serve as directors of InterGroup. Three of those directors also serve as directors of Santa Fe. The three Santa Fe directors also serve as directors of InterGroup.

As Chairman of the Securities Investment Committee, the Company's President and Chief Executive Officer (CEO), 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 the Portsmouth and InterGroup and oversees the investment activity of those companies. Depending on certain market conditions and various risk factors, the Chief Executive Officer, Portsmouth and InterGroup may, at times, invest in the same companies in which the Company invests. Such investments align the interests of the Company with the interests of related parties because it places the personal resources of the Chief Executive Officer and the resources of the Portsmouth and InterGroup, at risk in substantially the same manner as the Company in connection with investment decisions made on behalf of the Company.

## **NOTE 17 – COMMITMENTS AND CONTINGENCIES**

### **Franchise Agreements**

The Partnership entered into a Franchise License Agreement (the "License Agreement") with the HLT Existing Franchise Holding LLC ("Hilton") on November 24, 2004. The term of the License agreement was for an initial period of 15 years commencing on the date the Hotel began operating as a Hilton hotel, with an option to extend the License Agreement for another five years, subject to certain conditions. On June 26, 2015, Operating and Hilton entered into an amended franchise agreement which amongst other things extended the License Agreement through 2030, and also provided the Partnership certain key money cash incentives to be earned through 2030.

Since the opening of the Hotel in January 2006, the Partnership has incurred monthly royalties, program fees and information technology recapture charges equal to a percentage of the Hotel's gross room revenue. Fees for such services during fiscal year 2019 and 2018 totaled approximately \$4.1 million and \$3.8 million, respectively.

### **Hotel Employees**

Effective February 3, 2017, the Partnership had no employees. On February 3, 2017, Interstate assumed all labor union agreements and retained employees of their choice to continue providing services to the Hotel. As of June 30, 2019, approximately 85% of those employees were represented by one of four labor unions, and their terms of employment were determined under a collective bargaining agreement ("CBA") to which the Partnership was a party. During the fiscal year ended June 30, 2019, the Partnership renewed the CBA for Local 39 (Stationary Engineers), and Local 665 (Parking Employees). CBA for Local 2 (Hotel and Restaurant Employees) expired on August 13, 2018 and was renewed in August 2019. CBA for Local 856 (International Brotherhood of Teamsters) will expire on December 31, 2022.

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 and Interstate. The Partnership expects and anticipates that the terms of conditions of CBAs will have an impact on wage and benefit costs, operating expenses, and certain hotel operations during the life of each CBA, and incorporates these principles into its operating and budgetary practices.



## Legal Matters

In April 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 alleged legal malpractice against the Respondents and also sought declaratory relief regarding provisions of the option agreement in the redemption transaction and regarding the engagement letter with Respondents. Prior to arbitration proceedings, the parties agreed in principle to settle the matter, and entered into a settlement agreement and mutual general release in April 2018. The Respondents agreed to pay \$8,300,000, which was received in May of 2018. \$5,575,000 was recorded as a recovery of legal settlement cost and \$2,725,000 was recorded as a reduction of legal expense for the fiscal year ended June 30, 2018.

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company defends itself vigorously against any such claims. 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.

### NOTE 18 – SUBSEQUENT EVENTS

On July 31, 2019, Mezzanine refinanced the Mezzanine Loan by entering into a new mezzanine loan agreement (“New Mezzanine Loan Agreement”) with Cred Reit Holdco LLC in the amount of \$20,000,000. The prior Mezzanine Loan was paid off. Interest rate on the new mezzanine loan is 7.25% and the loan matures on January 1, 2024. Interest only payments are due monthly.

In July 2019, InterGroup obtained a modification from CIBC Bank USA (“CIBC”) which increased its \$5,000,000 revolving line of credit (“RLOC”) by \$3,000,000 and extended the maturity date from July 24, 2019 to July 23, 2020. The \$2,969,000 mortgage due to InterGroup was also extended from July 24, 2019 to July 23, 2020.

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

### Item 9A. 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) or 15d-15(e) under the Exchange Act) as of the end of the fiscal period covered by this Annual Report on Form 10-K. Based upon such evaluation, management has concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

#### MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. The internal control over financial reporting is a process, under the supervision of our Chief Executive Officer and Principal Financial Officer, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The internal control over financial reporting include those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;
- provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer and Principal Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its evaluation, management concluded that there was material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness is related to the Company's preparation of its tax provision.

During the fourth quarter of fiscal 2017, we identified a material weakness in internal controls over financial reporting related to our accounting for deferred income taxes and income tax expense. Specifically, we did not design and maintain effective controls to identify items within the deferred tax balances that could be materially incorrect. We did not provide appropriate oversight of our third-party tax CPA firm preparer. This material weakness did not have, but could have resulted in various material adjustments to deferred tax accounts for fiscal 2017 and 2016. We are undergoing ongoing evaluation and improvements in our internal control over financial reporting. Regarding our identified material weakness, we have performed the following remediation efforts:

In order to mitigate the material weakness to the fullest extent possible, management hired a new tax CPA specialist to review and do a detailed analysis which was completed for the year ended June 30, 2017. The Company has also assigned to its audit committee oversight responsibilities with regard to this analysis. The preparation of the Company's deferred tax assets and liabilities will be reviewed annually by tax experts as well as the Principal Financial Officer and the Chief Executive Officer.

As of June 30, 2018, these controls were not operating effectively as noted by a computational error in estimating the transition impact of the Tax Act on our deferred tax balances. As of June 30, 2019, management concludes that the material weakness has been remediated by its active engagement in the provision preparation process and will continue to enhance its controls over the preparation of its tax provision.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm, pursuant to provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that permit us to provide only management's report in this Annual Report on Form 10-K.

This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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

As stated in our report on internal control over financial reporting, the material weakness related to tax provision preparation has been remediated in fiscal year 2019.

#### **Item 9B. Other Information.**

None.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance.

The following table sets forth certain information with respect to the Directors and Executive Officers of the Company as of June 30, 2019:

| Name             | Position with the Company   | Age | Term to Expire             |
|------------------|---|-----|----------------------------|
| John V. Winfield | Chairman of the Board; President and Chief Executive Officer <sup>(1)</sup> | 72  | Fiscal 2020 Annual Meeting |
| John C. Love     | Director <sup>(1)(2)</sup>  | 79  | Fiscal 2020 Annual Meeting |
| William J. Nance | Director <sup>(1)(2)</sup>  | 75  | Fiscal 2020 Annual Meeting |

#### Executive Officer:

|            |  |    |     |
|------------|--|----|-----|
| Danfeng Xu | Treasurer, Controller (Principal Financial Officer), and Secretary | 32 | N/A |
|------------|--|----|-----|

<sup>(1)</sup> Member of Securities Investment Committee

<sup>(2)</sup> Member of Audit Committee

#### Business Experience:

The principal occupation and business experience during the last five years for each of the Directors and Executive Officers of the Company are as follows:

**John V. Winfield** — Mr. Winfield was first elected to the Board in May of 1995 and currently serves as the Company's Chairman of the Board, President and Chief Executive Officer, having been appointed as such in April 1996. Mr. Winfield is also the Chairman of the Board, President and Chief Executive Officer of the Company's subsidiary, Portsmouth, having held those positions since May of 1996. Mr. Winfield is Chairman of the Board, President and Chief Executive Officer of InterGroup, and has held those positions since 1987. Mr. Winfield's extensive experience as an entrepreneur and investor, as well as his managerial and leadership experience from serving as a chief executive officer and director of public companies, led to the Board's conclusion that he should serve as a director of the Company.

**John C. Love** — Mr. Love was appointed a Director of the Company on March 5, 1998. Mr. Love is an international hospitality and tourism consultant. He is a retired partner in the national CPA and consulting firm of Pannell Kerr Forster and, for the last 30 years, a lecturer in hospitality industry management control systems and competition & strategy at Golden Gate University and San Francisco State University. He is Chairman Emeritus of the Board of Trustees of Golden Gate University and the Executive Secretary of the Hotel and Restaurant Foundation. Mr. Love is also a Director of Portsmouth, having first been appointed in March 1998 and a Director of InterGroup, having first been appointed in January 1998. Mr. Love's extensive experience as a CPA and in the hospitality industry, including teaching at the university level for the last 30 years in management control systems, and his knowledge and understanding of finance and financial reporting, led to the Board's conclusion that he should serve as a director of the Company.

**William J. Nance** — Mr. Nance was first elected to the Board in May of 1996. Mr. Nance is also a director of Portsmouth. Mr. Nance is the President and CEO of Century Plaza Printers, Inc., a company he founded in 1979. He has also served as a consultant in the acquisition and disposition of multi-family and commercial real estate. Mr. Nance is a Certified Public Accountant and, from 1970 to 1976, was employed by Kenneth Leventhal & Company where he was a Senior Accountant specializing in the area of REITS and restructuring of real estate companies, mergers and acquisitions, and all phases of real estate development and financing. Mr. Nance is also Director of InterGroup, and has held such position since 1984. Mr. Nance also serves as a director of Comstock Mining, Inc. Mr. Nance’s extensive experience as a CPA and in numerous phases of the real estate industry, his business and management experience gained in running his own businesses, his service as a director and audit committee member for other public companies and his knowledge and understanding of finance and financial reporting, led to the Board’s conclusion that he should serve as a director of the Company.

**Danfeng Xu** — Ms. Xu was appointed as Treasurer and Controller of the Company on October 16, 2017. Ms. Xu also serves as Treasurer and Controller of InterGroup and Portsmouth, having been appointed to those positions on October 16, 2017. On June 1, 2019, she was appointed Secretary of the Company, InterGroup and Portsmouth. Prior to joining the Company, she had served as Controller and worked in other positions at the Hotel from July 2010 to February 2017. She obtained her Bachelor of Science degree in Business Administration, Accounting and Finance from The Ohio State University and her Master of Professional Accounting, with a concentration in Audit and Assurance from University of Washington.

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

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

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

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

Based solely on its review of the copies of Forms 3 and 4 and amendments thereto furnished to the Company during its most recent fiscal year, or written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that during fiscal 2019 all filing requirements applicable to its officers, directors, and greater than ten-percent beneficial owners were complied with.

#### **Code of Ethics.**

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as well as its Board of Directors. A copy of the Code of Ethics is filed as Exhibit 14 to this Report. A copy is also posted on the Santa Fe page of its parent company’s website at [www.intgla.com](http://www.intgla.com). The Company will provide to any person without charge, upon request, a copy of its Code of Ethics by sending such request to: Santa Fe Financial Corporation, Attn: Treasurer, 12121 Wilshire Boulevard, Suite 610, Los Angeles, CA, 90025. The Company will promptly disclose any amendments or waivers to its Code of Ethics on Form 8-K.

#### **BOARD AND COMMITTEE INFORMATION**

Santa Fe is an unlisted company and a Smaller Reporting Company under the rules and regulations of the Securities and Exchange Commission (“SEC”). With the exception of the Company’s President and CEO, John V. Winfield, all of Santa Fe’s Board of Directors consists of “independent” directors as independence is defined by the applicable rules of the SEC and NASDAQ.

## Procedures for Recommendations of Nominees to Board of Directors

There have been no changes to the procedures previously disclosed by which security holders may recommend nominees to the Company's Board of Directors.

## Audit Committee and Audit Committee Financial Expert

Santa Fe is an unlisted company and a Smaller Reporting Company under SEC rules and regulations. The Company's Audit Committee is currently comprised of Directors William J. Nance (Chairperson) and John C. Love, each of whom are independent directors as independence is defined by the applicable rules of the SEC and NASDAQ, and as may be modified or supplemented. Each of these directors also meets the audit committee financial expert requirement based on their qualifications and business experience discussed above in this Item 10.

## Item 11. Executive Compensation.

The following table provides certain summary information concerning compensation awarded to, earned by, or paid to the Company's principal executive officer and other named executive officers of the Company whose total compensation exceeded \$100,000 for all services rendered to the Company for each of the Company's last two completed fiscal years ended June 30, 2019 and 2018. No stock awards, long-term compensation, options or stock appreciation rights were granted to any of the named executive officers during the last two fiscal years.

**SUMMARY COMPENSATION TABLE**

| Name and<br>Principal Position  | Annual Compensation |                           |       | All Other<br>Compensation | Total                     |
|---|---------------------|---------------------------|-------|---------------------------|---------------------------|
|   | Fiscal<br>Year      | Salary                    | Bonus |                           |                           |
| John V. Winfield<br>Chairman; President<br>and Chief Executive Officer                              | 2019                | \$ 440,000 <sup>(1)</sup> | \$ -  | \$ -                      | \$ 440,000 <sup>(1)</sup> |
|   | 2018                | \$ 440,000 <sup>(1)</sup> | \$ -  | \$ -                      | \$ 440,000 <sup>(1)</sup> |
| David T. Nguyen<br>Treasurer and Controller<br>(Principal Financial Officer, resigned October 2017) | 2019                | \$ -                      | \$ -  | \$ -                      | \$ -                      |
|   | 2018                | \$ 35,000 <sup>(2)</sup>  | \$ -  | \$ 90,000 <sup>(3)</sup>  | \$ 125,000 <sup>(2)</sup> |

<sup>(1)</sup> Includes salary and director's fees received from the Company's subsidiary, Portsmouth, in the amount of \$306,000 for the fiscal years ended June 30, 2019 and 2018, respectively and director fees in the amount of \$6,000 per year paid by Santa Fe. Does not include compensation received from Santa Fe's parent corporation, InterGroup, of \$405,000, for the fiscal years ended June 30, 2019 and 2018, respectively.

<sup>(2)</sup> Includes salary by Portsmouth in the amount of \$18,000 for fiscal years ended June 30, 2018. Does not include \$125,000 paid by Santa Fe's parent company, InterGroup, for fiscal year 2018.

<sup>(3)</sup> Includes severance received from the Company's subsidiary, Portsmouth, in the amount of \$45,000. Mr. Nguyen resigned as Treasurer and Controller of the Company, InterGroup and Portsmouth effective October 16, 2017 and received \$180,000 in total severance pay. Does not include severance received from Santa Fe's parent corporation InterGroup, of \$90,000.

As a Smaller Reporting Company, Santa Fe has no compensation committee. Executive Officer compensation is set by disinterested members of the Board of Directors. Santa Fe has no stock option plan or stock appreciation rights for its executive officers. The Company has no pension or long-term incentive plans. There are no employment contracts between Santa Fe and any executive officer, and there are no termination-of-employment or change-in-control arrangements.

#### Internal Revenue Code Limitations

Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), provides that, in the case of a publicly held corporation, the corporation is not generally allowed to deduct remuneration paid to its chief executive officer and certain other highly compensated officers to the extent that such remuneration exceeds \$1,000,000 for the taxable year. Certain remuneration, however, is not subject to disallowance, including compensation paid on a commission basis and, if certain requirements prescribed by the Code are satisfied, other performance-based compensation. Since InterGroup, Santa Fe and Portsmouth are each public companies, the \$1,000,000 limitation applies separately to the compensation paid by each entity. Stock option expenses are also amortized over a several years. For fiscal years 2019 and 2018, no compensation paid by the Company to its CEO or other executive officers was subject the deduction disallowance prescribed by Section 162(m) of the Code.

#### DIRECTOR COMPENSATION

The following table provides information concerning compensation awarded to, earned by, or paid to the Company’s directors for the fiscal year ended June 30, 2019.

**DIRECTOR COMPENSATION TABLE**

| Name                            | Fees Earned<br>or Paid in Cash | All Other<br>Compensation | Total     |
|---------------------------------|--------------------------------|---------------------------|-----------|
| John C. Love                    | \$ 16,000 <sup>(1)</sup>       | -                         | \$ 16,000 |
| William J. Nance                | \$ 16,000 <sup>(1)</sup>       | -                         | \$ 16,000 |
| John V. Winfield <sup>(2)</sup> | -                              | -                         | -         |

<sup>(1)</sup> Mr. Love and Mr. Nance also serve as directors of the Company’s subsidiary, Portsmouth. Amounts shown include \$8,000 in regular board and audit committee fees paid by Santa Fe and \$8,000 in regular board and audit committee fees paid by Portsmouth.

<sup>(2)</sup> As an executive officer, Mr. Winfield’s directors’ fees are reported in the Summary Compensation Table.

The bylaws of Santa Fe permit directors to be paid a fixed sum for attendance at each meeting of the Board or a stated retainer fee as director. Each director is paid a fee of \$1,500 per quarter for a total annual compensation of \$6,000. This policy has been in effect since July 1, 1985. Members of the Company’s Audit Committee also receive a fee of \$500 per quarter.

#### Change in Control or Other Arrangements

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

#### Outstanding Equity Awards at Fiscal Year End.

The Company did not have any outstanding equity awards at the end of its fiscal year ended June 30, 2019 and has no equity compensation plans in effect.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of August 30, 2019, certain information with respect to the beneficial ownership of Common Stock of the Company owned by those persons or groups known by the Company to own more than five percent of the outstanding shares of Common Stock.

| <b>Name and Address of Beneficial Owner</b>   | <b>Amount and Nature of Beneficial Ownership <sup>(1)</sup></b> | <b>Percent of Class <sup>(2)</sup></b> |
|---|---|--|
| <b>The InterGroup Corporation</b><br>12121 Wilshire Boulevard, Suite 610<br>Los Angeles, CA 90025 | 1,020,170   | 82.2%                                  |
| <b>John V. Winfield</b><br>12121 Wilshire Boulevard, Suite 610<br>Los Angeles, CA 90025           | 49,400  | 4.0%                                   |
| <b>The InterGroup Corporation and John V. Winfield as a group</b>                                 | 1,069,570 <sup>(3)</sup>  | 86.1%                                  |

<sup>(1)</sup> Unless otherwise indicated, and subject to applicable community property laws, each person has sole voting and investment power with respect to the shares beneficially owned.

<sup>(2)</sup> Percentages are calculated on the basis of 1,241,810 shares of Common Stock issued and outstanding as of August 30, 2019.

<sup>(3)</sup> Pursuant to a Voting Trust Agreement dated June 30, 1998, InterGroup has the power to vote the 49,400 shares of Common Stock owned by Mr. Winfield. As President, Chairman of the Board and a 65.2% beneficial shareholder of InterGroup, Mr. Winfield has voting and dispositive power over the shares owned of record and beneficially by InterGroup.

### Security Ownership of Management.

The following table sets forth, as of August 30, 2019, certain information with respect to the beneficial ownership of Common Stock of the Company owned by (i) each Director and each of the named Executive Officers, and (ii) all Directors and Executive Officers as a group.

| <b>Name of Beneficial Owner</b>                             | <b>Amount and Nature of Beneficial Ownership <sup>(1)</sup></b> | <b>Percent of Class <sup>(2)</sup></b> |
|---|---|--|
| John V. Winfield  | 1,069,570 <sup>(3)</sup>  | 86.1%                                  |
| John C. Love  | -(4)  | -                                      |
| William J. Nance  | -(4)  | -                                      |
| Danfeng Xu  | -   | -                                      |
| All Directors and Executive Officers as a Group (4 persons) | 1,069,570   | 86.1%                                  |

<sup>(1)</sup> Unless otherwise indicated, and subject to applicable community property laws, each person has sole voting and investment power with respect to the shares beneficially owned.

<sup>(2)</sup> Percentages are calculated on the basis of 1,241,810 shares of Common Stock issued and outstanding as of August 30, 2019.

<sup>(3)</sup> John V. Winfield is the sole beneficial owner of 49,400 shares of Common Stock. InterGroup is the beneficial owner of 1,020,170 shares of Common Stock. As the President, Chairman of the Board and a 65.2% shareholder of InterGroup, Mr. Winfield has voting and dispositive power with respect to the shares of Santa Fe owned of record and beneficially by InterGroup.

<sup>(4)</sup> John C. Love is a 0.7% shareholder of InterGroup as well as a Director thereof. William J. Nance is also a Director of InterGroup and a 1.8% shareholder.

#### **Security Ownership of Management in Subsidiary**

As of August 30, 2019, Santa Fe was the record and beneficial owner of 505,437 shares of its subsidiary, Portsmouth, and 98,562 shares are owned by Santa Fe's parent company InterGroup. The President and Chairman of the Board of Santa Fe and InterGroup has voting power with respect to common shares of Portsmouth owned by Santa Fe and InterGroup which represent 82.3% of the voting power of Portsmouth. No other director or executive officer of Santa Fe has a beneficial interest in Portsmouth's shares.

#### **Changes in Control**

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

#### **Securities Authorized for Issuance Under Equity Compensation Plans.**

Santa Fe has no securities authorized for issuance under any equity compensation plans.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

As of August 30, 2019, Santa Fe and InterGroup owned 82.3% of the common stock of Portsmouth, and InterGroup and John V. Winfield, in the aggregate, owned approximately 86.1% of the voting stock of Santa Fe. All of the Company's Directors serve as directors of InterGroup and all three of the Company's Directors serve on the Board of Portsmouth.

As discussed in Note 10 – Related Party and Other Financing Transactions, on July 2, 2014, the Partnership obtained from the InterGroup Corporation (the parent company) an unsecured loan in the principal amount of \$4,250,000. The loan was extended to December 31, 2019. As of June 30, 2019, the balance of the loan was \$3,000,000.

In connection with the redemption of limited partnership interests 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 partnership interests, refinancing of Justice's 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. The first payment under this agreement was made concurrently with the closing of the loan agreements, with the remaining payments due upon Justice Investor's having adequate available cash as described in the letter. As of June 30, 2018, \$200,000 of these fees remained payable and were paid off as of June 30, 2019.

Under the terms of the Justice Partnership Agreement, its general partner, Portsmouth, receives compensation of one percent of hotel revenue. During each of the years ended June 30, 2019 and 2018, total compensation paid to Portsmouth under the agreement was \$598,000 and \$570,000, respectively. Amounts paid to Portsmouth are eliminated in consolidation.

Certain costs and expenses, primarily administrative salaries, rent and insurance, are allocated among the Company, its subsidiary, Portsmouth, and parent InterGroup based on management's estimate of the pro rata utilization of resources. During each of the fiscal years ended June 30, 2019 and 2018, the Company and Portsmouth made payments to InterGroup of approximately \$144,000 for administrative costs and reimbursement of direct and indirect costs associated with the management of the Companies and their investments, including the partnership asset.



As Chairman of the Securities Investment Committee, the Company's President and Chief Executive Officer (CEO), 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 the Portsmouth and InterGroup and oversees the investment activity of those companies. Depending on certain market conditions and various risk factors, the Chief Executive Officer, Portsmouth and InterGroup may, at times, invest in the same companies in which the Company invests. Such investments align the interests of the Company with the interests of related parties because it places the personal resources of the Chief Executive Officer and the resources of the Portsmouth and InterGroup, at risk in substantially the same manner as the Company in connection with investment decisions made on behalf of the Company.

There are no other relationships or related transactions between the Company and any of its officers, directors, five-percent security holders or their families which require disclosure.

#### Director Independence

Santa Fe is an unlisted company and a Smaller Reporting Company under the rules and regulations of the SEC. With the exception of the Company's President and CEO, John V. Winfield, all of Santa Fe's Board of Directors consists of "independent" directors as independence is defined by the applicable rules of the SEC and NASDAQ.

#### Item 14. Principal Accounting Fees and Services.

On November 16, 2017, the Audit Committee appointed Moss Adams LLP ("Moss Adams") as the Company's independent registered public accounting firm for the fiscal year ended June 30, 2018. Prior to the appointment of Moss Adams, Hein & Associates LLP ("Hein") provided services in connection with the review of the Company's quarterly financial statements for the three months ended September 30, 2017.

The aggregate fees billed for each of the last two fiscal years ended June 30, 2019 and 2018 for professional services rendered by the Company's independent registered public accounting firms are set forth in the tables below. These fees were billed for audit of the Company's annual financial statements, review of financial statements included in the Company's Form 10-Q reports, and services provided in connection with statutory and regulatory filings and engagements for those fiscal years.

|                         | Fiscal Year       |                   |
|-------------------------|-------------------|-------------------|
|                         | 2019              | 2018              |
| Audit fees - Moss Adams | \$ 164,000        | \$ 157,000        |
| Audit fees - Hein       | -                 | 21,000            |
| Tax fees - Moss Adams   | 35,000            | 10,000            |
| <b>TOTAL:</b>           | <b>\$ 199,000</b> | <b>\$ 188,000</b> |

## Audit Committee Pre-Approval Policies

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

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

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

#### (a)(1) Financial Statements

The following financial statements of the Company are included in Part II, Item 8 of this Report at pages 21 through 41:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - June 30, 2019 and 2018

Consolidated Statements of Operations for years ended June 30, 2019 and 2018

Consolidated Statements of Shareholders' Equity (Deficit) for years ended June 30, 2019 and 2018

Consolidated Statements of Cash Flows for years ended June 30, 2019 and 2018

Notes to the Consolidated Financial Statements

#### (a)(2) Financial Statement Schedules

All other schedules for which provision is made in Regulation S-X have been omitted because they are not required or are not applicable or the required information is shown in the consolidated financial statements or notes to the consolidated financial statements.

#### (a)(3) Exhibits

Set forth below is an index of applicable exhibits filed with this report according to exhibit table number.

| <b>Exhibit Number</b>         | <b>Description</b>  |
|-------------------------------|---|
| <a href="#"><u>3.(i)</u></a>  | <a href="#"><u>Articles of Incorporation (Restated Articles of Incorporation, dated August 12, 1997, are incorporated by reference to the Company's Form 10-KSB for the year ended December 31, 1997, as filed with the Commission on March 31, 1998. *</u></a> |
| <a href="#"><u>3.(ii)</u></a> | <a href="#"><u>Bylaws (as amended February 15, 2000) incorporated by reference to the Company's Form 10-KSB for the year ended December 31, 1999, as filed with the Commission on March 29, 2000). *</u></a>  |
| 4.                            | Instruments defining the rights of security holders including indentures (See <a href="#"><u>Articles of Incorporation</u></a> and <a href="#"><u>Bylaws</u></a> ). *   |
| 10.                           | Material Contracts:   |

|                             |  |
|-----------------------------|--|
| <a href="#"><u>10.1</u></a> | <a href="#"><u>Amended and Restated Agreement of Limited Partnership of Justice Investors, effective November 30, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Report for the quarterly period ended December 31, 2010, filed with the Commission on February 11, 2011). *</u></a>                 |
| <a href="#"><u>10.2</u></a> | <a href="#"><u>General Partner Compensation Agreement, dated December 1, 2008 (incorporated by reference to Exhibit 10.2 to Company's Form 10-Q Report for the quarterly period ended December 31, 2008, filed with the Commission on February 13, 2009). *</u></a>  |
| <a href="#"><u>10.3</u></a> | <a href="#"><u>Franchise License Agreement, dated December 10, 2004, between Justice Investors and Hilton Hotels (incorporated by reference to Exhibit 10.3 of the Company's amended report on Form 10-K/A for the fiscal year ended June 30, 2011, as filed with the Commission on August 24, 2012). *</u></a>                |
| <a href="#"><u>10.4</u></a> | <a href="#"><u>Management Agreement, dated February 2, 2007, between Justice Investors and Prism Hospitality, L.P. (incorporated by reference to Exhibit 10.4 of the Company's amended report on Form 10-K/A for the fiscal year ended June 30, 2011, as filed with the Commission on August 24, 2012). *</u></a>              |
| <a href="#"><u>10.5</u></a> | <a href="#"><u>Management Agreement, dated February 1, 2017, between Justice Operating Company, LLC and Interstate Management Company, LLC. (incorporated by reference to Exhibit 10.5 of the Company's Form 10-K Report for the fiscal year ended June 30, 2017, as filed with the Commission on October 13, 2017). *</u></a> |
| <a href="#"><u>14.</u></a>  | <a href="#"><u>Code of Ethics (filed herewith).</u></a>  |
| <a href="#"><u>21.</u></a>  | <a href="#"><u>Subsidiaries (filed herewith).</u></a>  |
| <a href="#"><u>31.1</u></a> | <a href="#"><u>Certification of Principal Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a). (filed herewith)</u></a>   |
| <a href="#"><u>31.2</u></a> | <a href="#"><u>Certification of Principal Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a). (filed herewith)</u></a>   |
| <a href="#"><u>32.1</u></a> | <a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350. (filed herewith)</u></a>   |
| <a href="#"><u>32.2</u></a> | <a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350. (filed herewith)</u></a>   |
| <b>101.INS</b>              | XBRL Instance Document   |
| <b>101.SCH</b>              | XBRL Taxonomy Extension Schema   |
| <b>101.CAL</b>              | XBRL Taxonomy Extension Calculation Linkbase   |
| <b>101.DEF</b>              | XBRL Taxonomy Extension Definition Linkbase  |
| <b>101.LAB</b>              | XBRL Taxonomy Extension Label Linkbase   |
| <b>101.PRE</b>              | XBRL Taxonomy Extension Presentation Linkbase  |

\* All exhibits marked by an asterisk have been previously filed with other documents, including Registrant's Form 10 filed on October 27, 1967, and subsequent filings on Forms 8-K, 10-K, 10-KSB, 10-Q and 10-QSB, which are incorporated herein by reference.

**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.

SANTA FE FINANCIAL CORPORATION  
(Registrant)

Date: August 30, 2019

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

Date: August 30, 2019

by /s/ Danfeng Xu  
Danfeng Xu, Treasurer  
and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signatures</b>                               | <b>Title and Position</b>   | <b>Date</b>            |
|---|---|------------------------|
| <u>/s/ John V Winfield</u><br>John V. Winfield  | President, Chief Operating Officer and Chairman<br>of the Board (Principal Executive Officer) | <u>August 30, 2019</u> |
| <u>/s/ Danfeng Xu</u><br>Danfeng Xu             | Treasurer and Controller (Principal Financial Officer)  | <u>August 30, 2019</u> |
| <u>/s/ John C. Love</u><br>John C. Love         | Director  | <u>August 30, 2019</u> |
| <u>/s/ William J. Nance</u><br>William J. Nance | Director  | <u>August 30, 2019</u> |

**SANTA FE FINANCIAL CORPORATION  
CODE OF ETHICS  
FOR  
SENIOR FINANCIAL OFFICERS**

This Code of Ethics applies to Santa Fe Financial Corporation's ("Santa Fe's" or the "Company") Senior Financial Officers. "Senior Financial Officers" shall include the principal executive officer, the principal accounting officer or controller, or persons performing similar functions, including Santa Fe's President and Chief Executive Officer, Chief Financial Officer, Treasurer, Controller, Vice President, and such other individuals as determined from time to time by the Audit Committee of the Company (for purposes of this Code of Ethics. The Company expects all employees, in carrying out their job responsibilities, to act in accordance with the highest standards of personal and professional integrity, to comply with all applicable laws, and to abide by Santa Fe's Business Conduct Policies and other corporate policies and procedures adopted from time to time by the Company. This Code of Ethics supplements the foregoing with respect to all Senior Financial Officers.

Santa Fe's Senior Financial Officers will:

1. Engage in and promote honest and ethical conduct, acting with integrity and exercising at all times their best independent judgment;
  2. Avoid actual or apparent conflicts of interest between personal and professional relationships and disclose to the Company's Audit Committee and counsel any material transaction or relationship that reasonably could be expected to give rise to such a conflict;
  3. Produce full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company;
  4. Comply with applicable governmental laws, rules and regulations, as well as the rules and regulations of self-regulatory organizations of which the Company is a member;
  5. Maintain the confidentiality of Company information, except when authorized or otherwise required to make any disclosure, and avoid the use of any Company information for personal advantage;
  6. Promote ethical and honest behavior among employees under your supervision; and
  7. Promptly report any possible violation of this Code of Ethics to the Audit Committee and the Company's counsel.
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All Senior Financial Officers are prohibited from directly or indirectly taking any action to coerce, manipulate, mislead or fraudulently influence the Company's independent registered public accounting firm engaged in the performance of an audit or review of the financial statements of the Company for the purpose of rendering the financial statements of the Company misleading.

The Audit Committee of the Board of Directors shall approve any waiver or amendment of this Code of Ethics, and any such waiver or amendment shall be disclosed promptly as required by law and SEC regulations.

All Senior Financial Officers will be held accountable for their adherence to this Code of Ethics. Failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including termination of employment. Violations of this Code of Ethics may also constitute violations of law, and may result in civil and criminal penalties for the individual, his or her supervisor and/or the Company.

If a Senior Financial Officer has any questions regarding the best course of action in a particular situation, he or she should promptly contact the Chairman of the Audit Committee or the Company's counsel. An individual may choose to remain anonymous in reporting any possible violation of this Code of Ethics.

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**SUBSIDIARIES OF SANTA FE FINANCIAL CORPORATION**

1. Portsmouth Square, Inc. (68.8%-owned) Incorporated on July 6, 1967 in California.
  2. Intergroup Woodland Village, Inc. (55.4%-owned) Incorporated on August 5, 1993 in Ohio.
  3. 614 Acanto Properties, Inc. (100%-owned) Incorporated on November 7, 2001 in California.
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## CERTIFICATION

I, John V. Winfield, certify that:

1. I have reviewed this annual report on Form 10-K of Santa Fe Financial Corporation;
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: August 30, 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 annual report on Form 10-K of Santa Fe Financial Corporation;
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: August 30, 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 Annual Report of Santa Fe Financial Corporation (the "Company") on Form 10-K for the fiscal year ended June 30, 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: August 30, 2019

A signed original of this written statement required by Section 906 has been provided to Santa Fe Financial Corporation and will be retained by Santa Fe Financial Corporation 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 Annual Report of Santa Fe Financial Corporation (the "Company") on Form 10-K for the fiscal year ended June 30, 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: August 30, 2019

A signed original of this written statement required by Section 906 has been provided to Santa Fe Financial Corporation and will be retained by Santa Fe Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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