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

# FORM 10-Q

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

**For the quarterly period ended March 31, 2020**

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 | 95-2452529 |
| (State or other jurisdiction of Incorporation or organization) | (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)

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

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

[X] Yes [ ] No

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ ] |
| Non-accelerated filer [X] | Smaller reporting company [X] |
| | 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 [X] No

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| NONE | NONE | NONE |

The number of shares outstanding of registrant's Common Stock, as of June 18, 2020 was 1,339,310.

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**PART I**
**FINANCIAL INFORMATION**

**Item 1 - Condensed Consolidated Financial Statements**

**SANTA FE FINANCIAL CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
(Unaudited)

| **As of** | **March 31, 2020** | **June 30, 2019** |
|---|---|---|
| **ASSETS** | | |
| Investment in hotel, net | $ 35,847,000 | $ 36,336,000 |
| Investment in real estate, net | 4,786,000 | 4,866,000 |
| Investment in marketable securities | 526,000 | 2,679,000 |
| Other investments, net | 230,000 | 351,000 |
| Cash and cash equivalents | 5,962,000 | 9,800,000 |
| Restricted cash | 11,550,000 | 11,027,000 |
| Accounts receivable - hotel, net | 183,000 | 848,000 |
| Other assets, net | 1,629,000 | 1,643,000 |
| Deferred tax assets | 6,647,000 | 6,402,000 |
| Total assets | $ 67,360,000 | $ 73,952,000 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIT** | | |
| Liabilities: | | |
| Accounts payable and other liabilities - Justice | $ 8,116,000 | $ 11,298,000 |
| Accounts payable and other liabilities | 502,000 | 362,000 |
| Accounts payable to related party | 5,262,000 | 5,105,000 |
| Due to securities broker | - | 396,000 |
| Obligations for securities sold | - | 625,000 |
| Related party and other notes payable | 7,796,000 | 8,221,000 |
| Finance leases | 1,206,000 | 1,486,000 |
| Mortgage notes payable - real estate | 3,308,000 | 3,315,000 |
| Mortgage notes payable - hotel, net | 111,729,000 | 113,087,000 |
| Total liabilities | 137,919,000 | 143,895,000 |
| **Shareholders' deficit:** | | |
| Common stock - par value $.10 per share; Authorized - 2,000,000; Issued 1,437,138 and 1,339,638; outstanding 1,339,310 and 1,241,810 as of March 31, 2020 and June 30, 2019, respectively | 144,000 | 134,000 |
| Additional paid-in capital | 7,895,000 | 8,808,000 |
| Accumulated deficit | (52,959,000) | (54,183,000) |
| Treasury stock, at cost, 97,828 shares | (951,000) | (951,000) |
| Total Santa Fe shareholders' deficit | (45,871,000) | (46,192,000) |
| Noncontrolling interest | (24,688,000) | (23,751,000) |
| Total shareholders' deficit | (70,559,000) | (69,943,000) |
| Total liabilities and shareholders' deficit | $ 67,360,000 | $ 73,952,000 |

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

**SANTA FE FINANCIAL CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
(Unaudited)

| **For the three months ended March 31,** | **2020** | **2019** |
|---|---|---|
| **Revenues:** | | |
| Hotel | $ 11,259,000 | $ 15,469,000 |
| Real estate | 79,000 | 81,000 |
| Total revenues | 11,338,000 | 15,550,000 |
| | | |
| Costs and operating expenses: | | |
| Hotel operating expenses | (10,060,000) | (11,378,000) |
| Real estate operating expenses | (53,000) | (52,000) |
| Depreciation and amortization expense | (598,000) | (613,000) |
| General and administrative expense | (440,000) | (364,000) |
| | | |
| Total costs and operating expenses | (11,151,000) | (12,407,000) |
| | | |
| Income from operations | 187,000 | 3,143,000 |
| | | |
| Other income (expense): | | |
| Interest expense - mortgage | (1,695,000) | (1,838,000) |
| Interest expense - related party | (126,000) | (129,000) |
| Loss on disposal of assets | - | (398,000) |
| Net (loss) gain on marketable securities | (456,000) | 67,000 |
| Net (loss) gain on marketable securities - Comstock | (20,000) | 207,000 |
| Impairment loss on other investments | (64,000) | (61,000) |
| Dividend and interest income | 52,000 | 112,000 |
| Trading and margin interest expense | (54,000) | (77,000) |
| | | |
| Total other expense, net | (2,363,000) | (2,117,000) |
| | | |
| (Loss) income before income taxes | (2,176,000) | 1,026,000 |
| Income tax benefit (expense) | 582,000 | (280,000) |
| | | |
| Net (loss) income | (1,594,000) | 746,000 |
| Less: Net loss (income) attributable to the noncontrolling interest | 436,000 | (320,000) |
| | | |
| Net (loss) income attributable to Santa Fe | $ (1,158,000) | $ 426,000 |
| | | |
| Basic and diluted net (loss) income per share attributable to Santa Fe | $ (0.89) | $ 0.34 |
| | | |
| Weighted average number of common shares outstanding - basic and diluted | 1,301,810 | 1,241,810 |

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

**SANTA FE FINANCIAL CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
(Unaudited)

| For the nine months ended March 31, | 2020 | 2019 |
|---|---|---|
| **Revenues:** | | |
| Hotel | $ 41,589,000 | $ 45,276,000 |
| Real estate | 237,000 | 242,000 |
| Total revenues | 41,826,000 | 45,518,000 |
| | | |
| Costs and operating expenses: | | |
| Hotel operating expenses | (33,138,000) | (33,424,000) |
| Real estate operating expenses | (135,000) | (170,000) |
| Depreciation and amortization expense | (1,807,000) | (1,902,000) |
| General and administrative expense | (1,050,000) | (843,000) |
| | | |
| Total costs and operating expenses | (36,130,000) | (36,339,000) |
| | | |
| Income from operations | 5,696,000 | 9,179,000 |
| | | |
| Other income (expense): | | |
| Interest expense - mortgage | (5,229,000) | (5,562,000) |
| Interest expense - related party | (384,000) | (375,000) |
| Loss on asset disposal | - | (398,000) |
| Net loss on marketable securities | (553,000) | (330,000) |
| Net loss on marketable securities - Comstock | (293,000) | (134,000) |
| Impairment loss on other investments | (64,000) | (61,000) |
| Dividend and interest income | 158,000 | 150,000 |
| Trading and margin interest expense | (191,000) | (257,000) |
| | | |
| Total other expense, net | (6,556,000) | (6,967,000) |
| | | |
| (Loss) income before income taxes | (860,000) | 2,212,000 |
| Income tax benefit (expense) | 244,000 | (769,000) |
| | | |
| Net (loss) income | (616,000) | 1,443,000 |
| Less: Net income attributable to the noncontrolling interest | (66,000) | (977,000) |
| | | |
| Net (loss) income attributable to Santa Fe Financial Corporation | $ (682,000) | $ 466,000 |
| | | |
| Basic and diluted net (loss) income per share attributable to Santa Fe Financial Corporation | $ (0.54) | $ 0.38 |
| | | |
| Weighted average number of common shares outstanding - basic and diluted | 1,261,665 | 1,241,810 |

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

**SANTA FE FINANCIAL CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT**
**(UNAUDITED)**

| | Common Stock | | Additional Paid-in | Accumulated | Treasury | Total Santa Fe Shareholders' | Noncontrolling | Total Shareholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Stock | Deficit | Interest | Deficit |
| **Balance at July 1, 2019** | 1,339,638 | $ 134,000 | $ 8,808,000 | $ (54,183,000) | $ (951,000) | $ (46,192,000) | $ (23,751,000) | $ (69,943,000) |
| Net income | - | - | - | 361,000 | - | 361,000 | 350,000 | 711,000 |
| **Balance at September 30, 2019** | 1,339,638 | $ 134,000 | $ 8,808,000 | $ (53,822,000) | $ (951,000) | $ (45,831,000) | $ (23,401,000) | $ (69,232,000) |
| Net income | - | - | - | 115,000 | - | 115,000 | 152,000 | 267,000 |
| **Balance at December 31, 2019** | 1,339,638 | $ 134,000 | $ 8,808,000 | $ (53,707,000) | $ (951,000) | $ (45,716,000) | $ (23,249,000) | $ (68,965,000) |
| Net loss | - | - | - | (1,158,000) | - | (1,158,000) | (436,000) | (1,594,000) |
| Investment in Woodland | 97,500 | 10,000 | (913,000) | 1,906,000 | - | 1,003,000 | (1,003,000) | - |
| **Balance at March 31, 2020** | 1,437,138 | $ 144,000 | $ 7,895,000 | $ (52,959,000) | $ (951,000) | $ (45,871,000) | $ (24,688,000) | $ (70,559,000) |

| | Common Stock | | Additional Paid-in | Accumulated | Treasury | Total Santa Fe Shareholders' | Noncontrolling | Total Shareholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Stock | Deficit | Interest | Deficit |
| **Balance at July 1, 2018** | 1,339,638 | $ 134,000 | $ 8,808,000 | $ (57,442,000) | $ (951,000) | $ (49,451,000) | $ (24,606,000) | $ (74,057,000) |
| Net income | - | - | - | 566,000 | - | 566,000 | 501,000 | 1,067,000 |
| **Balance at September 30, 2018** | 1,339,638 | $ 134,000 | $ 8,808,000 | $ (56,876,000) | $ (951,000) | $ (48,885,000) | $ (24,105,000) | $ (72,990,000) |
| Net (loss) income | - | - | - | (526,000) | - | (526,000) | 156,000 | (370,000) |
| **Balance at December 31, 2018** | 1,339,638 | $ 134,000 | $ 8,808,000 | $ (57,402,000) | $ (951,000) | $ (49,411,000) | $ (23,949,000) | $ (73,360,000) |
| Net income | - | - | - | 426,000 | - | 426,000 | 320,000 | 746,000 |
| **Balance at March 31, 2019** | 1,339,638 | $ 134,000 | $ 8,808,000 | $ (56,976,000) | $ (951,000) | $ (48,985,000) | $ (23,629,000) | $ (72,614,000) |

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

**SANTA FE FINANCIAL CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)

| For the nine months ended March 31, | 2020 | 2019 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net (loss) income | $ (616,000) | $ 1,443,000 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Net unrealized loss on marketable securities | 576,000 | 665,000 |
| Loss on disposal of assets | - | 398,000 |
| Impairment loss on other investments | 64,000 | 61,000 |
| Deferred taxes | (244,000) | 769,000 |
| Depreciation and amortization | 1,672,000 | 1,770,000 |
| Changes in operating assets and liabilities: | | |
| Investment in marketable securities | 1,577,000 | 458,000 |
| Accounts receivable | 665,000 | 1,187,000 |
| Other assets | 14,000 | (154,000) |
| Accounts payable and other liabilities - Justice | (3,182,000) | (2,130,000) |
| Accounts payable and other liabilities | 140,000 | (18,000) |
| Accounts payable related party | 157,000 | 417,000 |
| Due to securities broker | (396,000) | (122,000) |
| Obligations for securities sold | (625,000) | (481,000) |
| Net cash (used in) provided by operating activities | (198,000) | 4,263,000 |
| | | |
| **Cash flows from investing activities:** | | |
| Payments for hotel and real estate investments | (1,205,000) | (992,000) |
| Payments for real estate | (3,000) | - |
| Proceeds from other investments | 57,000 | 62,000 |
| Net cash used in investing activities | (1,151,000) | (930,000) |
| | | |
| **Cash flows from financing activities:** | | |
| Net payments of mortgage and other notes payable | (1,966,000) | (1,020,000) |
| Net cash used in financing activities | (1,966,000) | (1,020,000) |
| | | |
| **Net (decrease) increase in cash and cash equivalents:** | (3,315,000) | 2,313,000 |
| Cash, cash equivalents and restricted cash at the beginning of the period | 20,827,000 | 14,766,000 |
| Cash, cash equivalents and restricted cash at the end of the period | $ 17,512,000 | $ 17,079,000 |
| | | |
| Supplemental information: | | |
| Interest paid | $ 5,648,000 | $ 6,013,000 |
| Taxes paid | $ 2,000 | $ 47,000 |
| | | |
| Non-cash transaction: | | |
| Additions to Hotel equipment through capital lease | $ 30,000 | $ 71,000 |

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

**SANTA FE FINANCIAL CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(UNAUDITED)**

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

The condensed consolidated financial statements included herein have been prepared by Santa Fe Financial Corporation ("Santa Fe" or the "Company"), without audit, according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the condensed consolidated financial statements prepared in accordance with generally accepted accounting principles (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures that are made are adequate to make the information presented not misleading. Further, the condensed consolidated financial statements reflect, in the opinion of management, all adjustments (which included only normal recurring adjustments) necessary for a fair statement of the financial position, cash flows and results of operations as of and for the periods indicated. It is suggested that these financial statements be read in conjunction with the audited financial statements of Santa Fe and the notes therein included in the Company's Annual Report on Form 10-K for the year ended June 30, 2019. The March 31, 2020 Condensed Consolidated Balance Sheet was derived from the Consolidated Balance Sheet as included in the Company's Form 10-K for the year ended June 30, 2019.

The results of operations for the nine months ended March 31, 2020 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2020.

Santa Fe owns approximately 68.8% of the outstanding common shares of Portsmouth Square, Inc. ("Portsmouth"), a public company (OTC Market Inc.'s Pink: PRSI). The Company 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 The InterGroup Corporation ("InterGroup"), a public company (NASDAQ Capital Market: INTG). Woodland Village's major asset is a 27-unit apartment complex located in Santa Monica, California. Santa Fe also owns a two-unit apartment building in West Los Angeles, California.

On February 5, 2020, the Santa Fe entered into a Contribution Agreement (the "Contribution Agreement") with InterGroup, pursuant to which InterGroup received 97,500 shares of common stock, par value $0.10 per share, of Santa Fe, in exchange for InterGroup's contribution to Santa Fe of 4,460 shares of common stock (the "Common Stock") of Woodland Village Inc. (the "Transaction"). As a result of the contribution, Woodland Village has become a wholly owned subsidiary of Santa Fe. Before the issuance of the stock referenced in the preceding sentence, InterGroup had the power to vote 86.3% of the voting shares of Santa Fe, which includes the power to vote an approximately 4% interest in the common stock in Santa Fe owned by the Company's Chairman and CEO, John V. Winfield, pursuant to a voting trust agreement entered into on June 30, 1998. Subsequent to this issuance, InterGroup has the power to vote 87.3% of the issued and outstanding common stock of Santa Fe, which includes the power to vote an approximately 3.7% interest in the common stock in Santa Fe under the aforementioned voting trust agreement. Mr. Winfield, Chairman of the Board of both InterGroup and Santa Fe, is a control person of both entities.

On February 5, 2020, after review by an independent director of the Company, and by the unanimous vote of all directors of the Company (with Mr. Winfield abstaining), the Board approved the entry into the Contribution Agreement and the consummation of the Transaction. The Company's Board approved the Transaction after the receipt of a fairness opinion from a third-party independent firm. The Board was first made aware of the Transaction in early January 2020, received information to review on or about January 17, 2020 and was given multiple opportunities to discuss the materials with management before the February 5, 2020 Board meeting. The Contribution Agreement also contains a provision for a potential subsequent earn out to InterGroup pursuant to terms set forth therein.

InterGroup also directly owns approximately 13.5% of the common stock of Portsmouth. Portsmouth's primary business is conducted through its general and limited partnership interest in Justice Investors Limited Partnership; a California limited partnership ("Justice" or the "Partnership"). Portsmouth controls 93.3% of the voting interest in Justice and is the sole general partner. The financial statements of Justice are consolidated with those of Portsmouth.

Justice, through its subsidiaries Justice Operating Company, LLC ("Operating") and Justice Mezzanine Company, LLC ("Mezzanine") owns and operates a 544-room hotel property located at 750 Kearny Street, San Francisco California, known as the Hilton San Francisco Financial District (the "Hotel") and related facilities including a five-level underground parking garage. Mezzanine 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) through January 31, 2030.

Justice entered into a Hotel management agreement ("HMA") with Interstate Management Company, LLC ("Interstate") to manage the Hotel, along with its five-level parking garage, with an effective takeover date of February 3, 2017. The term of the management agreement is for an initial period of ten years commencing on the takeover date and automatically renews for successive one (1) year periods, to not exceed five years in the aggregate, subject to certain conditions. Under the terms on the HMA, base management fee payable to Interstate shall be one and seven-tenths percent (1.70%) of total Hotel revenue. On October 25, 2019, Interstate merged with Aimbridge Hospitality, North America's largest independent hotel management firm. With the completion of the merger, the newly combined company will be positioned under the Aimbridge Hospitality name in the Americas.

**Due to Securities Broker**

Various securities brokers have advanced funds to the Company for the purchase of marketable securities under standard margin agreements. These advanced funds are recorded as a liability.

**Obligations for Securities Sold**

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

**Income Tax**

The Company consolidates Justice ("Hotel") for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax benefit (expense) during the nine months ended March 31, 2020 and 2019 represent the income tax effect on the Company's pretax (loss) income which includes its share in the net income of the Hotel.

We have considered the income tax accounting and disclosure implications of the relief provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted on March 27, 2020. The effect of tax law changes is required to be recognized either in the interim period in which the legislation is enacted or reflected in the computation of the annual effective tax rate, depending on the nature of the change. As of March 31, 2020, we evaluated the income tax provisions of the CARES Act and have determined there to be no material effect on the March 31, 2020 tax provision. We will continue to evaluate the income tax provisions of the CARES Act and monitor the tax law changes that could have income tax accounting and disclosure implications.

**Financial Condition and Liquidity**

Historically, our cash flows have been primarily generated from our Hotel operations. However, management expects that the ongoing length and severity of the economic downturn, resulting from the continuing and uncertain impact of the COVID-19 pandemic, will have a material adverse impact on our business, financial condition, liquidity and financial results. As a result of our Hotel's material decrease in occupancy and average daily rate, we expect our cash flow from operations to continue to be significantly lower than historical rates for the foreseeable future, until the pandemic resolves, and hotel occupancies return to historical rates.

We have taken several steps to preserve capital and increase liquidity, including the implementation of various cost saving initiatives at our Hotel. For further discussion, see "Item 2 - Negative Effects of COVID-19 on our Business" included in this Quarterly Report. We may also receive cash generated from the investment of our cash and marketable securities, other investments, and other sources, including financing from our parent company, InterGroup. Subsequent to March 31, 2020, in order to increase its liquidity positions and take advantage of the favorable interest rate environment, InterGroup refinanced its 151-unit apartment complex in Parsippany, New Jersey, generating net proceeds of approximately $6,814,000. InterGroup is also currently refinancing two of its California properties scheduled to close in June and July 2020, and it could refinance additional multifamily properties should the need arise; however, InterGroup does not deem it necessary at this time. InterGroup has an uncollateralized $8,000,000 revolving line of credit from CIBC Bank USA ("CIBC") of which $5,000,000 is available to be drawn down as of June 18, 2020, should additional liquidity be necessary.

As of March 31, 2020, we had cash, cash equivalents, and restricted cash of $17,512,000 which included $11,550,000 of restricted cash held by our Hotel senior lender Wells Fargo Bank, N.A. ("Lender"). Of the total restricted cash, $7,977,000 was held for furniture, fixtures and equipment ("FF&E") reserves and $2,432,000 was held for a possible future property improvement plan ("PIP") request by our franchisor, Hilton. However, Hilton has confirmed that it will not require a PIP for our Hotel until relicensing which shall occur at the earlier of (i) January 2030, which is six years after the maturity date of our current senior and mezzanine loans, or (ii) upon the sale of our Hotel. Therefore, Justice is currently in discussions with the Lender to release the PIP deposits to the Hotel and to allow the Hotel to utilize some or all of its FF&E reserves to fund operating expenses as well as debt service. Additionally, Justice has requested to temporarily pay interest only on the senior mortgage and the suspension of the monthly FF&E reserve installment, for a combined monthly savings in cash flow of approximately $321,000. Justice anticipates a resolution with the Lender in regard to the aforementioned requests before June 30, 2020.

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the recently enacted CARES Act administered by the U.S. Small Business Administration. Justice received proceeds of $4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, Justice will use the proceeds from the SBA Loan primarily for payroll costs. The SBA Loan is scheduled to mature on April 9, 2022 and has a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. The loan may be forgiven if the funds are used for payroll and other qualified expenses. New guidance on the criteria for forgiveness continues to be released.

We may also have financing availability, upon the authorization of the respective board of directors, to borrow from InterGroup to meet our obligations during the next twelve months and beyond, should the need arise.

We cannot presently estimate the full financial impact of the unprecedented COVID-19 pandemic on our business or predict the related federal, state and local civil authority actions, which are highly dependent on the severity and duration of the pandemic, but we expect that the COVID-19 closures and other imposed restrictions will continue to have a significant adverse impact on our results of operations. Due to the uncertainties associated with the COVID-19 pandemic and the indeterminate length of time it will affect the hospitality industry, we have taken proactive measures to secure our liquidity position to be able to meet our obligations for the foreseeable future, including implementing strict cost management measures to eliminate non-essential expenses, postponing capital expenditures, renegotiating certain reoccurring expenses, and temporarily closing certain hotel services and outlets.

Our known short-term liquidity requirements primarily consist of funds necessary to pay for operating and other expenditures, including management and franchise fees, corporate expenses, payroll and related costs, taxes, interest and principal payments on our outstanding indebtedness, and repairs and maintenance of the Hotel. 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.

Our long-term liquidity requirements primarily consist of funds necessary to pay for scheduled debt maturities and capital improvements of the Hotel. We will continue to finance our business activities primarily with existing cash, including from the activities described above, and cash generated from our operations. After considering our approach to liquidity and accessing our available sources of cash, we believe that our cash position, after giving effect to the transactions discussed above, will be adequate to meet anticipated requirements for operating and other expenditures, including corporate expenses, payroll and related benefits, taxes and compliance costs and other commitments, for at least twelve months from the date of issuance of these financial statements, even if current levels of low occupancy were to persist. The objectives of our cash management policy are to maintain existing leverage levels and the availability of liquidity, while minimizing operational costs. We believe that our cash on hand, cash provided by the SBA loan, along with other potential aforementioned sources of liquidity that management may be able to obtain, will be sufficient to fund our working capital needs, as well as our capital lease and debt obligations for at least the next twelve months and beyond. However, there can be no guarantee that management will be successful with its plan.

The following table provides a summary as of March 31, 2020, the Company's material financial obligations which also includes interest payments:

| | Total | 3 Months 2020 | Year 2021 | Year 2022 | Year 2023 | Year 2024 | Thereafter |
|---|---|---|---|---|---|---|---|
| Mortgage notes payable | $ 115,964,000 | $ 366,000 | $ 4,525,000 | $ 1,642,000 | $ 1,732,000 | $ 107,403,000 | $ 296,000 |
| Related party and other notes payable | 9,002,000 | 250,000 | 1,016,000 | 4,033,000 | 750,000 | 567,000 | 2,386,000 |
| Interest | 24,609,000 | 2,160,000 | 6,777,000 | 6,295,000 | 6,184,000 | 3,080,000 | 113,000 |
| Total | $ 149,575,000 | $ 2,776,000 | $ 12,318,000 | $ 11,970,000 | $ 8,666,000 | $ 111,050,000 | $ 2,795,000 |

**Recently Issued and Adopted Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet and requires expanded disclosures about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-11 provides entities another option for transition, allowing entities to not apply the new standard in the comparative periods they present in their financial statements in the year of adoption. Effective July 1, 2019, we adopted ASU 2016-02 using the modified retrospective approach provided by ASU 2018-11. We elected certain practical expedients permitted under the transition guidance, including the election to carryforward historical lease classification. We also elected the short-term lease practical expedient, which allowed us to not recognize leases with a term of less than twelve months on our consolidated balance sheets. In addition, we elected the lease and non-lease components practical expedient, which allowed us to calculate the present value of the fixed payments without performing an allocation of lease and non-lease components. We did not record any operating lease right-of-use ("ROU") assets and operating lease liabilities upon adoption of the new standard as the aggregate value of the ROU assets and operating lease liabilities are immaterial relative to our total assets and liabilities as of June 30, 2019. The standard did not have an impact on our other finance leases, statements of operations or cash flows. See Note 3 and Note 10 for balances of finance lease ROU assets and liabilities, respectively.

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, 2023. 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 three months ended March 31,** | **2020** | **2019** |
|---|---|---|
| Hotel revenues: | | |
| Hotel rooms | $ 9,642,000 | $ 13,521,000 |
| Food and beverage | 874,000 | 1,218,000 |
| Garage | 650,000 | 652,000 |
| Other operating departments | 93,000 | 78,000 |
| Total hotel revenue | $ 11,259,000 | $ 15,469,000 |

| **For the nine months ended March 31,** | **2020** | **2019** |
|---|---|---|
| Hotel revenues: | | |
| Hotel rooms | $ 35,453,000 | $ 38,608,000 |
| Food and beverage | 3,521,000 | 4,232,000 |
| Garage | 2,162,000 | 2,160,000 |
| Other operating departments | 453,000 | 276,000 |
| Total hotel revenue | $ 41,589,000 | $ 45,276,000 |

***Performance obligations***

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

- *Cancelable room reservations or ancillary services* are typically satisfied as the good or service is transferred to the hotel guest, which is generally when the room stay occurs.

- *Noncancelable room reservations and banquet or conference reservations* represent a series of distinct goods or services provided over time and satisfied as each distinct good or service is provided, which is reflected by the duration of the room reservation.

- *Other ancillary goods and services* are purchased independently of the room reservation at standalone selling prices and are considered separate performance obligations, which are satisfied when the related good or service is provided to the hotel guest.

- *Components of package reservations* for which each component could be sold separately to other hotel guests are considered separate performance obligations and are satisfied as set forth above.

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

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

***Contract assets and liabilities***

We do not have any material contract assets as of March 31, 2020 and June 30, 2019 other than trade and other receivables, net on our condensed consolidated balance sheets. Our receivables are primarily the result of contracts with customers, which are reduced by an allowance for doubtful accounts that reflects our estimate of amounts that will not be collected.

We record contract liabilities when cash payments are received or due in advance of guests staying at our hotel, which are presented within accounts payable and other liabilities on our condensed consolidated balance sheets. Contract liabilities decreased to $404,000 as of March 31, 2020, from $1,215,000 as of June 30, 2019. The decrease for the nine months ended March 31, 2020 was primarily driven by $811,000 revenue recognized that was included in the advanced deposits balance as of June 30, 2019.

*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 and lease agreements do not extend beyond one year.

**NOTE 3 – INVESTMENT IN HOTEL, NET**

Investment in hotel consisted of the following as of:

| **March 31, 2020** | | Cost | | Accumulated Depreciation | | Net Book Value |
|---|---|---|---|---|---|---|
| Land | $ | 1,896,000 | $ | - | $ | 1,896,000 |
| Finance lease ROU assets | | 1,746,000 | | (213,000) | | 1,533,000 |
| Furniture and equipment | | 30,472,000 | | (27,358,000) | | 3,114,000 |
| Building and improvements | | 59,467,000 | | (30,163,000) | | 29,304,000 |
| Investment in Hotel, net | $ | 93,581,000 | $ | (57,734,000) | $ | 35,847,000 |

| **June 30, 2019** | | Cost | | Accumulated Depreciation | | Net Book Value |
|---|---|---|---|---|---|---|
| Land | $ | 1,896,000 | $ | - | $ | 1,896,000 |
| Finance lease ROU assets | | 521,000 | | (35,000) | | 486,000 |
| Furniture and equipment | | 30,585,000 | | (26,841,000) | | 3,744,000 |
| Building and improvements | | 59,341,000 | | (29,131,000) | | 30,210,000 |
| Investment in Hotel, net | $ | 92,343,000 | $ | (56,007,000) | $ | 36,336,000 |

**NOTE 4 – INVESTMENT IN REAL ESTATE, NET**

The Company owns and operates a 2-unit and 27-unit multi-family apartment complexes located in West Los Angeles, California and Santa Monica, California, respectively. The Company also owns land held for development located in Maui, Hawaii. Investment in real estate consisted of the following:

| **As of** | | **March 31, 2020** | | **June 30, 2019** |
|---|---|---|---|---|
| Land | $ | 2,430,000 | $ | 2,430,000 |
| Buildings, improvements and equipment | | 2,921,000 | | 2,922,000 |
| Accumulated depreciation | | (1,545,000) | | (1,463,000) |
| | | 3,806,000 | | 3,889,000 |
| Land held for development | | 980,000 | | 977,000 |
| Investment in real estate, net | $ | 4,786,000 | $ | 4,866,000 |

**NOTE 5 – INVESTMENT IN MARKETABLE SECURITIES, NET**

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

At March 31, 2020 and June 30, 2019, all of the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments are included in earnings. Trading securities are summarized as follows:

| Investment | Cost | Gross Unrealized Gain | Gross Unrealized Loss | Net Unrealized Loss | Fair Value |
|---|---|---|---|---|---|
| **As of March 31, 2020** | | | | | |
| Corporate Equities | $ 5,741,000 | $ 84,000 | $ (5,299,000) | $ (5,215,000) | $ 526,000 |
| **As of June 30, 2019** | | | | | |
| Corporate Equities | $10,922,000 | $ 449,000 | $ (8,692,000) | $ (8,243,000) | $ 2,679,000 |

As of March 31, 2020, and June 30, 2019, approximately 41% and 19%, respectively, of the investment marketable securities balance above is comprised of the common stock of Comstock Mining, Inc. ("Comstock" – NYSE AMERICAN: LODE).

As of March 31, 2020, and June 30, 2019, the Company had $5,291,000 and $8,617,000 respectively, of unrealized losses related to securities held for over one year. As of March 31, 2020, and June 30, 2019, unrealized losses related to the Company's investment in Comstock were $5,221,000 and $8,556,000, respectively. For the nine months ended March 31, 2020, the decrease in unrealized losses is a result of reclassing $3,628,000 of net unrealized gain related to Comstock that was included in the cost basis as of June 30, 2019.

Net gains (losses) on marketable securities on the statement of operations is comprised of realized and unrealized gains (losses). Below is the composition of the net gains (losses) on marketable securities for the three and nine months ended March 31, 2020 and 2019, respectively.

| **For the three months ended March 31,** | **2020** | **2019** |
|---|---|---|
| Realized loss on marketable securities, net | $ (316,000) | $ (89,000) |
| Unrealized (loss) gain on marketable securities, net | (140,000) | 156,000 |
| Unrealized (loss) gain on marketable securities related to Comstock | (20,000) | 207,000 |
| Net (loss) gain on marketable securities | $ (476,000) | $ 274,000 |

| **For the nine months ended March 31,** | **2020** | **2019** |
|---|---|---|
| Realized (loss) gain on marketable securities, net | $ (269,000) | $ 201,000 |
| Unrealized loss on marketable securities, net | (284,000) | (531,000) |
| Unrealized loss on marketable securities related to Comstock | (293,000) | (134,000) |
| Net loss on marketable securities | $ (846,000) | $ (464,000) |

**NOTE 6 – OTHER INVESTMENTS, NET**

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

Other investments, net consist of the following:

| Type | March 31, 2020 | June 30, 2019 |
|---|---|---|
| Private equity hedge fund, at cost | $ 169,000 | $ 233,000 |
| Other investments | 61,000 | 118,000 |
| | $ 230,000 | $ 351,000 |

**NOTE 7 – FAIR VALUE MEASUREMENTS**

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

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

| **As of** | **3/31/2020** | **6/30/2019** |
|---|---|---|
| **Assets:** | **Total - Level 1** | **Total - Level 1** |
| Investment in marketable securities: | | |
| Basic materials | $ 262,000 | $ 537,000 |
| REITs and real estate companies | 258,000 | 816,000 |
| Consumer cyclical | 3,000 | 636,000 |
| Energy | - | 286,000 |
| Financial services | - | 331,000 |
| Other | 3,000 | 73,000 |
| | $ 526,000 | $ 2,679,000 |

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

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

| Assets | Level 3 | March 31, 2020 | Net loss for the nine months ended March 31, 2020 |
|---|---|---|---|
| Other non-marketable investments | $ 230,000 | $ 230,000 | $ (64,000) |

| Assets | Level 3 | June 30, 2019 | Net loss for the nine months ended March 31, 2019 |
|---|---|---|---|
| Other non-marketable investments | $ 351,000 | $ 351,000 | $ (61,000) |

For the nine months ended March 31, 2020 and 2019, we received distribution from other non-marketable investments of $57,000 and $62,000, 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 and holds less than 20% ownership in each of the investments. These investments are reviewed on a periodic basis for other-than-temporary impairment. The Company reviews several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (i) the length of time an investment is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near-term prospects of the issuer and (iv) our ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

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

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

| As of | 3/31/2020 | 6/30/2019 |
|---|---|---|
| Cash and cash equivalents | $ 5,962,000 | $ 9,800,000 |
| Restricted cash | 11,550,000 | 11,027,000 |
| Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows | $ 17,512,000 | $ 20,827,000 |

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

**NOTE 9 – 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 three and nine months ended March 31, 2020 and 2019, respectively. Segment income (loss) from Hotel operations consists of the operation of the Hotel and operation of the garage. Segment income (loss) from real estate operations consists of the operation of the rental properties. Segment (loss) gain from investments consists of net investment gain (loss), dividend and interest income and investment related expenses.

| **As of and for the three months ended March 31, 2020** | Hotel Operations | Real Estate Operations | Investment Transactions | Corporate | Total |
|---|---|---|---|---|---|
| Revenues | $ 11,259,000 | $ 79,000 | $ - | $ - | $ 11,338,000 |
| Segment operating expenses | (10,060,000) | (53,000) | - | (440,000) | (10,553,000) |
| Segment income (loss) | 1,199,000 | 26,000 | - | (440,000) | 785,000 |
| Interest expense - mortgage and related party | (1,793,000) | (28,000) | - | - | (1,821,000) |
| Depreciation and amortization expense | (571,000) | (27,000) | - | - | (598,000) |
| Loss from investments | - | - | (542,000) | - | (542,000) |
| Income tax benefit | - | - | - | 582,000 | 582,000 |
| Net income (loss) | $ (1,165,000) | $ (29,000) | $ (542,000) | $ 142,000 | $ (1,594,000) |
| Total assets | $ 54,284,000 | $ 4,786,000 | $ 756,000 | $ 7,534,000 | $ 67,360,000 |

| **For the three months ended March 31, 2019** | Hotel Operations | Real Estate Operations | Investment Transactions | Corporate | Total |
|---|---|---|---|---|---|
| Revenues | $ 15,469,000 | $ 81,000 | $ - | $ - | $ 15,550,000 |
| Segment operating expenses | (11,378,000) | (52,000) | - | (364,000) | (11,794,000) |
| Segment income (loss) | 4,091,000 | 29,000 | - | (364,000) | 3,756,000 |
| Interest expense - mortgage and related party | (1,941,000) | (26,000) | - | - | (1,967,000) |
| Loss on disposal of assets | (398,000) | - | - | - | (398,000) |
| Depreciation and amortization expense | (585,000) | (28,000) | - | - | (613,000) |
| Gain from investments | - | - | 248,000 | - | 248,000 |
| Income tax expense | - | - | - | (280,000) | (280,000) |
| Net income (loss) | $ 1,167,000 | $ (25,000) | $ 248,000 | $ (644,000) | $ 746,000 |

| **As of and for the nine months ended March 31, 2020** | Hotel Operations | Real Estate Operations | Investment Transactions | Corporate | Total |
|---|---|---|---|---|---|
| Revenues | $ 41,589,000 | $ 237,000 | $ - | $ - | $ 41,826,000 |
| Segment operating expenses | (33,138,000) | (135,000) | - | (1,050,000) | (34,323,000) |
| Segment income (loss) | 8,451,000 | 102,000 | - | (1,050,000) | 7,503,000 |
| Interest expense - mortgage and related party | (5,541,000) | (72,000) | - | - | (5,613,000) |
| Depreciation and amortization expense | (1,725,000) | (82,000) | - | - | (1,807,000) |
| Loss from investments | - | - | (943,000) | - | (943,000) |
| Income tax benefit | - | - | - | 244,000 | 244,000 |
| Net income (loss) | $ 1,185,000 | $ (52,000) | $ (943,000) | $ (806,000) | $ (616,000) |
| Total assets | $ 54,284,000 | $ 4,786,000 | $ 756,000 | $ 7,534,000 | $ 67,360,000 |

| **As of and for the nine months ended March 31, 2019** | Hotel Operations | Real Estate Operations | Investment Transactions | Corporate | Total |
|---|---|---|---|---|---|
| Revenues | $ 45,276,000 | $ 242,000 | $ - | $ - | $ 45,518,000 |
| Segment operating expenses | (33,424,000) | (170,000) | - | (843,000) | (34,437,000) |
| Segment income (loss) | 11,852,000 | 72,000 | - | (843,000) | 11,081,000 |
| Interest expense - mortgage and related party | (5,733,000) | (204,000) | - | - | (5,937,000) |
| Loss on disposal of assets | (398,000) | - | - | - | (398,000) |
| Depreciation and amortization expense | (1,820,000) | (82,000) | - | - | (1,902,000) |
| Loss from investments | - | - | (632,000) | - | (632,000) |
| Income tax expense | - | - | - | (769,000) | (769,000) |
| Net income (loss) | $ 3,901,000 | $ (214,000) | $ (632,000) | $ (1,612,000) | $ 1,443,000 |

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

The following summarizes the balances of related party and other notes payable as of March 31, 2020 and June 30, 2019, respectively.

| **As of** | | **3/31/2020** | | **6/30/2019** |
|---|---|---|---|---|
| Note payable - InterGroup | $ | 3,000,000 | $ | 3,000,000 |
| Note payable - Hilton | | 3,088,000 | | 3,325,000 |
| Note payable - Interstate | | 1,708,000 | | 1,896,000 |
| Total related party and other notes payable | $ | 7,796,000 | $ | 8,221,000 |

On July 2, 2014, the Partnership obtained from InterGroup an unsecured loan in the principal amount of $4,250,000 at 12% per year fixed interest, with a term of 2 years, payable interest only each month. InterGroup received a 3% loan fee. The loan may be prepaid at any time without penalty. The loan was extended to July 1, 2021.

Note payable to Hilton (Franchisor) is a self-exhausting, interest free development incentive note which is reduced by approximately $316,000 annually through 2030 by Hilton if the Partnership is still a Franchisee with Hilton.

On February 1, 2017, Justice entered into an HMA with Interstate to manage the Hotel with an effective takeover date of February 3, 2017. The term of the management agreement is for an initial period of 10 years commencing on the takeover date and automatically renews for an additional year not to exceed five years in aggregate subject to certain conditions. The HMA also provides for Interstate to advance a key money incentive fee to the Hotel for capital improvements in the amount of $2,000,000 under certain terms and conditions described in a separate key money agreement. The key money contribution shall be amortized in equal monthly amounts over an eight (8) year period commencing on the second ($2^{nd}$) anniversary of the takeover date. As of March 31, 2020, and June 30, 2019, balance of the key money plus accrued interest is $1,008,000 and $2,049,000, respectively, and is included in restricted cash in the condensed consolidated balance sheets. Unamortized portion of the key money is included in the related party notes payable in the condensed consolidated balance sheets.

As of March 31, 2020, the Company had finance lease obligations outstanding of $1,206,000. These finance leases expire in various years through 2023 at rates ranging from 4.62% to 6.25% per annum. Minimum future lease payments for assets under finance leases as of March 31, 2020 are as follows:

| For the year ending June 30, | | |
|---|---|---|
| 2020 | $ | 126,000 |
| 2021 | | 503,000 |
| 2022 | | 492,000 |
| 2023 | | 188,000 |
| Total minimum lease payments | | 1,309,000 |
| Less interest on finance lease | | (103,000) |
| Present value of future minimum lease payments | $ | 1,206,000 |

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

| For the year ending June 30, | | |
|---|---|---|
| 2020 | $ | 250,000 |
| 2021 | | 1,016,000 |
| 2022 | | 4,033,000 |
| 2023 | | 750,000 |
| 2024 | | 567,000 |
| Thereafter | | 2,386,000 |
| | $ | 9,002,000 |

As of March 31, 2020, and June 30, 2019, the Company had accounts payable to related party of $5,262,000 and $5,105,000, respectively. These are amounts due to InterGroup and they represent certain shared costs and expenses, primarily general and administrative expenses, rent, insurance and other expenses that are allocated among the Company, Portsmouth and InterGroup.

To fund the redemption of limited partnership interests and to repay the prior mortgage of $42,940,000, Justice obtained a $97,000,000 mortgage loan and a $20,000,000 mezzanine loan in December 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 with interest only payments due through January 2017. Beginning in February 2017, the loan began to amortize over a thirty-year period through its maturity date of January 2024. Outstanding principal balance on the loan was $92,656,000 and $93,746,000 as of March 31, 2020 and June 30, 2019, respectively. As additional security for the mortgage loan, there is a limited guaranty executed by Portsmouth in favor of the mortgage lender. The mezzanine loan is secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The mezzanine interest only loan had an interest rate of 9.75% per annum and a maturity date of January 1, 2024. As additional security for the mezzanine loan, there is a limited guaranty executed by Portsmouth in favor of the mezzanine lender. 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 which had a 9.75% per annum interest rate 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 a result of the refinance, Justice has generated $500,000 in annual interest expense savings.

Effective May 11, 2017, InterGroup agreed to become an additional guarantor under the limited guaranty and an additional indemnitor under the environmental indemnity for Justice Investors limited partnership's $97,000,000 mortgage loan and the $20,000,000 mezzanine loan. Pursuant to the agreement, InterGroup is required to maintain certain net worth and liquidity. As of March 31, 2020, InterGroup is in compliance with both requirements. However, due to the hotel's current low occupancy and its negative impact on the hotel's cash flow, Justice Operating Company, LLC may not meet certain of its loan covenants such as the Debt Service Coverage Ratio ("DSCR") which would trigger the creation of a lock-box by the Lender for all cash collected by the hotel. However, such lockbox has been created and utilized from the loan inception and will be in place up to loan maturity regardless of the DSCR. Justice has not missed any of its debt service payments and does not anticipate missing any debt obligations even during these uncertain times for at least the next twelve months and beyond.

In July 2018, InterGroup obtained a revolving $5,000,000 line of credit ("RLOC") from CIBC Bank USA ("CIBC"). On July 31, 2018, $2,969,000 was drawn from the RLOC to pay off the mortgage note payable at Intergroup Woodland Village Inc. ("Woodland Village") and a new mortgage note payable was established at Woodland Village due to InterGroup for the amount drawn. Woodland Village holds a three-story apartment complex in Santa Monica, California and is a subsidiary of the Company. 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 were due in July 2019. In July 2019, InterGroup obtained a modification from CIBC which increased the 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 carries same terms as InterGroup's RLOC and is included in the mortgage notes payable – real estate in the condensed consolidated balance sheets as of March 31, 2020 and June 30, 2019.

On February 5, 2020, the Company acquired 44.6% additional interest in Woodland Village from InterGroup by issuing 97,500 shares of its common stock to InterGroup. As a result of the transaction, Woodland Village has become a wholly owned subsidiary of the Company. The transaction is being made pursuant to a Contribution Agreement (the "Contribution Agreement") between the Company and InterGroup, dated February 5, 2020. The Contribution Agreement also contains a provision for a potential subsequent earn out to InterGroup pursuant to terms set forth therein.

The Company's Board of Directors is currently comprised of directors John V. Winfield, William J. Nance, and Robert Dika. Messrs. Winfield and Nance also serve as directors of InterGroup and Portsmouth. Four of the Portsmouth directors 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 11 – ACCOUNTS PAYABLE AND OTHER LIABILITIES - JUSTICE**

The following summarizes the balances of accounts payable and other liabilities – Justice as of March 31, 2020 and June 30, 2019.

| **As of** | **3/31/2020** | **6/30/2019** |
|---|---|---|
| Trade payable | $ 3,041,000 | $ 1,792,000 |
| Advance deposits | 404,000 | 1,215,000 |
| Property tax payable | 31,000 | 1,046,000 |
| Payroll and related accruals | 1,768,000 | 2,584,000 |
| Interest payable | 421,000 | 412,000 |
| Withholding and other taxes payable | 1,144,000 | 1,831,000 |
| Security deposit | 52,000 | 52,000 |
| Other payables | 1,255,000 | 2,366,000 |
| Total accounts payable and other liabilities - Justice | $ 8,116,000 | $ 11,298,000 |

**NOTE 12 – SUBSEQUENT EVENTS**

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the recently enacted Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") administered by the U.S. Small Business Administration. The Company received proceeds of $4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, the Company will use proceeds from the SBA Loan primarily for payroll costs. The SBA Loan is scheduled to mature on April 9, 2022 and has a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. The loan may be forgiven if the funds are used for payroll and other qualified expenses. New guidance on the criteria for forgiveness continues to be released.

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

### FORWARD-LOOKING STATEMENTS AND PROJECTIONS

The Company may from time to time make forward-looking statements and projections concerning future expectations. When used in this discussion, the words "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "may," "could," "might" and similar expressions, are intended to identify forward-looking statements.

Such statements are subject to certain risks and uncertainties. These risks and uncertainties include, but are not limited to, the following: national and worldwide economic conditions, including the impact of recessionary conditions on tourism, travel and the lodging industry; the impact of terrorism and war on the national and international economies, including tourism, securities markets, energy and fuel costs; natural disasters; general economic conditions and competition in the hotel industry in the San Francisco area; seasonality, labor relations and labor disruptions; actual and threatened pandemics such as swine flu or the outbreak of COVID-19 or similar outbreaks; partnership distributions; the ability to obtain financing at favorable interest rates and terms; securities markets, regulatory factors, litigation and other factors discussed below in this Report and in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2019. These risks and uncertainties could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as to the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

On March 25, 2020, pursuant to Section 36 of the Securities Exchange Act of 194, the Securities and Exchange Commission issued Order Release No. 34-88465 (the "Order") granting exemptions to registrants subject to the reporting requirements of the Exchange Act Section 13(a) or 15(d) due to circumstances related to the coronavirus disease 2019 ("COVID-19"). Due to the circumstances related to COVID-19, the Company has relied on the Order with respect to this Quarterly Report on Form 10-Q ("Form 10-Q") for the period ended March 31, 2020. Absent the Order, the Form 10-Q was due on May 15, 2020. The Company was unable to file the Form 10-Q on a timely basis due to delays in the preparation and final review of the Form 10-Q by the relevant parties within the Company, due in part by the attention and resources the Company has focused on addressing the severe impacts of the COVID-19 pandemic on our business and operations.

### Negative Effects of COVID-19 on our Business

On February 25, 2020, the City of San Francisco issued the proclamation by the Mayor declaring the existence of a local emergency. The negative effects of the novel strain of coronavirus ("COVID-19") on our business have been significant. In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious virus, which has continued to spread, has adversely affected workforces, customers, economies and financial markets globally. It has also disrupted the normal operations of many businesses, including ours. To mitigate the harm from the pandemic, on March 16, 2020, the City and County of San Francisco, along with a group of five other Bay Area counties and the City of Berkeley, issued parallel health officer orders imposing shelter in place limitations across the Bay Area, requiring everyone to stay safe at home except for certain essential needs. Since February 2020, several unfavorable events have unfolded causing demand for our hotel rooms to suffer including cancellations of all citywide conventions, reduction of flights in and out of the Bay Area and decline in both leisure and business travel.

In response to the decrease in demand, we have since furloughed all managers at the Hotel except for members of the executive team and continue to limit hourly staff to a minimum. As of the date of this Quarterly Report, we have temporarily closed all of our food and beverage outlets. We continue to implement social distancing standards to keep employees and guests safe. The full impact and duration of the COVID-19 outbreak continues to evolve as of the date of this Quarterly Report. The pandemic effectively eliminated our ability to generate any profits, due to the drastic decline in both leisure and business travel. As a result, management believes the ongoing length and severity of the economic downturn caused by the pandemic will have a material adverse impact on our future business, financial condition, liquidity and financial results for the fiscal year ending June 30, 2020. We are also assessing the potential impact on the impairment analysis of our long-lived assets and the realization of our deferred tax assets.

As a result of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020, additional avenues of relief may be available to workers and families through enhanced unemployment insurance provisions and to small businesses through programs administered by the Small Business Administration ("SBA"). The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. We are currently evaluating the impact of the provisions of the CARES Act. The CARES Act also established a Paycheck Protection Program ("PPP"), whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs. As described in Note 12 – Subsequent Events, on April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the CARES Act. The Company received proceeds of $4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, the Company will use proceeds from the SBA Loan primarily for payroll costs. The SBA Loan is scheduled to mature on April 9, 2022 and has a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. The loan may be forgiven if the funds are used for payroll and other qualified expenses. New guidance on the criteria for forgiveness continues to be released.

**RESULTS OF OPERATIONS**

The Company's principal source of revenue continues to be derived from the investment of its 68.8% owned subsidiary, Portsmouth, in the Justice Investors Limited Partnership ("Justice" or the "Partnership") inclusive of hotel room revenue, food and beverage revenue, garage revenue, and revenue from other operating departments. The Company also generates income from its investments in multi-family real estate properties and from investment of its cash and securities assets. Justice owns the Hotel and related facilities, including a five-level underground parking garage. The financial statements of Justice have been consolidated with those of the Company.

The Hotel is operated by the Partnership as a full-service Hilton brand hotel pursuant to a Franchise License Agreement (the "License Agreement") with Hilton. The Partnership entered into the License Agreement on December 10, 2004. The term of the License Agreement was for an initial period of 15 years commencing on the opening date, with an option to extend the License Agreement for another five years, subject to certain conditions. On June 26, 2015, the Partnership and Hilton entered into an amended franchise agreement which extended the License Agreement through 2030, modified the monthly royalty rate, extended geographic protection to the Partnership and also provided the Partnership certain key money cash incentives to be earned through 2030. The key money cash incentives were received on July 1, 2015.

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

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 Santa Monica, California. On February 5, 2020, the Company acquired the additional 44.6% interest in Woodland Village from InterGroup by issuing 97,500 shares of its common stock to InterGroup. As a result of the transaction, Woodland Village has become a wholly owned subsidiary of the Company. The transaction is being made pursuant to a Contribution Agreement (the "Contribution Agreement") between the Company and InterGroup, dated February 5, 2020. The Contribution Agreement also contains a provision for a potential subsequent earn out to InterGroup pursuant to terms set forth therein. The Company also owns a 2-unit apartment building in West Los Angeles, California.

**Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019**

The Company had net loss of $1,594,000 for the three months ended March 31, 2020 compared to net income of $746,000 for the three months ended March 31, 2019. The change is primarily attributable to the decrease in Hotel revenue.

**Hotel Operations**

The Company had net loss from Hotel operations of $1,165,000 for the three months ended March 31, 2020 compared to net income of $1,167,000 for the three months ended March 31, 2019. The change is primarily attributable to the decrease in Hotel revenue.

The following table sets forth a more detailed presentation of Hotel operations for the three months ended March 31, 2020 and 2019.

| **For the three months ended March 31,** | | **2020** | | **2019** |
|---|---|---|---|---|
| Hotel revenues: | | | | |
| Hotel rooms | $ | 9,642,000 | $ | 13,521,000 |
| Food and beverage | | 874,000 | | 1,218,000 |
| Garage | | 650,000 | | 652,000 |
| Other operating departments | | 93,000 | | 78,000 |
| Total hotel revenues | | 11,259,000 | | 15,469,000 |
| Operating expenses excluding depreciation and amortization | | (10,060,000) | | (11,378,000) |
| Operating income before interest, depreciation and amortization | | 1,199,000 | | 4,091,000 |
| Loss on disposal of assets | | - | | (398,000) |
| Interest expense - mortgage | | (1,793,000) | | (1,941,000) |
| Depreciation and amortization expense | | (571,000) | | (585,000) |
| Net (loss) income from Hotel operations | $ | (1,165,000) | $ | 1,167,000 |

For the three months ended March 31, 2020, the Hotel had operating income of $1,199,000 before interest expense, depreciation and amortization on total operating revenues of $11,259,000 compared to operating income of $4,091,000 before interest expense, depreciation and amortization on total operating revenues of $15,469,000 for the three months ended March 31, 2019. For the three months ended March 31, 2020, room revenues decreased by $3,879,000, and food and beverage revenue decreased by $344,000, compared to the three months ended March 31, 2019. The year over year decline in both areas are result of the business interruption attributable to a variety of responses by federal, state, and local civil authority to the COVID-19 outbreak in March 2020. Revenue from garage and other operating departments increased mainly due to increase in cancellation revenue.

Total operating expenses decreased by $1,318,000 due to decrease in salaries and wages, rooms commission, credit card fees, management fees, franchise fees, and legal fees.

The following table sets forth the average daily room rate, average occupancy percentage and RevPAR of the Hotel for the three months ended March 31, 2020 and 2019.

| **Three Months Ended March 31,** | | **Average Daily Rate** | **Average Occupancy %** | | | **RevPAR** |
|---|---|---|---|---|---|---|
| **2020** | $ | 242 | 76 | % | $ | 184 |
| **2019** | $ | 290 | 95 | % | $ | 276 |

The Hotel's revenues decreased by 27% this quarter as compared to the previous comparable quarter. Average daily rate decreased by $48, average occupancy dropped 19%, and RevPAR decreased by $92 for the three months ended March 31, 2020 compared to the three months ended March 31, 2019.

**Real Estate Operations**

The Company had net loss from real estate operations of $29,000 for the three months ended March 31, 2020 compared to net loss of $25,000 for the three months ended March 31, 2019. The increase in net loss is mainly due to the decrease in revenue and increased mortgage interest.

**Investment Transactions**

The Company had a net loss on marketable securities of $476,000 for the three months ended March 31, 2020 compared to a net gain on marketable securities of $274,000 for the three months ended March 31, 2019. For the three months ended March 31, 2020, the Company had a net realized loss of $316,000 and a net unrealized loss of $160,000. For the three months ended March 31, 2019, the Company had a net realized loss of $89,000 and a net unrealized gain of $363,000.

Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's results of operations. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities see the Marketable Securities section below.

The Company consolidates Justice ("Hotel") for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax expense (benefit) during the three months ended March 31, 2020 and 2019 represent the income tax effect on the Company's pretax income (loss) which includes its share in the net income (loss) of the Hotel.

**Nine Months Ended March 31, 2020 Compared to Nine Months Ended March 31, 2019**

The Company had net loss of $616,000 for the nine months ended March 31, 2020 compared to net income of $1,443,000 for the nine months ended March 31, 2019. The change is primarily attributable to the decrease in Hotel revenue.

**Hotel Operations**

The Company had net income from Hotel operations of $1,185,000 for the nine months ended March 31, 2020 compared to net income of $3,901,000 for the nine months ended March 31, 2019. The change is primarily attributable to the decrease in Hotel revenue.

The following table sets forth a more detailed presentation of Hotel operations for the nine months ended March 31, 2020 and 2019.

| For the nine months ended March 31, | | 2020 | | 2019 |
|---|---|---|---|---|
| Hotel revenues: | | | | |
| Hotel rooms | $ | 35,453,000 | $ | 38,608,000 |
| Food and beverage | | 3,521,000 | | 4,232,000 |
| Garage | | 2,162,000 | | 2,160,000 |
| Other operating departments | | 453,000 | | 276,000 |
| Total hotel revenues | | 41,589,000 | | 45,276,000 |
| Operating expenses excluding depreciation and amortization | | (33,138,000) | | (33,424,000) |
| Operating income before interest, depreciation and amortization | | 8,451,000 | | 11,852,000 |
| Loss on disposal of assets | | - | | (398,000) |
| Interest expense - mortgage | | (5,541,000) | | (5,733,000) |
| Depreciation and amortization expense | | (1,725,000) | | (1,820,000) |
| Net income from Hotel operations | $ | 1,185,000 | $ | 3,901,000 |

For the nine months ended March 31, 2020, the Hotel had operating income of $8,451,000 before interest, depreciation and amortization on total operating revenues of $41,589,000 compared to operating income of $11,852,000 before interest, depreciation and amortization on total operating revenues of $45,276,000 for the nine months ended March 31, 2019.

For the nine months ended March 31, 2020, room revenues decreased by $3,155,000 and food and beverage revenue decreased by $711,000. The year over year decline in both areas are result of the business interruption attributable to a variety of responses by federal, state, and local civil authority to the COVID-19 outbreak in March 2020. Garage revenue remained consistent year over year. Revenue from other operating departments increased by $177,000 as a result of increase in cancellation revenue.

Total operating expenses decreased by $286,000 due to decrease in management fees, rooms commission, and franchise fees.

The following table sets forth the average daily room rate, average occupancy percentage and room revenue per available room ("RevPAR") of the Hotel for the nine months ended March 31, 2020 and 2019.

| Nine Months Ended March 31, | | Average Daily Rate | Average Occupancy % | | | RevPAR |
|---|---|---|---|---|---|---|
| **2020** | $ | 256 | 91 | % | $ | 233 |
| **2019** | $ | 269 | 96 | % | $ | 259 |

The Hotel's total revenues decreased by 8% for the nine months ended March 31, 2020 as compared to the nine months ended March 31, 2019. Average daily rate decreased by $13 and RevPAR decreased by $26 for the nine months ended March 31, 2020 compared to the nine months ended March 31, 2019. Average occupancy dropped by 5% during the nine months ended March 31, 2020 versus the comparable period.

**Real Estate Operations**

The Company had net loss from real estate operations of $52,000 for the nine months ended March 31, 2020 compared to net loss of $214,000 for the nine months ended March 31, 2019. The decrease in net loss is due to the decrease in operating expenses and mortgage interest.

**Investment Transactions**

The Company had a net loss on marketable securities of $846,000 for the nine months ended March 31, 2020 compared to a net loss on marketable securities of $464,000 for the nine months ended March 31, 2019. For the nine months ended March 31, 2020, the Company had a net realized loss of $269,000 and a net unrealized loss of $577,000. For the nine months ended March 31, 2019, the Company had a net realized gain of $201,000 and a net unrealized loss of $665,000.

Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's results of operations. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities see the Marketable Securities section below.

The Company consolidates Justice ("Hotel") for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax benefit (expense) during the nine months ended March 31, 2020 and 2019 represents the income tax effect on the Company's pretax income (loss) which includes its share in the net income of the Hotel.

**MARKETABLE SECURITIES**

The following table shows the composition of the Company's marketable securities portfolio as of March 31, 2020 and June 30, 2019 by selected industry groups:

| **As of March 31, 2020**<br>Industry Group | Fair Value | % of Total Investment Securities |
|---|---|---|
| Basic materials | $ 262,000 | 49.8% |
| REITs and real estate companies | 258,000 | 49.0% |
| Consumer cyclical | 3,000 | 0.6% |
| Other | 3,000 | 0.6% |
| | $ 526,000 | 100.0% |

| **As of June 30, 2019**<br>Industry Group | Fair Value | % of Total Investment Securities |
|---|---|---|
| REITs and real estate companies | $ 816,000 | 30.5% |
| Consumer cyclical | 636,000 | 23.7% |
| Basic materials | 537,000 | 20.0% |
| Financial | 331,000 | 12.4% |
| Energy | 286,000 | 10.7% |
| Other | 73,000 | 2.7% |
| | $ 2,679,000 | 100.0% |

As of March 31, 2020, the Company's investment portfolio includes five equity positions. The Company holds two equity securities that comprised more than 10% of the equity value of the portfolio. The largest security position represents 49% of the portfolio and consists of the common stock of American Realty Investors, Inc. (NYSE: ARL), which is included in the REITs and real estate companies' industry group.

As of June 30, 2019, the Company's investment portfolio includes approximately thirteen 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 gains (losses) on the Company's marketable securities and the associated margin interest and trading expenses for the respective periods:

| **For the three months ended March 31,** | **2020** | **2019** |
|---|---|---|
| Net (loss) gain on marketable securities | $ (476,000) | $ 274,000 |
| Impairment loss on other investments | (64,000) | (61,000) |
| Dividend and interest income | 52,000 | 112,000 |
| Margin interest expense | (14,000) | (27,000) |
| Trading and management expenses | (40,000) | (50,000) |
| | $ (542,000) | $ 248,000 |

| **For the nine months ended March 31,** | **2020** | **2019** |
|---|---|---|
| Net loss on marketable securities | $ (846,000) | $ (464,000) |
| Impairment loss on other investments | (64,000) | (61,000) |
| Dividend and interest income | 158,000 | 150,000 |
| Margin interest expense | (69,000) | (106,000) |
| Trading and management expenses | (122,000) | (151,000) |
| | $ (943,000) | $ (632,000) |

**FINANCIAL CONDITION AND LIQUIDITY**

Historically, our cash flows have been primarily generated from our Hotel operations. However, management expects that the ongoing length and severity of the economic downturn, resulting from the continuing and uncertain impact of the COVID-19 pandemic, will have a material adverse impact on our business, financial condition, liquidity and financial results. As a result of our Hotel's material decrease in occupancy and average daily rate, we expect our cash flow from operations to continue to be significantly lower than historical rates for the foreseeable future, until the pandemic resolves, and hotel occupancies return to historical rates.

We have taken several steps to preserve capital and increase liquidity, including the implementation of various cost saving initiatives at our Hotel. For further discussion, see "Item 2 - Negative Effects of COVID-19 on our Business" included in this Quarterly Report. We may also receive cash generated from the investment of our cash and marketable securities, other investments, and other sources, including financing from our parent company, InterGroup. Subsequent to March 31, 2020, in order to increase its liquidity positions and take advantage of the favorable interest rate environment, InterGroup refinanced its 151-unit apartment complex in Parsippany, New Jersey, generating net proceeds of approximately $6,814,000. InterGroup is also currently refinancing two of its California properties scheduled to close in June and July 2020, and it could refinance additional multifamily properties should the need arise; however, InterGroup does not deem it necessary at this time. InterGroup has an uncollateralized $8,000,000 revolving line of credit from CIBC Bank USA ("CIBC") of which $5,000,000 is available to be drawn down as of June 18, 2020, should additional liquidity be necessary.

As of March 31, 2020, we had cash, cash equivalents, and restricted cash of $17,512,000 which included $11,550,000 of restricted cash held by our Hotel senior lender Wells Fargo Bank, N.A. ("Lender"). Of the total restricted cash, $7,977,000 was held for furniture, fixtures and equipment ("FF&E") reserves and $2,432,000 was held for a possible future property improvement plan ("PIP") request by our franchisor, Hilton. However, Hilton has confirmed that it will not require a PIP for our Hotel until relicensing which shall occur at the earlier of (i) January 2030, which is six years after the maturity date of our current senior and mezzanine loans, or (ii) upon the sale of our Hotel. Therefore, Justice is currently in discussions with the Lender to release the PIP deposits to the Hotel and to allow the hotel to utilize some or all of its FF&E reserves to fund operating expenses as well as debt service. Additionally, Justice has requested to temporarily pay interest only on the senior mortgage and the suspension of the monthly FF&E reserve installment, for a combined monthly savings in cash flow of approximately $321,000. Justice anticipates a resolution with the Lender in regard to the aforementioned requests before June 30, 2020.

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the recently enacted CARES Act administered by the U.S. Small Business Administration. We received proceeds of $4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, the Company will use the proceeds from the SBA Loan primarily for payroll costs. The SBA Loan is scheduled to mature on April 9, 2022 and has a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. The loan may be forgiven if the funds are used for payroll and other qualified expenses. New guidance on the criteria for forgiveness continues to be released.

We may also have financing availability, upon the authorization of the respective board of directors, to borrow from InterGroup to meet our obligations during the next twelve months and beyond, should the need arise.

We cannot presently estimate the full financial impact of the unprecedented COVID-19 pandemic on our business or predict the related federal, state and local civil authority actions, which are highly dependent on the severity and duration of the pandemic, but we expect that the COVID-19 closures and other imposed restrictions will continue to have a significant adverse impact on our results of operations. Due to the uncertainties associated with the COVID-19 pandemic and the indeterminate length of time it will affect the hospitality industry, we have taken proactive measures to secure our liquidity position to be able to meet our obligations for the foreseeable future, including implementing strict cost management measures to eliminate non-essential expenses, postponing capital expenditures, renegotiating certain reoccurring expenses, and temporarily closing certain hotel services and outlets.

Our known short-term liquidity requirements primarily consist of funds necessary to pay for operating and other expenditures, including management and franchise fees, corporate expenses, payroll and related costs, taxes, interest and principal payments on our outstanding indebtedness, and repairs and maintenance of the hotel. 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.

Our long-term liquidity requirements primarily consist of funds necessary to pay for scheduled debt maturities and capital improvements of the Hotel. We will continue to finance our business activities primarily with existing cash, including from the activities described above, and cash generated from our operations. After considering our approach to liquidity and accessing our available sources of cash, we believe that our cash position, after giving effect to the transactions discussed above, will be adequate to meet anticipated requirements for operating and other expenditures, including corporate expenses, payroll and related benefits, taxes and compliance costs and other commitments, for at least twelve months from the date of issuance of these financial statements, even if current levels of low occupancy were to persist. The objectives of our cash management policy are to maintain existing leverage levels and the availability of liquidity, while minimizing operational costs. We believe that our cash on hand, cash provided by the SBA loan, along with other potential aforementioned sources of liquidity that management may be able to obtain, will be sufficient to fund our working capital needs, as well as our capital lease and debt obligations for at least the next twelve months and beyond. However, there can be no guarantee that management will be successful with its plan.

## MATERIAL CONTRACTUAL OBLIGATIONS

The following table provides a summary as of March 31, 2020, the Company's material financial obligations which also including interest payments:

| | Total | 3 Months 2020 | Year 2021 | Year 2022 | Year 2023 | Year 2024 | Thereafter |
|---|---|---|---|---|---|---|---|
| Mortgage notes payable | $ 115,964,000 | $ 366,000 | $ 4,525,000 | $ 1,642,000 | $ 1,732,000 | $ 107,403,000 | $ 296,000 |
| Related party and other notes payable | 9,002,000 | 250,000 | 1,016,000 | 4,033,000 | 750,000 | 567,000 | 2,386,000 |
| Interest | 24,609,000 | 2,160,000 | 6,777,000 | 6,295,000 | 6,184,000 | 3,080,000 | 113,000 |
| Total | $ 149,575,000 | $ 2,776,000 | $ 12,318,000 | $ 11,970,000 | $ 8,666,000 | $ 111,050,000 | $ 2,795,000 |

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no 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 to adjust hotel room rates on an ongoing basis, there should be minimal impact on partnership revenues due to inflation. Partnership revenues are also subject to interest rate risks, which may be influenced by inflation. For the two most recent fiscal years, the impact of inflation on the Company's income is not viewed by management as material.

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

## CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Critical accounting policies are those that are most significant to the presentation of our financial position and results of operations and require judgments by management in order to make estimates about the effect of matters that are inherently uncertain. The preparation of these condensed financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to the consolidation of our subsidiaries, to our revenues, allowances for bad debts, accruals, asset impairments, other investments, income taxes and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions. There have been no material changes to the Company's critical accounting policies during the nine months ended March 31, 2020 except for the adoption of ASU 2016-02. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2019 for a summary of the critical accounting policies.

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

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

## Item 4. Controls and Procedures.

## EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

## PART II.
## OTHER INFORMATION

**Item 1. LEGAL PROCEEDINGS**

During the period ending March 31, 2020, there were no pending or threatened legal actions.

**Item 1A. RISK FACTORS**

Except as set forth below, during the period ended March 31, 2020, there were no material changes to the Risk Factors disclosed in Item 1A - "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended June 30, 2019.

*The responses by federal, state, and local civil authority to the COVID-19 pandemic has had a material detrimental impact on our business, financial results and liquidity, and such impact could worsen and last for an unknown period of time.*

The global spread of the COVID-19 pandemic is complex and rapidly-evolving, with governments, public institutions and other organizations imposing or recommending, and businesses and individuals implementing, restrictions on various activities or other actions to combat its spread, such as restrictions and bans on travel or transportation, limitations on the size of gatherings, closures of work facilities, schools, public buildings and businesses, cancellation of events, including sporting events, conferences and meetings, and quarantines and lock-downs. The shelter-in-place, physical distancing, city closures and their consequences have dramatically reduced travel, conventions and demand for hotel rooms, which has and will continue to impact our business, operations, and financial results. The extent to which the closures impacts our business, operations, and financial results, including the duration and magnitude of such effects, will depend on numerous evolving factors that we may not be able to accurately predict or assess, including the duration and scope of the closures; the negative impact it has on global and regional economies and economic activity, including the duration and magnitude of its impact on unemployment rates and consumer discretionary spending; its short and longer-term impact on the demand for travel, transient and group business, and levels of consumer confidence; our ability to successfully navigate the impacts of the closures; governments actions, businesses and individuals take in response to the closures, including limiting or banning travel; and how quickly economies, travel activity, and demand for lodging recovers after the closures subsides.

The COVID-19 closures have subjected our business, operations and financial condition to a number of risks, including, but not limited to, those discussed below:

- **Risks Related to Revenue:** The COVID-19 closures and other imposed restrictions have negatively impacted and will in the future negatively impact to an extent we are unable to predict, our revenue from the Hotel. Currently, the Hotel is not generating revenue sufficient to meet its operating expenses, which is adversely affecting our net income.

- **Risks Related to Operations:** Because of the significant decline in the demand for hotel rooms, Interstate have taken steps to reduce operating costs and improve efficiency, including furloughing a substantial number of its personnel and implementing reduced work weeks for other personnel. Such steps, and further changes we may make in the future to reduce costs, may negatively impact guest loyalty, or our ability to attract and retain associates, and our reputation and market share may suffer as a result. For example, if our furloughed personnel do not return to work with us when the COVID-19 closures and imposed restrictions are lifted, including because they find new jobs during the furlough, we may experience operational challenges that impact guest loyalty and our market share, which could limit our ability to grow revenue and could reduce our profits. Further, reputational damage from, and the financial impact of, reduced work weeks could lead associates to depart the company and could make it harder for us to recruit new associates in the future. We may also face demands or requests from labor unions that represent our associates, whether in the course of our periodic renegotiation of our collective bargaining agreements or otherwise, for additional compensation, healthcare benefits or other terms as a result of COVID-19 that could increase costs, and we could experience labor disputes or disruptions as we continue to implement our COVID-19 mitigation plans.

COVID-19, and the volatile regional and global economic conditions stemming from the pandemic, as well as reactions to future pandemics or resurgences of COVID-19, could also precipitate or aggravate the other risk factors that we identify in our 2019 Form 10-K, which in turn could materially adversely affect our business, financial condition, liquidity, and results of operations (including revenues and profitability). Further, COVID-19 may also affect our operating and financial results in a manner that is not presently known to us or that we currently do not consider presenting significant risks to our operations.

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

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

### Item 3. DEFAULTS UPON SENIOR SECURITIES

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

### Item 4. MINE SAFETY DISCLOSURES

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

### Item 5. OTHER INFORMATION

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

### Item 6. EXHIBITS

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

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

32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

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

SANTA FE FINANCIAL CORPORATION
(Registrant)

Date: June 18, 2020

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

Date: June 18, 2020

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

**EXHIBIT 31.1**

**CERTIFICATION**

I, John V. Winfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: June 18, 2020

*/s/ John V. Winfield*

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

**EXHIBIT 31.2**

**CERTIFICATION**

I, Danfeng Xu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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: June 18, 2020

*/s/ Danfeng Xu*

Danfeng Xu
Treasurer and Controller
(Principal Financial Officer)

**EXHIBIT 32.1**

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

In connection with the Quarterly Report of Santa Fe Financial Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2020, 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*
John V. Winfield
President and Chief Executive Officer
(Principal Executive Officer)

Date: June 18, 2020

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.

**EXHIBIT 32.2**

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

In connection with the Quarterly Report of Santa Fe Financial Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2020, 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: June 18, 2020

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.