

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 September 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number 0-6877

SANTA FE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

NEVADA
(State or other jurisdiction of
Incorporation or organization)

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

1100 Glendon Avenue, Suite PH-1, Los Angeles, California 90024
(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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[X] Yes [] No

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

Large accelerated filer []

Accelerated filer []

Non-accelerated filer []

Smaller reporting company [X]

Emerging growth company []

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

[] Yes [X] No

The number of shares outstanding of registrant's Common Stock, as of November 6, 2017 was 1,241,810.

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PART I
FINANCIAL INFORMATION

Item 1 - Condensed Consolidated Financial Statements

SANTA FE FINANCIAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

As of	(Unaudited)	
	September 30, 2017	June 30, 2017
ASSETS		
Investment in Hotel, net	\$ 37,760,000	\$ 38,390,000
Investment in real estate, net	4,989,000	5,007,000
Investment in marketable securities	5,052,000	5,874,000
Other investments, net	696,000	696,000
Cash and cash equivalents	1,572,000	2,097,000
Restricted cash	5,597,000	5,173,000
Accounts receivable - Hotel, net	2,614,000	1,436,000
Other assets, net	1,508,000	1,683,000
Deferred tax assets	10,665,000	10,927,000
	<u>70,453,000</u>	<u>71,283,000</u>
Total assets	\$ 70,453,000	\$ 71,283,000
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Liabilities:		
Accounts payable and other liabilities	\$ 17,239,000	\$ 17,402,000
Due to securities broker	662,000	1,005,000
Obligations for securities sold	1,244,000	1,271,000
Related party and other notes payable	10,129,000	10,209,000
Mortgage notes payable - real estate	3,240,000	3,256,000
Mortgage notes payable - Hotel, net	115,329,000	115,615,000
	<u>147,843,000</u>	<u>148,758,000</u>
Total liabilities	147,843,000	148,758,000
Shareholders' deficit:		
Common stock - par value \$.10 per share; Authorized - 2,000,000; Issued 1,339,638 and outstanding 1,241,810	134,000	134,000
Additional paid-in capital	8,808,000	8,808,000
Accumulated deficit	(59,022,000)	(58,938,000)
Treasury stock, at cost, 97,828 shares	(951,000)	(951,000)
Total Santa Fe shareholders' deficit	(51,031,000)	(50,947,000)
Noncontrolling interest	(26,359,000)	(26,528,000)
Total shareholders' deficit	(77,390,000)	(77,475,000)
	<u>(77,390,000)</u>	<u>(77,475,000)</u>
Total liabilities and shareholders' deficit	\$ 70,453,000	\$ 71,283,000

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

SANTA FE FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

For the three months ended September 30,	<u>2017</u>	<u>2016</u>
Revenues:		
Hotel	\$ 14,437,000	\$ 14,605,000
Real estate	85,000	90,000
Total revenues	<u>14,522,000</u>	<u>14,695,000</u>
Costs and operating expenses:		
Hotel operating expenses	(10,589,000)	(10,256,000)
Real estate operating expenses	(48,000)	(48,000)
Depreciation and amortization expense	(698,000)	(684,000)
General and administrative expense	(326,000)	(245,000)
Total costs and operating expenses	<u>(11,661,000)</u>	<u>(11,233,000)</u>
Income from operations	<u>2,861,000</u>	<u>3,462,000</u>
Other income (expense):		
Interest expense - mortgage	(2,009,000)	(2,039,000)
Net (loss) gain on marketable securities	(437,000)	425,000
Impairment loss on other investments	-	(10,000)
Dividend and interest income	21,000	18,000
Trading and margin interest expense	(89,000)	(63,000)
Other expense, net	<u>(2,514,000)</u>	<u>(1,669,000)</u>
Income before income taxes	347,000	1,793,000
Income tax expense	(262,000)	(705,000)
Net income	85,000	1,088,000
Less: Net income attributable to the noncontrolling interest	<u>(169,000)</u>	<u>(402,000)</u>
Net income attributable to Santa Fe	<u>\$ (84,000)</u>	<u>\$ 686,000</u>
Basic and diluted net income per share attributable to Santa Fe	<u>\$ (0.07)</u>	<u>\$ 0.55</u>
Weighted average number of common shares outstanding - basic and diluted	<u>1,241,810</u>	<u>1,241,810</u>

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

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

For the three months ended September 30,	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net income	\$ 85,000	\$ 1,088,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net unrealized loss (gain) on marketable securities	362,000	(305,000)
Impairment loss on other investments	-	10,000
Depreciation	698,000	684,000
Amortization	28,000	28,000
Deferred tax asset	262,000	705,000
Changes in operating assets and liabilities:		
Investment in marketable securities	460,000	(1,077,000)
Accounts receivable	(1,178,000)	206,000
Other assets	175,000	436,000
Accounts payable and other liabilities	(163,000)	(3,063,000)
Due to securities broker	(343,000)	534,000
Obligations for securities sold	(27,000)	421,000
Net cash provided by (used in) operating activities	<u>359,000</u>	<u>(333,000)</u>
Cash flows from investing activities:		
Payments for hotel and real estate investments	(50,000)	(336,000)
Net cash used in investing activities	<u>(50,000)</u>	<u>(336,000)</u>
Cash flows from financing activities:		
Restricted cash - payments to mortgage impounds, net	(424,000)	(788,000)
Net payments of related party and other notes payable	(410,000)	(536,000)
Net cash used in financing activities	<u>(834,000)</u>	<u>(1,324,000)</u>
Net decrease in cash and cash equivalents:	(525,000)	(1,993,000)
Cash and cash equivalents at the beginning of the period	2,097,000	3,397,000
Cash and cash equivalents at the end of the period	<u>\$ 1,572,000</u>	<u>\$ 1,404,000</u>
Supplemental information:		
Interest paid	<u>\$ 2,055,000</u>	<u>\$ 2,038,000</u>

The accompanying notes are an integral part of these 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, 2017. The June 30, 2017 Condensed Consolidated Balance Sheet was derived from the Company's Form 10-K for the year ended June 30, 2017.

The results of operations for the three months ended September 30, 2017 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2018.

Santa Fe Financial Corporation, a Nevada corporation, (“Santa Fe” or the “Company”) owns approximately 68.8% of the outstanding common shares of Portsmouth Square, Inc. (“Portsmouth”), a public company. Santa Fe is an 81.9%-owned subsidiary of The InterGroup Corporation (“InterGroup”), a public company. InterGroup also directly owns approximately 13.4% of the common stock of Portsmouth.

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 93.1% 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 Holdings Company, LLC (“Holdings”), a Delaware Limited Liability Company, Justice Operating Company, LLC (“Operating”) and Justice Mezzanine Company, LLC (“Mezzanine”), owns a 544-room hotel property located at 750 Kearny Street, San Francisco California, known as the Hilton San Francisco Financial District (the “Hotel”) and related facilities including a five-level underground parking garage. Holdings and Mezzanine are both wholly-owned subsidiaries of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the borrower under certain mezzanine indebtedness of Justice, and in December 2013, the Partnership conveyed ownership of the Hotel to Operating. The Hotel is operated by the partnership as a full-service Hilton brand hotel pursuant to a Franchise License Agreement with HLT Franchise Holding LLC (Hilton).

Justice had a management agreement with Prism Hospitality L.P. (“Prism”) to perform certain management functions for the Hotel. The management agreement with Prism had an original term of ten years, subject to the Partnership's right to terminate at any time with or without cause. Effective January 2014, the management agreement with Prism was amended by the Partnership to change the nature of the services provided by Prism and the compensation payable to Prism, among other things. Prism's management agreement was terminated upon its expiration date of February 3, 2017. Effective December 1, 2013, GMP Management, Inc. (“GMP”), a company owned by a Justice limited partner and a related party, also provided management services for the Partnership pursuant to a management services agreement, with a three-year term, subject to the Partnership's right to terminate earlier for cause. In June 2016, GMP resigned. On February 1, 2017, Justice entered into a Hotel management agreement (“HMA”) with Interstate Management Company, LLC (“Interstate”) to manage the Hotel with an effective takeover date of February 3, 2017. The term of the HMA is for an initial period of ten years commencing on the takeover date and automatically renews for an additional year not to exceed five years in aggregate subject to certain conditions. The HMA also provides for Interstate to advance a key money incentive fee to the Hotel for capital improvements in the amount of \$2,000,000 under certain terms and conditions described in a separate key money agreement. The \$2,000,000 is included in the restricted cash and related party and other notes payable balances in the condensed consolidated balance sheets as of September 30, 2017 and June 30, 2017.

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

Due to Securities Broker

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

Obligations for Securities Sold

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

Income Tax

The Company consolidates Justice ("Hotel") for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax expense during the three months ended September 30, 2017 and 2016 represents the income tax effect on the Company's pretax income which includes its share in the net income of the Hotel.

Financial Condition and Liquidity

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

To fund the redemption of limited partnership interests and to repay the prior mortgage of \$42,940,000, Justice obtained a \$97,000,000 mortgage loan and a \$20,000,000 mezzanine loan. The mortgage loan is secured by the Partnership's principal asset, the Hotel. The mortgage loan bears an interest rate of 5.275% per annum with interest only payments due thru January 2017. Beginning in February 2017, the loan began to amortize over a thirty-year period thru its maturity date of January 2024. As additional security for the mortgage loan, there is a limited guaranty executed by the Company in favor of mortgage lender. The mezzanine loan is secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The mezzanine interest only loan bears interest at 9.75% per annum and matures in January 2024. As additional security for the mezzanine loan, there is a limited guaranty executed by the Company in favor of mezzanine lender.

Effective as of May 11, 2017, InterGroup agreed to become an additional guarantor under the limited guaranty and an additional indemnitor under the environmental indemnity for Justice Investors limited partnership's \$97,000,000 mortgage loan and the \$20,000,000 mezzanine loan. Pursuant to the agreement, InterGroup is required to maintain a certain net worth and liquidity. As of September 30, 2017, InterGroup is in compliance with both requirements.

Despite an uncertain economy, the Hotel has continued to generate positive operating income. While the debt service requirements related the loans may create some additional risk for the Company and its ability to generate cash flows in the future, management believes that cash flows from the operations of the Hotel and the garage will continue to be sufficient to meet all of the Partnership's current and future obligations and financial requirements.

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

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

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. The Company also owns a two-unit apartment building in Los Angeles, California.

Recently Issued Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* that requires management to evaluate whether there are conditions and events that raise substantial doubt about the Company's ability to continue as a going concern within one year after the financial statements are issued on both an interim and annual basis. Management is required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company's ability to continue as a going concern. ASU No. 2014-15 becomes effective for annual periods beginning after December 15, 2016 and for interim reporting periods thereafter. The Company's adoption of this ASU did not have a material impact on its consolidated financial statements.

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 more timely recognition of losses. ASU No. 2016-13 will be effective for us as of January 1, 2020. The Company is currently reviewing the effect of ASU No. 2016-13.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (ASU 2016-08) which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new revenue recognition standard will be effective for the Company in the first quarter of 2019, with the option to adopt it in the first quarter of 2018. We currently anticipate adopting the new standard effective July 1, 2019. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company currently anticipates adopting the standard using the modified retrospective method. While the Company is still in the process of completing the analysis on the impact this guidance will have on the consolidated financial statements and related disclosures, the Company does not expect the impact to be material.

NOTE 2 – INVESTMENT IN HOTEL, NET

Investment in hotel consisted of the following as of:

September 30, 2017	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 1,896,000	\$ -	\$ 1,896,000
Furniture and equipment	27,830,000	(24,987,000)	2,843,000
Building and improvements	59,786,000	(26,765,000)	33,021,000
	<u>\$ 89,512,000</u>	<u>\$ (51,752,000)</u>	<u>\$ 37,760,000</u>

June 30, 2017	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 1,896,000	\$ -	\$ 1,896,000
Furniture and equipment	27,681,000	(24,570,000)	3,111,000
Building and improvements	59,771,000	(26,388,000)	33,383,000
	<u>\$ 89,348,000</u>	<u>\$ (50,958,000)</u>	<u>\$ 38,390,000</u>

NOTE 3 – INVESTMENT IN REAL ESTATE, NET

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

As of	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Land	\$ 2,430,000	\$ 2,430,000
Buildings, improvements and equipment	2,861,000	2,854,000
Accumulated depreciation	<u>(1,275,000)</u>	<u>(1,250,000)</u>
	4,016,000	4,034,000
Land held for development	<u>973,000</u>	<u>973,000</u>
Investment in real estate, net	<u>\$ 4,989,000</u>	<u>\$ 5,007,000</u>

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

NOTE 4 - INVESTMENT IN MARKETABLE SECURITIES

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

At September 30, 2017 and June 30, 2017, all of the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments are included in earnings. Trading securities are summarized as follows:

<u>Investment</u>	<u>Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	<u>Net Unrealized Loss</u>	<u>Fair Value</u>
As of September 30, 2017					
Corporate					
Equities	\$ 11,613,000	\$ 666,000	\$ (7,227,000)	\$ (6,561,000)	\$ 5,052,000
As of June 30, 2017					
Corporate					
Equities	\$ 12,190,000#	\$ 538,000	\$ (6,854,000)	\$ (6,316,000)	\$ 5,874,000

As of September 30, 2017 and June 30, 2017, approximately 42% and 40%, respectively, of the investment marketable securities balance above is comprised of the common stock of Comstock Mining, Inc.

As of September 30, 2017 and June 30, 2017, the Company had \$7,132,000 and \$6,783,000, respectively, of unrealized losses related to securities held for over one year.

Net loss on marketable securities on the statement of operations is comprised of realized and unrealized gains (losses). Below is the composition of the two components for the three months ended September 30, 2017 and 2016, respectively.

For the three months ended September 30,	2017	2016
Realized gain (loss) on marketable securities	\$ (75,000)	\$ 120,000
Unrealized gain (loss) on marketable securities	(362,000)	305,000
Net gain (loss) on marketable securities	\$ (437,000)	\$ 425,000

NOTE 5 – 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:

<u>Type</u>	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Private equity hedge fund, at cost	\$ 485,000	\$ 485,000
Other investment	211,000	211,000
	\$ 696,000	\$ 696,000

NOTE 6 - 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	September 30, 2017 Total-Level 1	June 30, 2017 Total-Level 1
Assets:		
Investment in marketable securities:		
Basic materials	\$ 2,548,000	\$ 2,766,000
Technology	1,324,000	1,386,000
Energy	395,000	689,000
Other	785,000	1,033,000
	<u>\$ 5,052,000</u>	<u>\$ 5,874,000</u>

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

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

Assets	Level 3	September 30, 2017	Net loss for the three months ended September 30, 2017
Other non-marketable investments	<u>\$ 696,000</u>	<u>\$ 696,000</u>	<u>\$ -</u>

Assets	Level 3	June 30, 2017	Net loss for the three months ended September 30, 2016
Other non-marketable investments	<u>\$ 696,000</u>	<u>\$ 696,000</u>	<u>\$ (10,000)</u>

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

NOTE 7 – 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 months ended September 30, 2017 and 2016, respectively. Segment income from Hotel operations consists of the operation of the Hotel and operation of the garage. Segment income 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 September 30, 2017	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Total
Revenues	\$ 14,437,000	\$ 85,000	\$ -	\$ -	\$ 14,522,000
Segment operating expenses	(10,589,000)	(48,000)	-	(326,000)	(10,963,000)
Segment income (loss)	3,848,000	37,000	-	(326,000)	3,559,000
Interest expense - mortgage	(1,987,000)	(22,000)	-	-	(2,009,000)
Depreciation and amortization expense	(673,000)	(25,000)	-	-	(698,000)
Loss from investments	-	-	(505,000)	-	(505,000)
Income tax expense	-	-	-	(262,000)	(262,000)
Net income (loss)	\$ 1,188,000	\$ (10,000)	\$ (505,000)	\$ (588,000)	\$ 85,000
Total assets	\$ 47,021,000	\$ 4,989,000	\$ 5,748,000	\$ 12,695,000	\$ 70,453,000

As of and for the three months ended September 30, 2016	Hotel Operations	Real Estate Operations	Investment Transactions	Other	Total
Revenues	\$ 14,605,000	\$ 90,000	\$ -	\$ -	\$ 14,695,000
Segment operating expenses	(10,256,000)	(48,000)	-	(245,000)	(10,549,000)
Segment income (loss)	4,349,000	42,000	-	(245,000)	4,146,000
Interest expense - mortgage	(1,988,000)	(23,000)	-	-	(2,011,000)
Depreciation and amortization expense	(688,000)	(24,000)	-	-	(712,000)
Income from investments	-	-	370,000	-	370,000
Income tax expense	-	-	-	(705,000)	(705,000)
Net income (loss)	\$ 1,673,000	\$ (5,000)	\$ 370,000	\$ (950,000)	\$ 1,088,000
Total assets	\$ 47,207,000	\$ 5,091,000	\$ 8,351,000	\$ 11,685,000	\$ 72,334,000

NOTE 8 – RELATED PARTY TRANSACTIONS

On July 2, 2014, the Partnership obtained from InterGroup (a related party) an unsecured loan in the principal amount of \$4,250,000 at 12% per year fixed interest, with a term of 2 years, payable interest only each month. InterGroup received a 3% loan fee. The loan may be prepaid at any time without penalty. The loan was extended to December 31, 2017.

Also included in the balance of related party note payable at September 30, 2017 is the obligation to Hilton (Franchisor) in the form of a self-exhausting, interest free development incentive note which is reduced by approximately \$316,000 annually through 2030 by Hilton if the Partnership is still a Franchisee with Hilton. The outstanding balance of the note as of September 30, 2017 and June 30, 2017, was \$3,879,000 and \$3,958,000, respectively.

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

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

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

In connection with the redemption of the limited partnership interest of Justice, Justice Operating Company, LLC agreed to pay a total of \$1,550,000 in fees to certain officers and directors of the Company for services rendered in connection with the redemption of the partnership interests, refinancing of the Justices properties and reorganization of Justice. This agreement was superseded by a letter dated December 11, 2013 from Justice, in which Justice assumed the payment obligations of Justice Operating Company, LLC. As of September 30, 2017, \$400,000 of these fees remain payable.

As of September 30, 2017, Justice has an outstanding accounts payable balance to InterGroup for \$116,000 for management of the Hotel from June to December of 2016.

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

As Chairman of the Securities Investment Committee, the Company's President and Chief Executive Officer (CEO), John V. Winfield, directs the investment activity of the Company in public and private markets pursuant to authority granted by the Board of Directors. Mr. Winfield also serves as Chief Executive Officer and Chairman of the Portsmouth and InterGroup and oversees the investment activity of those companies. Depending on certain market conditions and various risk factors, the Chief Executive Officer, Portsmouth and InterGroup may, at times, invest in the same companies in which the Company invests. Such investments align the interests of the Company with the interests of related parties because it places the personal resources of the Chief Executive Officer and the resources of the Portsmouth and InterGroup, at risk in substantially the same manner as the Company in connection with investment decisions made on behalf of the Company.

Item 2 – LEGAL PROCEEDINGS

We are involved from time to time in legal proceedings of types regarded as common in our business, including administrative or judicial proceedings, such as employment or labor disputes, breach of contract liability and premises liability litigation. Where appropriate, we may establish financial reserves for such proceedings. We also maintain insurance to mitigate certain of such risks.

On April 21, 2014, the Partnership commenced arbitration against Glaser Weil Fink Howard Avchen & Shapiro, LLP, Brett J. Cohen, Gary N. Jacobs, Janet S. McCloud, Paul B. Salvaty, and Joseph K. Fletcher III ("Respondents") in connection with the redemption transaction. The arbitration alleges legal malpractice and also seeks declaratory relief regarding provisions of the redemption option agreement. The arbitration proceedings are active; discovery is proceeding. The hearing is set for April 2018 before JAMS in Los Angeles, California. No prediction can be given as to the outcome of this matter.

On May 5, 2016, Justice and Portsmouth entered into a settlement agreement relating to previously reported litigation with Evon Corporation and certain other parties. Under the settlement agreement, Justice, a subsidiary of Portsmouth agreed to pay Evon Corporation \$5,575,000. The final installment due was made in January 2017 and all conditions of the settlement agreement have been satisfied by the Company.

Item 3- MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

The Company may from time to time make forward-looking statements and projections concerning future expectations. When used in this discussion, the words "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "may," "could," "might" and similar expressions, are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties, such as national and worldwide economic conditions, including the impact of recessionary conditions on tourism, travel and the lodging industry, the impact of terrorism and war on the national and international economies, including tourism and securities markets, energy and fuel costs, natural disasters, general economic conditions and competition in the hotel industry in the San Francisco area, seasonality, labor relations and labor disruptions, actual and threatened pandemics such as swine flu, partnership distributions, the ability to obtain financing at favorable interest rates and terms, securities markets, regulatory factors, litigation and other factors discussed below in this Report and in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017, that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as to the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

The Company's principal sources of revenue continue to be derived from the investment of its 68.8% owned subsidiary, Portsmouth, in the Justice Investors Limited Partnership ("Justice" or the "Partnership"), rental income from its investments in multi-family real estate properties and income received from investment of its cash and securities assets. Justice owns a 544-room hotel property located at 750 Kearny Street, San Francisco, California 94108, known as the "Hilton San Francisco Financial District" (the "Hotel" or the "Property") and related facilities, including a five-level underground parking garage. The financial statements of Justice have been consolidated with those of the Company.

The Hotel is operated by the Partnership as a full service Hilton brand hotel pursuant to a Franchise License Agreement (the "License Agreement") with HLT Franchise Holding LLC (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.

Justice had a management agreement with Prism Hospitality L.P. ("Prism") to perform certain management functions for the Hotel. The management agreement with Prism had an original term of ten years and could be terminated at any time with or without cause by the Partnership. Effective January 2014, the management agreement with Prism was amended by the Partnership to change the nature of the services provided by Prism and the compensation payable to Prism, among other things. Prism's management agreement was terminated upon its expiration date of February 3, 2017. Effective December 1, 2013, GMP Management, Inc. ("GMP"), a company owned by a Justice limited partner and a related party, began to provide management services for the Partnership pursuant to a management services agreement with a term of three years, subject to the Partnership's right to terminate earlier, for cause. In June 2016, GMP resigned. After a lengthy review process of several national third party hotel management companies, on February 1, 2017, Justice entered into a Hotel management agreement ("HMA") with Interstate Management Company, LLC ("Interstate") to manage the Hotel with an effective takeover date of February 3, 2017. The term of HMA is for an initial period of 10 years commencing on the takeover date and automatically renews for an additional year not to exceed five years in the aggregate subject to certain conditions. The HMA also provides for Interstate to advance a key money incentive fee to the Hotel for capital improvements in the amount of \$2,000,000 under certain terms and conditions described in a separate key money agreement. The \$2,000,000 was received in May 2017 and is included in the restricted cash and related party and other notes payable balances in the condensed consolidated balance sheets as of September 30, 2017 and June 30, 2017.

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

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. The Company also owns a 2-unit apartment building in Los Angeles, California.

Three months Ended September 30, 2017 Compared to Three months Ended September 30, 2016

The Company had net income of \$85,000 for the three months ended September 30, 2017 compared to net income of \$1,088,000 for the three months ended September 30, 2016. The decrease in net income is primarily attributable to the lower income from the Hotel operations and losses in the marketable securities portfolio during the quarter ended September 30, 2017.

Hotel Operations

The Company had net income from Hotel operations of \$1,188,000 for the three months ended September 30, 2017 compared to net income of \$1,673,000 for the three months ended September 30, 2016. The decrease is primarily due to the reduction of hotel room revenues and increased operating expenses contributed to lower net income from Hotel operations. The reduced room revenues were offset by increased food and beverage and garage revenues during the quarter ended September 30, 2017 compared to September 30, 2016.

The following table sets forth a more detailed presentation of Hotel operations for the three months ended September 30, 2017 and 2016.

For the three months ended September 30,	2017	2016
Hotel revenues:		
Hotel rooms	\$ 11,842,000	\$ 12,298,000
Food and beverage	1,759,000	1,449,000
Garage	781,000	681,000
Other operating departments	55,000	177,000
Total hotel revenues	14,437,000	14,605,000
Operating expenses excluding depreciation and amortization	(10,589,000)	(10,256,000)
Operating income before interest, depreciation and amortization	3,848,000	4,349,000
Interest expense - mortgage	(1,987,000)	(1,988,000)
Depreciation and amortization expense	(673,000)	(688,000)
Net income from Hotel operations	\$ 1,188,000	\$ 1,673,000

For the three months ended September 30, 2017, the Hotel had operating income of \$3,848,000 before interest expense, depreciation and amortization on total operating revenues of \$14,437,000 compared to operating income of \$4,349,000 before interest expense, depreciation and amortization on total operating revenues of \$14,605,000 for the three months ended September 30, 2016. Room revenues decreased by \$456,000 for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 due primarily to a shift of the largest San Francisco citywide of the year from September to November and to a lesser extent, the 4th of July Holiday impacted an entire week as it was in the mid-week during the quarter ended September 30, 2017 versus on or around a weekend during 2016. Food and beverage revenue increased by \$310,000 as the result of increased catering and banquet services.

Total operating expenses increased by \$333,000 this quarter as compared to the previous comparable quarter primarily due an increased in operating expenses related to food and beverage, franchise fees, and management fees. The increase in operating expenses was offset by reduced advertising and sales expenses and other operating department expenses.

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 three months ended September 30, 2017 and 2016.

Three Months Ended September 30,	Average Daily Rate	Average Occupancy%	RevPAR
2017	\$ 254	93%	\$ 237
2016	\$ 255	97%	\$ 246

The Hotel's revenues decreased by 1% this quarter as compared to the previous comparable quarter. Average daily rate decreased by \$1 and RevPAR decreased by \$9 for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. Average occupancy was 93% and 97% for the respective comparable periods.

Real Estate Operations

Real estate revenues decreased to \$85,000 for the three months ended September 30, 2017 from \$90,000 for the three months ended September 30, 2016 primarily as the result of higher vacancies due to the on-going renovation of several of the units. Operating expenses remained consistent during the both quarters.

Investment Transactions

The Company had a loss on marketable securities of \$437,000 for the three months ended September 30, 2017 compared to a net gain on marketable securities of \$425,000 for the three months ended September 30, 2016. As of September 30, 2017 and 2016, approximately 42% and 64%, respectively, of the investment in marketable securities balance above is comprised of the common stock of Comstock Mining, Inc. (Comstock). As the result, the change in the market price of the common stock of Comstock will have a significant impact on the gain (loss) on marketable securities. For the three months ended September 30, 2017, the Company had a net realized loss of \$75,000 and a net unrealized loss of \$362,000. For the three months ended September 30, 2016, the Company had a net realized gain of \$120,000 and a net unrealized gain of \$305,000. 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 and its subsidiary, Portsmouth, compute and file income tax returns and prepare discrete income tax provisions for financial reporting. The income tax expense during the three months ended September 30, 2017 and 2016 represents primarily the income tax effect on the Portsmouth's pretax income which includes its share in net income of the Hotel.

MARKETABLE SECURITIES

The following table shows the composition of the Company's marketable securities portfolio as of September 30, 2017 and June 30, 2017 by selected industry groups.

As of September 30, 2017		% of Total
Industry Group	Fair Value	Investment Securities
Basic materials	\$ 2,548,000	50.5%
Technology	1,324,000	26.2%
Energy	395,000	7.8%
REITs and real estate companies	163,000	3.2%
Other	622,000	12.3%
	<u>\$ 5,052,000</u>	<u>100.0%</u>

As of June 30, 2017		% of Total
Industry Group	Fair Value	Investment Securities
Basic materials	\$ 2,766,000	47.1%
Technology	1,386,000	23.6%
Energy	689,000	11.7%
REITs and real estate companies	350,000	6.0%
Other	683,000	11.6%
	<u>\$ 5,874,000</u>	<u>100.0%</u>

As of September 30, 2017, 42% of the Company's investment in marketable securities portfolio consists primarily of of the common stock of Comstock Mining, Inc. ("Comstock" - NYSE MKT: LODE) which is included in the basic materials industry group.

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

For the three months ended September 30,	2017	2016
Net (loss) gain on marketable securities	\$ (437,000)	\$ 425,000
Impairment loss on other investments	-	(10,000)
Dividend and interest income	21,000	18,000
Margin interest expense	(46,000)	(27,000)
Trading and management expenses	(43,000)	(36,000)
(Loss) income from investments	<u>\$ (505,000)</u>	<u>\$ 370,000</u>

FINANCIAL CONDITION AND LIQUIDITY

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

On December 18, 2013, the Partnership completed an Offer to Redeem any and all limited partnership interests not held by Portsmouth. As a result, Portsmouth, which prior to the Offer to Redeem owned 50% of the then outstanding limited partnership interests now controls approximately 93% of the voting interest in Justice and is now its sole General Partner.

To fund the redemption of limited partnership interests and to repay the prior mortgage of \$42,940,000, Justice obtained a \$97,000,000 mortgage loan and a \$20,000,000 mezzanine loan. The mortgage loan is secured by the Partnership's principal asset, the Hotel. The mortgage loan bears an interest rate of 5.275% per annum and matures in January 2024. Beginning in February 2017, the loan began to amortize over a thirty-year period thru its maturity date. As additional security for the mortgage loan, there is a limited guaranty executed by the Company in favor of mortgage lender. The mezzanine loan is secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The mezzanine loan initially bears interest at 9.75% per annum and matures in January 2024. As additional security for the mezzanine loan, there is a limited guaranty executed by the Company in favor of mezzanine lender. The outstanding balance of the senior loan and the mezzanine loans as of September 30, 2017 were \$96,028,399 and \$20,000,000 respectively. Effective May 12, 2017, InterGroup agreed to become an additional guarantor under the limited guaranty and an additional indemnitor under the environmental indemnity for Justice Investors limited partnership's \$97,000,000 mortgage loan and the \$20,000,000 mezzanine loan.

On July 2, 2014, the Partnership obtained from InterGroup (a related party) an unsecured loan in the principal amount of \$4,250,000 at 12% per year fixed interest, with a term of 2 years, payable interest only each month. InterGroup received a 3% loan fee. The loan may be prepaid at any time without penalty. The loan was extended to December 31, 2017.

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

Despite an uncertain economy, the Hotel has continued to generate strong revenue growth. While the debt service requirements related the loans and the legal settlement may create some additional risks for the Company and its ability to generate cash flows in the future, management believes that cash flows from the operations of the Hotel and the garage will continue to be sufficient to meet all of the Partnership's current and future obligations and financial requirements.

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

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

MATERIAL CONTRACTUAL OBLIGATIONS

The following table provides a summary as of September 30, 2017, the Company's material financial obligations which also including interest payments:

	<u>Total</u>	<u>9 Months</u>					<u>Thereafter</u>
		<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	
Mortgage notes payable	\$ 119,286,000	\$ 1,068,000	\$ 1,476,000	\$ 1,543,000	\$ 4,262,000	\$ 1,649,000	\$ 109,288,000
Related party and other notes payable	10,129,000	4,488,000	421,000	567,000	567,000	567,000	3,519,000
Interest	44,097,000	6,017,000	7,150,000	7,084,000	6,921,000	6,771,000	10,154,000
Total	<u>\$173,512,000</u>	<u>\$ 11,573,000</u>	<u>\$ 9,047,000</u>	<u>\$ 9,194,000</u>	<u>\$ 11,750,000</u>	<u>\$ 8,987,000</u>	<u>\$122,961,000</u>

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 the Company has the power and ability to adjust hotel room rates on an ongoing basis, there should be minimal impact on partnership revenues due to inflation. Partnership revenues are also subject to interest rate risks, which may be influenced by inflation. For the two most recent fiscal years, the impact of inflation on the Company's income is not viewed by management as material.

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 three months ended September 30, 2017. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2017 for a summary of the critical accounting policies.

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

As stated in the Company's Form 10-K for the year ended June 30, 2017, we identified a material weakness in internal controls over financial reporting related to our deferred income taxes and income tax expense during the fourth quarter of fiscal 2017. During the quarter ended September 30, 2017, we hired new tax CPA specialist to perform detailed analysis which was completed for the year ended June 30, 2017. We also assigned our audit committee with oversight responsibilities. The Company has taken steps to remediate the material weakness and improved its internal control over financial reporting during the last quarterly period covered by this Form 10-Q.

**PART II.
OTHER INFORMATION**

Item 5. 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.](#)

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: November 8, 2017

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

Date: November 8, 2017

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

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: November 8, 2017

/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: November 8, 2017

/s/ Danfeng Xu

Danfeng Xu

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 quarterly period ended September 30, 2017, 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: November 8, 2017

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 quarterly period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Danfeng Xu, 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

Controller

(Principal Financial Officer)

Date: November 8, 2017

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.
