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

**FORM 10-Q**

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

For the quarterly period ended **September 30, 2021**

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number **1-10324**

**THE INTERGROUP CORPORATION**

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
Incorporation or organization)

13-3293645  
(I.R.S. Employer  
Identification No.)

1516 S. Bundy Dr., Suite 200, Los Angeles, California 90025  
(Address of principal executive offices) (Zip Code)

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Yes  No

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock	INTG	NASDAQ CAPITAL MARKET

The number of shares outstanding of registrant's Common Stock, as of November 12, 2021 was 2,199,192.

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**PART I  
FINANCIAL INFORMATION**

**Item 1 - Condensed Consolidated Financial Statements**

**THE INTERGROUP CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>As of</b>	<b>September 30, 2021 (unaudited)</b>	<b>June 30, 2021 (audited)</b>
<b>ASSETS</b>		
Investment in Hotel, net	\$ 37,339,000	\$ 37,651,000
Investment in real estate, net	47,338,000	47,709,000
Investment in marketable securities	23,434,000	35,792,000
Cash and cash equivalents	9,928,000	6,808,000
Restricted cash	9,371,000	8,584,000
Other assets, net	3,175,000	1,662,000
Deferred tax asset	3,255,000	2,140,000
Total assets	<u>\$ 133,840,000</u>	<u>\$ 140,346,000</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities - Justice	\$ 8,432,000	\$ 7,408,000
Accounts payable and other liabilities	3,868,000	3,357,000
Due to securities broker	1,170,000	7,917,000
Obligations for securities sold	6,070,000	6,419,000
Related party and other notes payable	3,946,000	4,088,000
Other notes payable - SBA Loans	2,000,000	2,000,000
Mortgage notes payable - Hotel, net	109,805,000	110,134,000
Mortgage notes payable - real estate, net	73,115,000	70,259,000
Total liabilities	<u>208,406,000</u>	<u>211,582,000</u>
<b>Shareholders' deficit:</b>		
Preferred stock, \$.01 par value, 100,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 4,000,000 shares authorized; 3,404,982 and 3,404,982 issued; 2,221,346 and 2,222,919 outstanding, respectively	33,000	33,000
Additional paid-in capital	2,149,000	2,172,000
Accumulated deficit	(39,554,000)	(36,394,000)
Treasury stock, at cost, 1,183,636 and 1,182,063 shares, respectively	(17,444,000)	(17,370,000)
Total InterGroup shareholders' deficit	<u>(54,816,000)</u>	<u>(51,559,000)</u>
Noncontrolling interest	(19,750,000)	(19,677,000)
Total shareholders' deficit	<u>(74,566,000)</u>	<u>(71,236,000)</u>
Total liabilities and shareholders' deficit	<u>\$ 133,840,000</u>	<u>\$ 140,346,000</u>

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

**THE INTERGROUP CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

<b>For the three months ended September 30,</b>	<b>2021</b>	<b>2020</b>
<b>Revenues:</b>		
Hotel	\$ 6,805,000	\$ 3,425,000
Real estate	4,116,000	3,484,000
<b>Total revenues</b>	<b>10,921,000</b>	<b>6,909,000</b>
<b>Costs and operating expenses:</b>		
Hotel operating expenses	(6,333,000)	(5,033,000)
Real estate operating expenses	(2,074,000)	(1,888,000)
Depreciation and amortization expenses	(1,148,000)	(1,191,000)
General and administrative expenses	(810,000)	(1,366,000)
<b>Total costs and operating expenses</b>	<b>(10,365,000)</b>	<b>(9,478,000)</b>
<b>Income (loss) from operations</b>	<b>556,000</b>	<b>(2,569,000)</b>
<b>Other (expense) income:</b>		
Interest expense - mortgages	(2,242,000)	(2,315,000)
Gain on sale of real estate	-	12,043,000
Net loss on marketable securities	(1,818,000)	(253,000)
Net (loss) gain on marketable securities - Comstock	(350,000)	95,000
Impairment loss on other investments	-	(62,000)
Dividend and interest income	187,000	124,000
Trading and margin interest expense	(354,000)	(269,000)
<b>Total other (expense) income, net</b>	<b>(4,577,000)</b>	<b>9,363,000</b>
<b>(Loss) income before income taxes</b>	<b>(4,021,000)</b>	<b>6,794,000</b>
Income tax benefit (expense)	1,115,000	(1,975,000)
<b>Net (loss) income</b>	<b>(2,906,000)</b>	<b>4,819,000</b>
Less: Net loss (income) attributable to the noncontrolling interest	745,000	(269,000)
<b>Net (loss) income attributable to InterGroup Corporation</b>	<b>\$ (2,161,000)</b>	<b>\$ 4,550,000</b>
<b>Net (loss) income per share</b>		
Basic	\$ (1.31)	\$ 2.11
Diluted	\$ (1.31)	\$ 1.84
<b>Net (loss) income per share attributable to InterGroup Corporation</b>		
Basic	\$ (0.97)	\$ 1.99
Diluted	\$ (0.97)	\$ 1.74
<b>Weighted average number of basic common shares outstanding</b>	<b>2,222,904</b>	<b>2,287,555</b>
<b>Weighted average number of diluted common shares outstanding</b>	<b>2,560,499</b>	<b>2,621,550</b>

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

**THE INTERGROUP CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT**  
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	InterGroup Shareholders' Deficit	Noncontrolling Interest	Total Shareholders' Deficit
<b>Balance at</b>								
<b>July 1, 2021</b>	3,404,982	\$ 33,000	\$2,172,000	\$ (36,394,000)	\$(17,370,000)	\$ (51,559,000)	\$ (19,677,000)	\$ (71,236,000)
Net Loss	-	-	-	(2,161,000)	-	(2,161,000)	(745,000)	(2,906,000)
Stock options expense	-	-	2,000	-	-	2,000	-	2,000
Investment in Portsmouth	-	-	(25,000)	-	-	(25,000)	17,000	(8,000)
Purchase of remaining interest in Justice	-	-	-	(999,000)	-	(999,000)	999,000	-
Investment in Justice	-	-	-	-	-	-	(344,000)	(344,000)
Purchase of treasury stock	-	-	-	-	(74,000)	(74,000)	-	(74,000)
<b>Balance at</b>								
<b>September 30, 2021</b>	<u>3,404,982</u>	<u>\$ 33,000</u>	<u>\$2,149,000</u>	<u>\$ (39,554,000)</u>	<u>\$(17,444,000)</u>	<u>\$ (54,816,000)</u>	<u>\$ (19,750,000)</u>	<u>\$ (74,566,000)</u>
<b>Balance at</b>								
<b>July 1, 2020</b>	3,404,982	\$ 33,000	\$6,626,000	\$ (43,541,000)	\$(14,995,000)	\$ (51,877,000)	\$ (22,370,000)	\$ (74,247,000)
Net income	-	-	-	4,550,000	-	4,550,000	269,000	4,819,000
Stock options expense	-	-	5,000	-	-	5,000	-	5,000
Purchase of treasury stock	-	-	-	-	(140,000)	(140,000)	-	(140,000)
<b>Balance at</b>								
<b>September 30, 2020</b>	<u>3,404,982</u>	<u>\$ 33,000</u>	<u>\$6,631,000</u>	<u>\$ (38,991,000)</u>	<u>\$(15,135,000)</u>	<u>\$ (47,462,000)</u>	<u>\$ (22,101,000)</u>	<u>\$ (69,563,000)</u>

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

**THE INTERGROUP CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

<b>For the three months ended September 30,</b>	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (2,906,000)	\$ 4,819,000
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,112,000	1,146,000
Gain on sale of real estate	-	(12,043,000)
Deferred taxes	(1,115,000)	1,975,000
Net unrealized loss (gain) on marketable securities	4,421,000	(104,000)
Impairment loss on other investments	-	62,000
Stock compensation expense	2,000	5,000
Changes in operating assets and liabilities:		
Investment in marketable securities	7,937,000	(2,384,000)
Other assets	(1,513,000)	130,000
Accounts payable and other liabilities - Justice	1,144,000	(683,000)
Accounts payable and other liabilities	511,000	337,000
Due to securities broker	(6,747,000)	(1,282,000)
Obligations for securities sold	(349,000)	13,000
Net cash provided by (used in) operating activities	2,497,000	(8,009,000)
<b>Cash flows from investing activities:</b>		
Payments for hotel investments	(240,000)	(105,000)
Payments for real estate investments	(223,000)	(294,000)
Payments for investment in Portsmouth	(8,000)	-
Payments for investment in Justice	(344,000)	-
Proceeds from sale of real estate	-	15,178,000
Proceeds from other investments	-	118,000
Net cash (used in) provided by investing activities	(815,000)	14,897,000
<b>Cash flows from financing activities:</b>		
Net payments of mortgage and other notes payable	(823,000)	(3,863,000)
Proceeds from refinance of mortgage notes payable	3,161,000	-
Issuance costs of refinancing mortgage and other notes payable	(39,000)	(34,000)
Purchase of treasury stock	(74,000)	(140,000)
Net cash provided by (used in) financing activities	2,225,000	(4,037,000)
Net increase in cash, cash equivalents and restricted cash	3,907,000	2,851,000
Cash, cash equivalents and restricted cash at the beginning of the period	15,392,000	28,286,000
Cash, cash equivalents and restricted cash at the end of the period	\$ 19,299,000	\$ 31,137,000
<b>Supplemental information:</b>		
Interest paid	\$ 2,092,000	\$ 2,345,000
Taxes paid	\$ 73,000	\$ 153,000
<b>Non-cash transaction:</b>		
Additions to Hotel equipment through capital lease	\$ -	\$ 30,000

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

**THE INTERGROUP 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 The InterGroup Corporation (“InterGroup” 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 InterGroup and the notes therein included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2021. The June 30, 2021 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, 2021.

The results of operations for the three months ended September 30, 2021 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2022.

Basic and diluted income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. The computation of diluted income per share is similar to the computation of basic earnings per share except that the weighted-average number of common shares is increased to include the number of additional common shares that would have been outstanding if potential dilutive common shares had been issued. The Company’s only potentially dilutive common shares are stock options.

Effective February 19, 2021, the Company’s 83.7% owned subsidiary, Santa Fe Financial Corporation (“Santa Fe”), a public company (OTCBB: SFEF), was liquidated and all of its assets including its 68.8% interest in Portsmouth Square Inc. (“Portsmouth”), a public company (OTCBB: PRSI) was distributed to its shareholders in exchange for their Santa Fe common stock. InterGroup received cash of \$5,013,000 and 422,998 shares of Portsmouth common stock in March 2021 as a result of the liquidation of Santa Fe. As a former 3.7% shareholder of Santa Fe, the Company’s President, Chairman of the Board and Chief Executive Officer, John Winfield, received cash of \$221,000 and 18,641 shares of Portsmouth common stock in March 2021 as a result of the liquidation of Santa Fe. On April 12, 2021, Santa Fe received a filed stamped copy of its Articles of Dissolution from the State of Nevada, and Santa Fe is effectively fully dissolved and no longer in legal existence. The liquidation and distribution of Santa Fe did not have an impact on the condensed consolidated statement of operations but rather on the condensed consolidated balance sheets as a reclass between noncontrolling interests and accumulated deficit. As of September 30, 2021, InterGroup owns approximately 74.9% of the outstanding common shares of Portsmouth. As of September 30, 2021, the Company’s President, Chairman of the Board and Chief Executive Officer, John Winfield, owns approximately 2.5% of the outstanding common shares of Portsmouth. Mr. Winfield also serves as the Chairman of the Board and Chief Executive Officer 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”). As of September 30, 2021, Portsmouth completed the purchase of 100% of the limited partnership interest of Justice and is in the process of dissolving the partnership. The financial statements of Justice are consolidated with those of the Company.

Justice, through its subsidiaries Justice Operating Company, LLC (“Operating”) and Justice Mezzanine Company, LLC (“Mezzanine”) owns 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 combined company has been positioned under the Aimbridge Hospitality (“Aimbridge”) name in the Americas.

In addition to the operations of the Hotel, the Company also generates income from the ownership, management and, when appropriate, sale of real estate. Properties include sixteen apartment complexes, one commercial real estate property and three single-family houses. The properties are located throughout the United States, but are concentrated in Dallas, Texas and Southern California. The Company also has an investment in unimproved real property. As of September 30, 2021, all the Company’s residential and commercial rental properties are managed in-house.

#### **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 was not taxed on its non-controlling interest in the Hotel. Effective July 15, 2021, the Company become the owner of 100% of Justice and will include all of the Hotel’s income and expense accounts into its income taxes calculations. The income tax benefit (expense) during the three months ended September 30, 2021 and 2020 represent the income tax effect on the Company’s pretax (loss) income which includes its share in the net loss of the Hotel accordingly.

#### **Recently Issued and Adopted Accounting Pronouncements**

None.

#### **NOTE 2 - LIQUIDITY**

Historically, our cash flows have been primarily generated from our Hotel and real estate operations. However, the responses by federal, state, and local civil authorities to the COVID-19 pandemic has had a material detrimental impact on our liquidity. For the three months ended September 30, 2021, our net cash flow provided by operations was \$2,497,000. For the three months ended September 30, 2020, our net cash flow used in operations was \$8,009,000. We have taken several steps to preserve capital and increase liquidity at our Hotel, 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.

The Company had cash and cash equivalents of \$9,928,000 and \$6,808,000 as of September 30, 2021 and June 30, 2021, respectively. The Company had marketable securities, net of margin due to securities brokers, of \$16,194,000 and \$21,456,000 as of September 30, 2021 and June 30, 2020, respectively. These marketable securities are short-term investments and liquid in nature.

On December 16, 2020, Justice and InterGroup entered into a loan modification agreement which increased Justice's borrowing from InterGroup as needed up to \$10,000,000. During the three months ending September 30, 2021, InterGroup advanced \$1,500,000 to Justice per the aforementioned loan modification agreement, bringing the total amount due InterGroup to \$8,150,000 at September 30, 2021. Portsmouth could amend its by-laws and increase the number of authorized shares in order to issue additional shares to raise capital in the public markets if needed. On September 7, 2021, the Board of InterGroup passed resolution to provide funding to Portsmouth for the working capital of the Hotel up to \$16,000,000 if necessary.

In order to increase our liquidity position and to take advantage of the favorable interest rate environment, we refinanced our 151-unit apartment complex in Parsippany, New Jersey on April 30, 2020, generating net proceeds of \$6,814,000. In June 2020, we refinanced one of our California properties and generated net proceeds of \$1,144,000. During the fiscal year ended June 30, 2021, we completed refinancing on six of our California properties and generated net proceeds of \$6,762,000. During the three months ending September 30, 2021, we refinanced four of our California properties' existing mortgages and obtained a mortgage note payable on one of our California properties, generating net proceeds totaling \$3,161,000 as a result. We are currently evaluating other refinancing opportunities and we could refinance additional multifamily properties should the need arise, or should management consider the interest rate environment favorable. The Company has an uncollateralized \$5,000,000 revolving line of credit from CIBC Bank USA ("CIBC") and the entire \$5,000,000 is available to be drawn down as of September 30, 2021 should additional liquidity be necessary.

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") administered by the U.S. Small Business Administration (the "SBA"). Justice received proceeds of \$4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, Justice used the proceeds from the SBA Loan for payroll costs and other qualified expenses. The SBA Loan was scheduled to mature on April 9, 2022 with 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. On June 10, 2021, the SBA Loan was forgiven in full.

On February 3, 2021, Justice entered into a second loan agreement ("Second SBA Loan") with CIBC Bank USA administered by the SBA. Justice received proceeds of \$2,000,000 from the Second SBA Loan. As of June 30, 2021, Justice had used all proceeds from the Second SBA Loan primarily for payroll costs. The Second SBA Loan is scheduled to mature on February 3, 2026 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. All payments of principal and interest are deferred until either: (a) if the SBA approves the forgiveness amount, the date the forgiveness amount is remitted by the SBA to CIBC; or (b) if Justice does not apply for forgiveness within 10 months after the last day of the covered period specified in the loan agreement or if the forgiveness amount is not approved, the date that is 10 months after the last day of the covered period. The loan may be forgiven if the funds are used for payroll and other qualified expenses. All unforgiven portion of the principal and accrued interest will be due at maturity. Justice submitted its application for full loan forgiveness on September 3, 2021.

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.

Our long-term liquidity requirements primarily consist of funds necessary to pay for scheduled debt maturities and capital improvements of the Hotel and our real estate properties. 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, 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 September 30, 2021, the Company's material financial obligations which also includes interest payments.

	Total	9 Months 2022	Year 2023	Year 2024	Year 2025	Year 2026	Thereafter
Mortgage and subordinated notes payable	\$184,089,000	\$2,474,000	\$28,535,000	\$108,474,000	\$3,866,000	\$1,066,000	\$39,674,000
SBA loans and other notes payable	2,544,000	361,000	183,000	-	-	2,000,000	-
Related party notes payable	3,947,000	425,000	567,000	567,000	567,000	567,000	1,254,000
Interest	29,513,000	6,660,000	8,120,000	4,897,000	1,380,000	1,265,000	7,191,000
<b>Total</b>	<b>\$220,093,000</b>	<b>\$9,920,000</b>	<b>\$37,405,000</b>	<b>\$113,938,000</b>	<b>\$5,813,000</b>	<b>\$4,898,000</b>	<b>\$48,119,000</b>

### NOTE 3 – REVENUE

Our revenue from real estate is primarily rental income from residential and commercial 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 September 30,

	2021	2020
<b>Hotel revenues:</b>		
Hotel rooms	\$ 5,562,000	\$ 2,890,000
Food and beverage	266,000	37,000
Garage	907,000	470,000
Other operating departments	70,000	28,000
<b>Total hotel revenue</b>	<b>\$ 6,805,000</b>	<b>\$ 3,425,000</b>

#### *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 September 30, 2021 and June 30, 2021 other than trade and other receivables, net on our condensed consolidated balance sheets. Our receivables are primarily the result of contracts with customers, which are reduced by an allowance for doubtful accounts that reflects our estimate of amounts that will not be collected.

We record contract liabilities when cash payments are received or due in advance of guests staying at our hotel, which are presented within accounts payable and other liabilities on our condensed consolidated balance sheets. Contract liabilities increased to \$399,000 as of September 30, 2021, from \$161,000 as of June 30, 2021. The increase for the three months ended September 30, 2021 was primarily driven by \$238,000 of advance deposits received for future reservations.

***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 4 – INVESTMENT IN HOTEL, NET**

Investment in hotel consisted of the following as of:

<b>September 30, 2021</b>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,738,000	\$ -	\$ 2,738,000
Finance lease ROU assets	1,805,000	(685,000)	1,120,000
Furniture and equipment	31,254,000	(28,087,000)	3,167,000
Building and improvements	64,587,000	(34,273,000)	30,314,000
Investment in Hotel, net	<u>\$ 100,384,000</u>	<u>\$ (63,045,000)</u>	<u>\$ 37,339,000</u>

  

<b>June 30, 2021</b>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,738,000	\$ -	\$ 2,738,000
Finance lease ROU assets	1,805,000	(606,000)	1,199,000
Furniture and equipment	31,014,000	(27,957,000)	3,057,000
Building and improvements	64,585,000	(33,928,000)	30,657,000
Investment in Hotel, net	<u>\$ 100,142,000</u>	<u>\$ (62,491,000)</u>	<u>\$ 37,651,000</u>

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

The Company's investment in real estate includes sixteen apartment complexes, one commercial real estate property and three single-family houses. The properties are located throughout the United States, but are concentrated in Dallas, Texas and Southern California. The Company also has an investment in unimproved land located in Maui, Hawaii.

Investment in real estate consisted of the following:

As of	September 30, 2021	June 30, 2021
Land	\$ 22,998,000	\$ 22,998,000
Buildings, improvements and equipment	68,396,000	68,173,000
Accumulated depreciation	<u>(45,524,000)</u>	<u>(44,930,000)</u>
	45,870,000	46,241,000
Land held for development	<u>1,468,000</u>	<u>1,468,000</u>
Investment in real estate, net	<u>\$ 47,338,000</u>	<u>\$ 47,709,000</u>

#### NOTE 6 – INVESTMENT IN MARKETABLE SECURITIES

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

At September 30, 2021 and June 30, 2021, all of the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments, along with the changes in amounts due to broker are included in earnings. Trading securities are summarized as follows:

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Gain (Loss)	Fair Value
<b>As of</b>					
<b>September 30, 2021</b>					
Corporate					
Equities	<u>\$ 22,589,000#</u>	<u>\$ 4,090,000</u>	<u>\$ (3,245,000)</u>	<u>\$ 845,000</u>	<u>\$ 23,434,000</u>
<b>As of</b>					
<b>June 30, 2021</b>					
Corporate					
Equities	<u>\$ 29,816,000</u>	<u>\$ 8,634,000</u>	<u>\$ (2,658,000)</u>	<u>\$ 5,976,000</u>	<u>\$ 35,792,000</u>

As of September 30, 2021 and June 30, 2021, approximately 4% of the investment in marketable securities balance above is comprised of the common stock of Comstock Mining Inc ("Comstock"). As of September 30, 2021 and June 30, 2021, the Company had \$2,131,000 and \$2,176,000, respectively, of unrealized losses related to securities held for over one year; of which \$2,009,000 and \$1,933,000 are related to its investment in Comstock, respectively.

Net gains (losses) on marketable securities on the statement of operations is comprised of realized and unrealized gains (losses). Below is the composition of net losses on marketable securities for the three months ended September 30, 2021 and 2020, respectively:

For the three months ended September 30,	2021	2020
Realized gain (loss) on marketable securities, net	\$ 2,393,000	\$ (262,000)
Realized loss on marketable securities related to Comstock	(140,000)	-
Unrealized (loss) gain on marketable securities, net	(4,211,000)	9,000
Unrealized (loss) gain on marketable securities related to Comstock	(210,000)	95,000
Net loss on marketable securities	<u>\$ (2,168,000)</u>	<u>\$ (158,000)</u>

## NOTE 7 - FAIR VALUE MEASUREMENTS

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

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

As of	September 30, 2021	June 30, 2021
	Total - Level 1	Total - Level 1
Assets:		
Investment in marketable securities:		
REITs and real estate companies	\$ 7,832,000	\$ 11,624,000
Communication services	3,957,000	4,872,000
Energy	3,066,000	6,374,000
Financial services	2,602,000	3,873,000
Technology	1,668,000	442,000
Industrials	1,342,000	3,746,000
Basic material	1,256,000	1,797,000
Consumer cyclical	953,000	1,702,000
Healthcare	464,000	981,000
Other	294,000	381,000
Total	<u>23,434,000</u>	<u>35,792,000</u>
Liabilities:		
Due to securities broker:	(1,170,000)	(7,917,000)
Obligations for securities sold:	(6,070,000)	(6,419,000)
	<u>\$ 16,194,000</u>	<u>\$ 21,456,000</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.

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

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

As of	<u>September 30, 2021</u>	<u>June 30, 2021</u>
Cash and cash equivalents	\$ 9,928,000	\$ 6,808,000
Restricted cash	9,371,000	8,584,000
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	<u>\$ 19,299,000</u>	<u>\$ 15,392,000</u>

Restricted cash is comprised of amounts held by lenders for payment of real estate taxes, insurance, replacement and capital addition reserves for the Hotel and real estate properties.

#### NOTE 9 – STOCK BASED COMPENSATION PLANS

The Company follows Accounting Standard Codification (ASC) Topic 718 “Compensation – Stock Compensation”, which addresses accounting for equity-based compensation arrangements, including employee stock options and restricted stock units.

Please refer to Note 16 – Stock Based Compensation Plans in the Company’s Form 10-K for the year ended June 30, 2021 for more detailed information on the Company’s stock-based compensation plans.

During the three months ended September 30, 2021 and 2020, the Company recorded stock option compensation cost of \$2,000 and \$5,000, respectively, related to stock options that were previously issued. As of September 30, 2021, there was a total of \$2,000 of unamortized compensation related to stock options which is expected to be recognized over the weighted-average period of 0.42 years.

Option-pricing models require the input of various subjective assumptions, including the option’s expected life and the price volatility of the underlying stock. The expected stock price volatility is based on analysis of the Company’s stock price history. The Company has selected to use the simplified method for estimating the expected term. The risk-free interest rate is based on the U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. No dividend yield is included as the Company has not issued any dividends and does not anticipate issuing any dividends in the future.

The following table summarizes the stock options activity from July 1, 2020 through September 30, 2021:

		<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>	<u>Aggregate Intrinsic Value</u>
Oustanding at	July 1, 2020	341,195	\$ 16.95	3.83 years	\$ 3,271,000
Granted		-	-		
Exercised		-	-		
Forfeited		-	-		
Exchanged		-	-		
Oustanding at	September 30, 2020	<u>341,195</u>	<u>\$ 16.95</u>	3.58 years	<u>\$ 4,448,000</u>
Exercisable at	September 30, 2020	<u>333,995</u>	<u>\$ 16.73</u>	3.51 years	<u>\$ 4,428,000</u>
Vested and Expected to vest at	September 30, 2020	<u>341,195</u>	<u>\$ 16.95</u>	3.58 years	<u>\$ 4,448,000</u>
Oustanding at	July 1, 2021	341,195	\$ 16.95	3.58 years	\$ 4,448,000
Granted		-	-		
Exercised		-	-		
Forfeited		-	-		
Exchanged		-	-		
Oustanding at	September 30, 2021	<u>341,195</u>	<u>\$ 16.95</u>	2.58 years	<u>\$ 9,259,000</u>
Exercisable at	September 30, 2021	<u>337,595</u>	<u>\$ 16.84</u>	2.55 years	<u>\$ 9,198,000</u>
Vested and Expected to vest at	September 30, 2021	<u>341,195</u>	<u>\$ 16.95</u>	2.58 years	<u>\$ 9,259,000</u>

#### NOTE 10 – SEGMENT INFORMATION

The Company operates in three reportable segments, the operation of the hotel (“Hotel Operations”), the operation of 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 information.

Information below represents reported segments for the three months ended September 30, 2021 and 2020. Operating income (loss) from hotel operations consists of the operation of the hotel and the garage. Operating income from real estate operations consists of the operation of rental properties. Operating gains (losses) from investment transactions consists of net investment gains (losses), impairment loss on other investments, net unrealized gain (loss) on other investments, dividend and interest income and trading and margin interest expense. The other segment consists of corporate general and administrative expenses and the income tax (expense) benefit for the entire Company.

<b>As of and for the three months ended September 30, 2021</b>	<b>Hotel Operations</b>	<b>Real Estate Operations</b>	<b>Investment Transactions</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 6,805,000	\$ 4,116,000	\$ -	\$ -	\$ 10,921,000
Segment operating expenses	(6,333,000)	(2,074,000)	-	(810,000)	(9,217,000)
Segment income (loss)	472,000	2,042,000	-	(810,000)	1,704,000
Interest expense - mortgage	(1,661,000)	(581,000)	-	-	(2,242,000)
Depreciation and amortization expense	(554,000)	(594,000)	-	-	(1,148,000)
Loss from investments	-	-	(2,335,000)	-	(2,335,000)
Income tax benefit	-	-	-	1,115,000	1,115,000
Net income (loss)	\$ (1,743,000)	\$ 867,000	\$ (2,335,000)	\$ 305,000	\$ (2,906,000)
Total assets	\$ 46,818,000	\$ 47,338,000	\$ 23,475,000	\$ 16,209,000	\$ 133,840,000

<b>For the three months ended September 30, 2020</b>	<b>Hotel Operations</b>	<b>Real Estate Operations</b>	<b>Investment Transactions</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 3,425,000	\$ 3,484,000	\$ -	\$ -	\$ 6,909,000
Segment operating expenses	(5,033,000)	(1,887,000)	-	(1,366,000)	(8,286,000)
Segment income (loss)	(1,608,000)	1,597,000	-	(1,366,000)	(1,377,000)
Interest expense - mortgage	(1,700,000)	(615,000)	-	-	(2,315,000)
Depreciation and amortization expense	(579,000)	(612,000)	-	-	(1,191,000)
Gain from sale of real estate	-	12,043,000	-	-	12,043,000
Loss from investments	-	-	(365,000)	-	(365,000)
Income tax expense	-	-	-	(1,975,000)	(1,975,000)
Net income (loss)	\$ (3,887,000)	\$ 12,413,000	\$ (365,000)	\$ (3,341,000)	\$ 4,820,000

#### NOTE 11 – RELATED PARTY AND OTHER FINANCING TRANSACTIONS

The following summarizes the balances of related party and other notes payable as of September 30, 2021 and June 30, 2021, respectively.

<b>As of</b>	<b>September 30, 2021</b>	<b>June 30, 2021</b>
Note payable - Hilton	\$ 2,613,000	\$ 2,692,000
Note payable - Interstate	1,333,000	1,396,000
SBA Loans	2,000,000	2,000,000
Total related party and other notes payable	\$ 5,946,000	\$ 6,088,000

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 anniversary of the takeover date. During the first quarter of fiscal year 2021, the Hotel obtained approval from Interstate to use the key money for hotel operations and the funds were exhausted by December 31, 2020. Unamortized portion of the key money is included in the related party notes payable in the condensed consolidated balance sheets.

On February 3, 2021, Justice entered into a second loan agreement (“Second SBA Loan”) with CIBC Bank USA administered by the SBA. Justice received proceeds of \$2,000,000 from the Second SBA Loan. As of June 30, 2021, Justice had used all proceeds from the Second SBA Loan primarily for payroll costs. The Second SBA Loan is scheduled to mature on February 3, 2026 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. All payments of principal and interest are deferred until either: (a) if the SBA approves the forgiveness amount, the date the forgiveness amount is remitted by the SBA to CIBC; or (b) if Justice does not apply for forgiveness within 10 months after the last day of the covered period specified in the loan agreement or if the forgiveness amount is not approved, the date that is 10 months after the last day of the covered period. The loan may be forgiven if the funds are used for payroll and other qualified expenses. All unforgiven portion of the principal and accrued interest will be due at maturity. Justice submitted its application for full loan forgiveness on September 3, 2021.

As of September 30, 2021, the Company had finance lease obligations outstanding of \$544,000. 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 September 30, 2021 are as follows:

**For the year ending June 30,**

2022	\$ 378,000
2023	188,000
Total minimum lease payments	<u>566,000</u>
Less interest on finance lease	(22,000)
Present value of future minimum lease payments	<u>\$ 544,000</u>

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

**For the year ending June 30,**

2022	\$ 786,000
2023	750,000
2024	567,000
2025	567,000
2026	2,567,000
Thereafter	1,254,000
	<u>\$ 6,491,000</u>

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 \$90,355,000 and \$90,745,000 as of September 30, 2021 and June 30, 2021, 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.

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 September 30, 2021, 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.

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 31, 2022. On December 16, 2020, Justice and InterGroup entered into a loan modification agreement which increased Justice's borrowing from InterGroup as needed up to \$10,000,000. As of September 30, 2021 and June 30, 2021, the balance of the loan was \$8,150,000 and \$6,650,000, respectively, and is eliminated in the condensed consolidated balance sheets.

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 Santa Fe and 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, the Company obtained a modification from CIBC which extended the maturity date of the RLOC from July 24, 2019 to July 23, 2020. The \$2,969,000 mortgage due to InterGroup carries same terms as InterGroup's RLOC. In July 2020, InterGroup entered into a second modification agreement with CIBC which extended the maturity date of its RLOC to July 21, 2021. The \$2,969,000 mortgage due to InterGroup was also extended to July 1, 2021. On August 28, 2020, Santa Fe sold its 27-unit apartment complex located in Santa Monica, California for \$15,650,000 and received net proceeds of \$12,163,000 after selling costs and repayment of InterGroup's RLOC of \$2,985,000. Furthermore, pursuant to the Contribution Agreement between Santa Fe and InterGroup, Santa Fe paid InterGroup \$662,000 from the sale.

On November 23, 2020, Santa Fe sold its 2-unit apartment complex in West Los Angeles, California to InterGroup for \$1,530,000 in exchange for a reduction of \$1,196,000 of its obligation to InterGroup. Santa Fe acquired the property on February 1, 2002 for \$785,000. Outstanding mortgage on the property for \$334,000 was simultaneously transferred to InterGroup. Santa Fe realized a gain on the sale of approximately \$901,000, which was eliminated in consolidation at InterGroup. The sales price of the property represents its current value as of the sale date as appraised by a licensed independent third-party appraiser. The fairness of the sale terms of the transaction were reviewed and approved by the independent directors of Santa Fe and InterGroup, and unanimously approved by the entire Board of Directors of both companies.

As disclosed in its Definitive Information Statement on Schedule 14C, filed with the SEC on January 25, 2021, Santa Fe received shareholder approval to distribute its assets, as described and subsequently dissolve, all as set forth in the Information Statement. As InterGroup formerly owned 83.7% of the outstanding common stock of Santa Fe, the Company received cash of \$5,013,000 and 422,998 shares of Portsmouth common stock in March 2021 as a result of the liquidation of Santa Fe. As a former 3.7% shareholder of Santa Fe, the Company's President, Chairman of the Board and Chief Executive Officer, John Winfield, received cash of \$221,000 and 18,641 shares of Portsmouth common stock in March 2021 as a result of the liquidation of Santa Fe. On April 12, 2021, Santa Fe received a filed stamped copy of its Articles of Dissolution from the State of Nevada, and Santa Fe is effectively fully dissolved and no longer in legal existence.

Four of the Portsmouth directors serve as directors of InterGroup.

As Chairman of the Executive Strategic Real Estate and 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 Board of Portsmouth and oversees the investment activity of Portsmouth. Effective June 2016, Mr. Winfield became the Managing Director of Justice. Depending on certain market conditions and various risk factors, the Chief Executive Officer and Portsmouth 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 Portsmouth, at risk in substantially the same manner as the Company in connection with investment decisions made on behalf of the Company.

**NOTE 12 – ACCOUNTS PAYABLE AND OTHER LIABILITIES - JUSTICE**

The following summarizes the balances of accounts payable and other liabilities – Justice as of September 30, 2021 and June 30, 2021.

<b>As of</b>	<b>September 30, 2021</b>	<b>June 30, 2021</b>
Trade payable	\$ 2,525,000	\$ 2,113,000
Advance deposits	399,000	161,000
Property tax payable	509,000	-
Payroll and related accruals	2,549,000	2,345,000
Mortgage interest payable	518,000	582,000
Withholding and other taxes payable	649,000	885,000
Security deposit	52,000	52,000
Other payables	687,000	606,000
<b>Total accounts payable and other liabilities - Justice</b>	<b>\$ 7,888,000</b>	<b>\$ 6,744,000</b>

**NOTE 13 – ACCOUNTS PAYABLE AND OTHER LIABILITIES**

The following summarizes the balances of accounts payable and other liabilities as of September 30, 2021 and June 30, 2021.

<b>As of</b>	<b>September 30, 2021</b>	<b>June 30, 2021</b>
Trade payable	\$ 559,000	\$ 485,000
Advance deposits	267,000	282,000
Property tax payable	979,000	559,000
Payroll and related accruals	46,000	42,000
Interest payable	218,000	142,000
Withholding and other taxes payable	795,000	867,000
Security deposit	796,000	789,000
Other payables	208,000	191,000
<b>Total accounts payable and other liabilities</b>	<b>\$ 3,868,000</b>	<b>\$ 3,357,000</b>

**NOTE 14 – SUBSEQUENT EVENT**

On October 14, 2021, the Company refinanced its \$15,900,000 mortgage note payable on its 358-unit apartment complex in Irving, Texas and obtained a new mortgage note payable for \$28,800,000. The Company received net proceeds of \$12,938,000 as a result of the refinance. The annual interest rate on the mortgage is fixed at 2.95% for ten years with interest-only payments for the first five years and 30-year amortization thereafter. The mortgage loan matures in November 2031.

## **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, 2021. 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.

### **NEGATIVE EFFECTS OF CIVIL AUTHORITY ACTIONS 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 civil authority actions related to 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 and civil authority actions 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 December 2020, due to the surge in COVID-19 cases and hospitalizations, the Health Officer of the City and County of San Francisco has suspended or restricted certain activities. Health Order C19-07q (the "Order") incorporates suspensions, reductions in capacity limits, and other restrictions contained in the Regional Stay At Home Order issued by the California Department of Public Health on December 3, 2020. Effective December 17, 2020, the Bay Area Region, including San Francisco, is required to comply with the State's December 3, 2020 Regional Stay-at-Home Order. The Order strongly discourages anyone in the County from travelling for leisure, recreation, business or other purposes that can be postponed until after the current surge. With limited exceptions, this Order imposed a mandatory quarantine on anyone traveling, moving, or returning to the County from anywhere outside the Bay Area. Effective January 20, 2021, Health Order C19- 07r revised and replaced the previous Order; it continues to temporarily prohibit certain businesses and activities from resuming but allows certain other businesses, activities, travel and governmental functions to occur subject to specified health and safety restrictions, limitations, and conditions to limit the transmission of COVID-19. Quarantine and isolation requirements and recommendations upon moving to, traveling to, or returning to the County have not changed from the previous Order.

On March 24, 2021, the City and County of San Francisco announced it moved into the orange tier which removed the suggested Shelter in Place for guests travelling to San Francisco. This was a very positive step for the hotel community. This tier opens up activities in the city including expanded restaurant capacities, museums and attractions. For the hotel it allows for guests to gather in public spaces and for outlets and amenities to open up at limited capacities including fitness centers. It does not change the very stringent cleaning and sanitation requirements set forth by the Health Officer of the City and County of San Francisco which proves to be a costly measure to maintain. Effective May 6, 2021, the City and County of San Francisco moved into the yellow tier guidelines. We continue to closely monitor the very fluid changes that the Center for Disease Control, San Francisco Department of Health and other authorities implement with regards to the COVID-19 pandemic.

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. By the end of March 2020, we had temporarily closed all our food and beverage outlets, valet parking, concierge and bell services, fitness center, as well as the executive lounge facility. We continue to implement social distancing standards and cleaning processes designed by Interstate and Hilton 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 Annual 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. 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 of the date of this report, the effects of the pandemic continue to affect our economy, business and leisure travel, and our needs to continue to curtail certain revenue generating activities at the Hotel. We expect that the effects will have a material adverse effect on our business until the pandemic ends.

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. 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. On April 9, 2020, Justice entered into a loan agreement (“SBA Loan - Justice”) with CIBC Bank USA under the CARES Act. Justice received proceeds of \$4,719,000 from the SBA Loan - Justice. In accordance with the requirements of the CARES Act, Justice has used all proceeds from the SBA Loan for payroll costs and other qualified expenses. The SBA Loan - Justice was scheduled to mature on April 9, 2022 and had a 1.00% interest rate and was subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. On April 27, 2020, InterGroup entered into a loan agreement (“SBA Loan - InterGroup”) with CIBC Bank USA under the CARES Act and received loan proceeds in the amount of \$453,000. As of June 30, 2021, InterGroup had used all the \$453,000 loan proceeds in qualified payroll expenses. The SBA Loan – InterGroup was scheduled to mature on April 27, 2022 and had a 1.00% interest rate. Both the SBA Loan – Justice and SBA Loan – InterGroup (collectively the “SBA Loans”) were forgiven in full by the SBA as of June 30, 2021.

On February 3, 2021, Justice entered into a second loan agreement (“Second SBA Loan”) with CIBC Bank USA administered by the SBA. Justice received proceeds of \$2,000,000 from the Second SBA Loan. As of June 30, 2021, Justice had used all proceeds from the Second SBA Loan primarily for payroll costs. The Second SBA Loan is scheduled to mature on February 3, 2026 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. All payments of principal and interest are deferred until either: (a) if the SBA approves the forgiveness amount, the date the forgiveness amount is remitted by the SBA to CIBC; or (b) if Justice does not apply for forgiveness within 10 months after the last day of the covered period specified in the loan agreement or if the forgiveness amount is not approved, the date that is 10 months after the last day of the covered period. The loan may be forgiven if the funds are used for payroll and other qualified expenses. All unforgiven portion of the principal and accrued interest will be due at maturity. Justice submitted its application for full loan forgiveness on September 3, 2021.

## **RESULTS OF OPERATIONS**

As of September 30, 2021, the Company owns approximately 74.9% of the common shares of Portsmouth Square, Inc. Historically, the Company’s principal source of revenue is derived from the investment of its 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. 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. However, the impact of the COVID-19 pandemic is highly uncertain and management expects that the ongoing length and severity of the economic downturn will have a material adverse impact on our business, financial condition, liquidity and financial results.

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. 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. During the first quarter of fiscal year 2021, the Hotel obtained approval from Interstate to use the key money for hotel operations and the funds were exhausted by December 31, 2020.

In addition to the operations of the Hotel, the Company also generates income from the ownership, management and, when appropriate, sale of real estate. Properties include sixteen apartment complexes, one commercial real estate property, and three single-family houses as strategic investments. The properties are located throughout the United States, but are concentrated in Texas and Southern California. The Company also has an investment in unimproved real property. All of the Company’s residential and commercial rental operating properties are managed in-house.

The Company acquires its investments in real estate and other investments utilizing cash, securities or debt, subject to approval or guidelines of the Board of Directors. The Company also invests in income-producing instruments, equity and debt securities and will consider other investments if such investments offer growth or profit potential.

### Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

The Company had a net loss of \$2,906,000 for the three months ended September 30, 2021 compared to net income of \$4,819,000 for the three months ended September 30, 2020. The change is primarily attributable to the \$12,043,000 gain from sale of real estate in August 2020.

### Hotel Operations

The Company had net loss from Hotel operations of \$1,743,000 for the three months ended September 30, 2021 compared to net loss of \$3,887,000 for the three months ended September 30, 2020. The change is primarily attributable to increase in Hotel revenue.

The following table sets forth a more detailed presentation of Hotel operations for the three months ended September 30, 2021 and 2020.

For the three months ended September 30,	2021	2020
Hotel revenues:		
Hotel rooms	\$ 5,562,000	\$ 2,890,000
Food and beverage	266,000	37,000
Garage	907,000	470,000
Other operating departments	70,000	28,000
Total hotel revenues	<u>6,805,000</u>	<u>3,425,000</u>
Operating expenses excluding depreciation and amortization	<u>(6,333,000)</u>	<u>(5,033,000)</u>
Operating income (loss) before interest, depreciation and amortization	472,000	(1,608,000)
Interest expense - mortgage	(1,661,000)	(1,700,000)
Depreciation and amortization expense	(554,000)	(579,000)
Net loss from Hotel operations	<u>\$ (1,743,000)</u>	<u>\$ (3,887,000)</u>

For the three months ended September 30, 2021, the Hotel had operating income of \$472,000 before interest expense, depreciation, and amortization on total operating revenues of \$6,805,000 compared to operating loss of \$1,608,000 before interest expense, depreciation, and amortization on total operating revenues of \$3,425,000 for the three months ended September 30, 2020. For the three months ended September 30, 2021, room revenues increased by \$2,672,000, food and beverage revenue increased by \$229,000, and garage revenue increased by \$437,000, compared to the three months ended September 30, 2020. The year over year increase in all the revenue sources are result of the recovery from the business interruption attributable to a variety of responses by federal, state, and local civil authority to the COVID-19 outbreak since March 2020. Total operating expenses increased by \$1,300,000 due to increase in salaries and wages, rooms commission, credit card fees, management fees, and franchise fees.

The following table sets forth the average daily room rate, average occupancy percentage and RevPAR of the Hotel for the three months ended September 30, 2021 and 2020.

Three Months Ended September 30,	Average Daily Rate	Average Occupancy %	RevPAR
2021	\$ 141	79%	\$ 111
2020	\$ 108	54%	\$ 58

The Hotel's revenues increased by 98% this quarter as compared to the previous comparable quarter. Average daily rate increased by \$33, average occupancy increased by 25%, and RevPAR increased by \$53 for the three months ended September 30, 2021 compared to the three months ended September 30, 2020.

#### Real Estate Operations

Net income from real estate operations for the three months ended September 30, 2021 decreased by \$11,546,000 compared to the three months ended September 30, 2020 as a result of the \$12,043,000 gain from sale of real estate in August 2020. Revenue from real estate operations increased \$632,000 year over year due to reduction in vacancy and bad debt. All the Company's properties are managed in-house. Management continues to review and analyze the Company's real estate operations to improve occupancy and rental rates and to reduce expenses and improve efficiencies.

#### Investment Transactions

The Company had a net loss on marketable securities of \$2,168,000 for the three months ended September 30, 2021 compared to a net loss on marketable securities of \$158,000 for the three months ended September 30, 2020. For the three months ended September 30, 2021, the Company had a net realized gain of \$2,253,000 and a net unrealized loss of \$4,421,000. For the three months ended September 30, 2020, the Company had a net realized loss of \$262,000 and a net unrealized gain of \$104,000. 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 benefit (expense) during the three months ended September 30, 2021 and 2020 represent primarily the income tax effect of the pretax (loss) income at InterGroup and Portsmouth, which includes its share in net loss of Justice.

## MARKETABLE SECURITIES

The following table shows the composition of the Company's marketable securities portfolio as of September 30, 2021 and June 30, 2021 by selected industry groups.

As of September 30, 2021		% of Total
Industry Group	Fair Value	Investment Securities
REITs and real estate companies	\$ 7,832,000	33.3%
Communication services	3,957,000	16.9%
Energy	3,066,000	13.1%
Financial services	2,602,000	11.1%
Technology	1,668,000	7.1%
Industrials	1,342,000	5.7%
Basic material	1,256,000	5.4%
Consumer cyclical	953,000	4.1%
Healthcare	464,000	2.0%
Other	294,000	1.3%
	<u>\$ 23,434,000</u>	<u>100.0%</u>

As of June 30, 2021		% of Total
Industry Group	Fair Value	Investment Securities
REITs and real estate companies	\$ 11,624,000	32.5%
Energy	6,374,000	17.8%
Communication services	4,872,000	13.6%
Financial services	3,873,000	10.8%
Industrials	3,746,000	10.5%
Basic material	1,797,000	5.0%
Consumer cyclical	1,702,000	4.8%
Healthcare	981,000	2.7%
Technology	442,000	1.2%
Other	381,000	1.1%
	<u>\$ 35,792,000</u>	<u>100.0%</u>

As of September 30, 2021, the Company's investment portfolio is diversified with 59 different equity positions. The Company held one equity security that is more than 10% of the equity value of the portfolio. The largest security position represents 15% of the portfolio and consists of the common stock of Viacom CBS, Inc. (NYSE: VIACP) which is included in the communication services industry group.

As of June 30, 2021, the Company's investment portfolio is diversified with 83 different equity positions. The Company holds two equity securities that comprised more than 10% of the equity value of the portfolio. The two largest security positions represent 12% and 11% of the portfolio and consists of the common stock of DigitalBridge Group, Inc. (NASDAQ: DBRG) and Viacom CBS, Inc. (NASDAQ: VIACP), which are included in the REITs and real estate companies and communication services industry group, respectively.

The following table shows the net 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,	2021	2020
Net loss on marketable securities	\$ (1,818,000)	\$ (253,000)
Net (loss) gain on marketable securities-Comstock	(350,000)	95,000
Impairment loss on other investments	-	(62,000)
Dividend and interest income	187,000	124,000
Margin interest expense	(222,000)	(120,000)
Trading and management expenses	(132,000)	(149,000)
Net loss from investment transactions	<u>\$ (2,335,000)</u>	<u>\$ (365,000)</u>

## FINANCIAL CONDITION AND LIQUIDITY

The Company had cash and cash equivalents of \$9,928,000 and \$6,808,000 as of September 30, 2021 and June 30, 2021, respectively. The Company had marketable securities, net of margin due to securities brokers, of \$16,194,000 and \$21,456,000 as of September 30, 2021 and June 30, 2020, respectively. These marketable securities are short-term investments and liquid in nature.

On December 16, 2020, Justice and InterGroup entered into a loan modification agreement which increased Justice's borrowing from InterGroup as needed up to \$10,000,000. During the three months ending September 30, 2021, InterGroup advanced \$1,500,000 to Justice per the aforementioned loan modification agreement, bringing the total amount due InterGroup to \$8,150,000 at September 30, 2021. Portsmouth could amend its by-laws and increase the number of authorized shares in order to issue additional shares to raise capital in the public markets if needed. On September 7, 2021, the Board of InterGroup passed resolution to provide funding to Portsmouth for the working capital of the Hotel up to \$16,000,000 if necessary.

In order to increase our liquidity position and to take advantage of the favorable interest rate environment, we refinanced our 151-unit apartment complex in Parsippany, New Jersey on April 30, 2020, generating net proceeds of \$6,814,000. In June 2020, we refinanced one of our California properties and generated net proceeds of \$1,144,000. During the fiscal year ended June 30, 2021, we completed refinancing on six of our California properties and generated net proceeds of \$6,762,000. During the three months ending September 30, 2021, the Company refinanced four of our California properties' existing mortgages and obtained a new mortgage note payable on one of our California properties purchased on May 14, 2021, generating net proceeds totaling \$3,161,000 as a result. We are currently evaluating other refinancing opportunities and we could refinance additional multifamily properties should the need arise, or should management consider the interest rate environment favorable. The Company has an uncollateralized \$5,000,000 revolving line of credit from CIBC Bank USA ("CIBC") and the entire \$5,000,000 is available to be drawn down as of September 30, 2021 should additional liquidity be necessary.

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") administered by the U.S. Small Business Administration (the "SBA"). Justice received proceeds of \$4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, Justice used the proceeds from the SBA Loan for payroll costs and other qualified expenses. The SBA Loan was scheduled to mature on April 9, 2022 with 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. On June 10, 2021, the SBA Loan was forgiven in full.

On February 3, 2021, Justice entered into a second loan agreement ("Second SBA Loan") with CIBC Bank USA administered by the SBA. Justice received proceeds of \$2,000,000 from the Second SBA Loan. As of June 30, 2021, Justice had used all proceeds from the Second SBA Loan primarily for payroll costs. The Second SBA Loan is scheduled to mature on February 3, 2026 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. All payments of principal and interest are deferred until either: (a) if the SBA approves the forgiveness amount, the date the forgiveness amount is remitted by the SBA to CIBC; or (b) if Justice does not apply for forgiveness within 10 months after the last day of the covered period specified in the loan agreement or if the forgiveness amount is not approved, the date that is 10 months after the last day of the covered period. The loan may be forgiven if the funds are used for payroll and other qualified expenses. All unforgiven portion of the principal and accrued interest will be due at maturity. Justice submitted its application for full loan forgiveness on September 3, 2021.

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.

Our long-term liquidity requirements primarily consist of funds necessary to pay for scheduled debt maturities and capital improvements of the Hotel and our real estate properties. 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, 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.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## MATERIAL CONTRACTUAL OBLIGATIONS

The following table provides a summary as of September 30, 2021, the Company's material financial obligations which also includes interest payments.

	Total	9 Months 2022	Year 2023	Year 2024	Year 2025	Year 2026	Thereafter
Mortgage and subordinated notes payable	\$184,089,000	\$2,474,000	\$28,535,000	\$108,474,000	\$3,866,000	\$1,066,000	\$39,674,000
SBA loans and other notes payable	2,544,000	361,000	183,000	-	-	2,000,000	-
Related party notes payable	3,947,000	425,000	567,000	567,000	567,000	567,000	1,254,000
Interest	29,513,000	6,660,000	8,120,000	4,897,000	1,380,000	1,265,000	7,191,000
Total	<u>\$220,093,000</u>	<u>\$9,920,000</u>	<u>\$37,405,000</u>	<u>\$113,938,000</u>	<u>\$5,813,000</u>	<u>\$4,898,000</u>	<u>\$48,119,000</u>

## 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 three months ended September 30, 2021. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2021 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**

The Company may be subject to legal proceedings, claims, and litigation arising in the ordinary course of business. The Company will defend itself vigorously against any such claims. Management does not believe that the impact of such matters will have a material effect on the financial conditions or result of operations when resolved.

**Item 1A. RISK FACTORS**

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

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

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

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

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

**Item 4. MINE SAFETY DISCLOSURES**

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

**Item 5. OTHER INFORMATION**

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

**Item 6. EXHIBITS**

31.1	<a href="#"><u>Certification of Principal Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).</u></a>
31.2	<a href="#"><u>Certification of Principal Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).</u></a>
32.1	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.</u></a>
32.2	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.</u></a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**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.

THE INTERGROUP CORPORATION  
(Registrant)

Date: November 12, 2021

by /s/ John V. Winfield

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

Date: November 12, 2021

by /s/ Danfeng Xu

Danfeng Xu  
Treasurer and Controller  
(Principal Financial Officer)

## CERTIFICATION

I, John V. Winfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The InterGroup 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 12, 2021

*/s/ John V. Winfield*

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

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## CERTIFICATION

I, Danfeng Xu, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The InterGroup 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 12, 2021

*/s/ Danfeng Xu*

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Danfeng Xu  
Treasurer and Controller  
(Principal Financial Officer)

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

In connection with the Quarterly Report of The InterGroup Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John V. Winfield, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

*/s/ John V. Winfield*

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

Date: November 12, 2021

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

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

In connection with the Quarterly Report of The InterGroup Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2021, 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*

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Danfeng Xu  
Treasurer and Controller  
(Principal Financial Officer)

Date: November 12, 2021

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

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