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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 December 31, 2020

**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 January 29, 2021 was 2,277,344.

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

**Item 1 - Condensed Consolidated Financial Statements**

**THE INTERGROUP CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

| As of   | December 31, 2020     | June 30, 2020         |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>   |                       |                       |
| Investment in Hotel, net  | \$ 37,970,000         | \$ 38,769,000         |
| Investment in real estate, net  | 46,476,000            | 50,338,000            |
| Investment in marketable securities   | 22,008,000            | 6,178,000             |
| Other investments, net  | 71,000                | 278,000               |
| Cash and cash equivalents   | 16,815,000            | 14,163,000            |
| Restricted cash   | 8,235,000             | 14,123,000            |
| Other assets, net   | 1,982,000             | 1,985,000             |
| Deferred tax asset  | 4,979,000             | 4,383,000             |
| Total assets  | <u>\$ 138,536,000</u> | <u>\$ 130,217,000</u> |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>  |                       |                       |
| <b>Liabilities:</b>   |                       |                       |
| Accounts payable and other liabilities - Justice  | \$ 6,031,000          | \$ 7,414,000          |
| Accounts payable and other liabilities  | 3,761,000             | 4,213,000             |
| Due to securities broker  | 8,320,000             | 1,576,000             |
| Obligations for securities sold   | 704,000               | 294,000               |
| Related party and other notes payable   | 4,371,000             | 4,654,000             |
| Finance leases  | 901,000               | 1,098,000             |
| Other notes payable - SBA Loans   | 5,172,000             | 5,172,000             |
| Line of credit payable  | -                     | 2,985,000             |
| Mortgage notes payable - Hotel, net   | 110,810,000           | 111,446,000           |
| Mortgage notes payable - real estate, net   | 69,203,000            | 65,612,000            |
| Total liabilities   | <u>209,273,000</u>    | <u>204,464,000</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; 2,280,674 and 2,288,809 outstanding, respectively | 33,000                | 33,000                |
| Additional paid-in capital  | 6,636,000             | 6,626,000             |
| Accumulated deficit   | (39,056,000)          | (43,541,000)          |
| Treasury stock, at cost, 1,124,308 and 1,116,173 shares, respectively   | (15,251,000)          | (14,995,000)          |
| Total InterGroup shareholders' deficit  | <u>(47,638,000)</u>   | <u>(51,877,000)</u>   |
| Noncontrolling interest   | (23,099,000)          | (22,370,000)          |
| Total shareholders' deficit   | <u>(70,737,000)</u>   | <u>(74,247,000)</u>   |
| Total liabilities and shareholders' deficit   | <u>\$ 138,536,000</u> | <u>\$ 130,217,000</u> |

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

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

| For the three months ended December 31,                             | 2020               | 2019                |
|---|--------------------|---------------------|
| <b>Revenues:</b>  |                    |                     |
| Hotel   | \$ 3,109,000       | \$ 14,901,000       |
| Real estate   | 3,554,000          | 3,839,000           |
| Total revenues  | <u>6,663,000</u>   | <u>18,740,000</u>   |
| <b>Costs and operating expenses:</b>                                |                    |                     |
| Hotel operating expenses  | (5,133,000)        | (11,730,000)        |
| Real estate operating expenses                                      | (2,100,000)        | (2,089,000)         |
| Depreciation and amortization expenses                              | (1,181,000)        | (1,232,000)         |
| General and administrative expenses                                 | (560,000)          | (581,000)           |
| Total costs and operating expenses                                  | <u>(8,974,000)</u> | <u>(15,632,000)</u> |
| (Loss) income from operations                                       | <u>(2,311,000)</u> | <u>3,108,000</u>    |
| <b>Other income (expense):</b>                                      |                    |                     |
| Interest expense - mortgages  | (2,241,000)        | (2,330,000)         |
| Net gain (loss) on marketable securities                            | 3,501,000          | (53,000)            |
| Net loss on marketable securities - Comstock                        | (44,000)           | (66,000)            |
| Impairment loss on other investments                                | (27,000)           | -                   |
| Dividend and interest income  | 81,000             | 111,000             |
| Trading and margin interest expense                                 | (287,000)          | (241,000)           |
| Total other income (expense), net                                   | <u>983,000</u>     | <u>(2,579,000)</u>  |
| (Loss) income before income taxes                                   | (1,328,000)        | 529,000             |
| Income tax benefit (expense)  | 265,000            | (149,000)           |
| Net (loss) income   | (1,063,000)        | 380,000             |
| Less: Net loss (income) attributable to the noncontrolling interest | 998,000            | (132,000)           |
| Net (loss) income attributable to InterGroup Corporation            | <u>\$ (65,000)</u> | <u>\$ 248,000</u>   |
| <b>Net (loss) income per share</b>                                  |                    |                     |
| Basic   | <u>\$ (0.47)</u>   | <u>\$ 0.17</u>      |
| Diluted   | <u>N/A</u>         | <u>\$ 0.14</u>      |
| <b>Net income per share attributable to InterGroup Corporation</b>  |                    |                     |
| Basic   | <u>\$ (0.03)</u>   | <u>\$ 0.11</u>      |
| Diluted   | <u>N/A</u>         | <u>\$ 0.09</u>      |
| Weighted average number of basic common shares outstanding          | <u>2,283,229</u>   | <u>2,302,748</u>    |
| Weighted average number of diluted common shares outstanding        | <u>2,617,224</u>   | <u>2,633,143</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 six months ended December 31,</b>                        | <b>2020</b>         | <b>2019</b>         |
|---|---------------------|---------------------|
| <b>Revenues:</b>  |                     |                     |
| Hotel   | \$ 6,534,000        | \$ 30,330,000       |
| Real estate   | 7,038,000           | 7,556,000           |
| <b>Total revenues</b>   | <b>13,572,000</b>   | <b>37,886,000</b>   |
| <b>Costs and operating expenses:</b>                                |                     |                     |
| Hotel operating expenses  | (10,166,000)        | (23,078,000)        |
| Real estate operating expenses                                      | (3,988,000)         | (4,039,000)         |
| Depreciation and amortization expenses                              | (2,372,000)         | (2,445,000)         |
| General and administrative expenses                                 | (1,926,000)         | (1,341,000)         |
| <b>Total costs and operating expenses</b>                           | <b>(18,452,000)</b> | <b>(30,903,000)</b> |
| <b>Loss (income) from operations</b>                                | <b>(4,880,000)</b>  | <b>6,983,000</b>    |
| <b>Other income (expense):</b>                                      |                     |                     |
| Interest expense - mortgages  | (4,556,000)         | (4,727,000)         |
| Gain from sale of real estate                                       | 12,043,000          | -                   |
| Net gain (loss) on marketable securities                            | 3,248,000           | (198,000)           |
| Net gain (loss) on marketable securities - Comstock                 | 51,000              | (370,000)           |
| Impairment loss on other investments                                | (89,000)            | -                   |
| Dividend and interest income  | 205,000             | 241,000             |
| Trading and margin interest expense                                 | (556,000)           | (534,000)           |
| <b>Total other income (expense), net</b>                            | <b>10,346,000</b>   | <b>(5,588,000)</b>  |
| <b>Income before income taxes</b>                                   | <b>5,466,000</b>    | <b>1,395,000</b>    |
| Income tax expense  | (1,710,000)         | (371,000)           |
| <b>Net income</b>   | <b>3,756,000</b>    | <b>1,024,000</b>    |
| Less: Net loss (income) attributable to the noncontrolling interest | 729,000             | (440,000)           |
| <b>Net income attributable to InterGroup Corporation</b>            | <b>\$ 4,485,000</b> | <b>\$ 584,000</b>   |
| <b>Net income per share</b>   |                     |                     |
| Basic   | \$ 1.64             | \$ 0.44             |
| Diluted   | \$ 1.43             | \$ 0.39             |
| <b>Net income per share attributable to InterGroup Corporation</b>  |                     |                     |
| Basic   | \$ 1.96             | \$ 0.25             |
| Diluted   | \$ 1.71             | \$ 0.22             |
| <b>Weighted average number of basic common shares outstanding</b>   | <b>2,283,657</b>    | <b>2,306,070</b>    |
| <b>Weighted average number of diluted common shares outstanding</b> | <b>2,617,652</b>    | <b>2,636,465</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)

|                                      | <u>Common Stock</u> |               | <u>Additional</u> | <u>Accumulated</u> | <u>Treasury</u> | <u>InterGroup</u>    | <u>Noncontrolling</u> | <u>Total</u>    |
|--------------------------------------|---------------------|---------------|-------------------|--------------------|-----------------|----------------------|-----------------------|-----------------|
|                                      | <u>Shares</u>       | <u>Amount</u> | <u>Paid-in</u>    |                    |                 | <u>Shareholders'</u> |                       | <u>Deficit</u>  |
|                                      |                     |               | <u>Capital</u>    | <u>Deficit</u>     | <u>Stock</u>    | <u>Deficit</u>       | <u>Interest</u>       | <u>Deficit</u>  |
| <b>Balance at 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 September 30, 2020</b> | 3,404,982           | 33,000        | 6,631,000         | (38,991,000)       | (15,135,000)    | (47,462,000)         | (22,101,000)          | (69,563,000)    |
| Net income (loss)                    | -                   | -             | -                 | (65,000)           | -               | (65,000)             | (998,000)             | (1,063,000)     |
| Stock options expense                | -                   | -             | 5,000             | -                  | -               | 5,000                | -                     | 5,000           |
| Purchase of treasury stock           | -                   | -             | -                 | -                  | (116,000)       | (116,000)            | -                     | (116,000)       |
| <b>Balance at December 31, 2020</b>  | 3,404,982           | \$ 33,000     | \$6,636,000       | \$ (39,056,000)    | \$(15,251,000)  | \$ (47,638,000)      | \$ (23,099,000)       | \$ (70,737,000) |

|                                      | <u>Common Stock</u> |               | <u>Additional</u> | <u>Accumulated</u> | <u>Treasury</u> | <u>InterGroup</u>    | <u>Noncontrolling</u> | <u>Total</u>         |
|--------------------------------------|---------------------|---------------|-------------------|--------------------|-----------------|----------------------|-----------------------|----------------------|
|                                      | <u>Shares</u>       | <u>Amount</u> | <u>Paid-in</u>    |                    |                 | <u>Shareholders'</u> |                       | <u>Shareholders'</u> |
|                                      |                     |               | <u>Capital</u>    | <u>Deficit</u>     | <u>Stock</u>    | <u>Deficit</u>       | <u>Interest</u>       | <u>Deficit</u>       |
| <b>Balance at July 1, 2019</b>       | 3,404,982           | \$ 33,000     | \$10,342,000      | \$ (39,760,000)    | \$(14,347,000)  | \$ (43,732,000)      | \$ (24,697,000)       | \$ (68,429,000)      |
| Net income                           | -                   | -             | -                 | 336,000            | -               | 336,000              | 308,000               | 644,000              |
| Stock options expense                | -                   | -             | 8,000             | -                  | -               | 8,000                | -                     | 8,000                |
| Investment in Santa Fe               | -                   | -             | (147,000)         | -                  | -               | (147,000)            | 74,000                | (73,000)             |
| Purchase of treasury stock           | -                   | -             | -                 | -                  | (156,000)       | (156,000)            | -                     | (156,000)            |
| <b>Balance at September 30, 2019</b> | 3,404,982           | 33,000        | 10,203,000        | (39,424,000)       | (14,503,000)    | (43,691,000)         | (24,315,000)          | (68,006,000)         |
| Net income                           | -                   | -             | -                 | 248,000            | -               | 248,000              | 132,000               | 380,000              |
| Stock options expense                | -                   | -             | 9,000             | -                  | -               | 9,000                | -                     | 9,000                |
| Investment in Santa Fe               | -                   | -             | (46,000)          | -                  | -               | (46,000)             | 22,000                | (24,000)             |
| Purchase of treasury stock           | -                   | -             | -                 | -                  | (190,000)       | (190,000)            | -                     | (190,000)            |
| <b>Balance at December 31, 2019</b>  | 3,404,982           | \$ 33,000     | \$10,166,000      | \$ (39,176,000)    | \$(14,693,000)  | \$ (43,670,000)      | \$ (24,161,000)       | \$ (67,831,000)      |

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

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

| For the six months ended December 31,   | 2020                 | 2019                 |
|---|----------------------|----------------------|
| <b>Cash flows from operating activities:</b>  |                      |                      |
| Net income  | \$ 3,756,000         | \$ 1,024,000         |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                      |                      |
| Depreciation and amortization   | 2,260,000            | 2,417,000            |
| Gain from sale of real estate   | (12,043,000)         | -                    |
| Deferred taxes  | (596,000)            | 371,000              |
| Net unrealized (gain) loss on marketable securities   | (4,232,000)          | 491,000              |
| Impairment loss on other investments  | 89,000               | -                    |
| Stock compensation expense  | 10,000               | 17,000               |
| Changes in operating assets and liabilities:  |                      |                      |
| Investment in marketable securities   | (11,598,000)         | 1,057,000            |
| Other assets  | 3,000                | (102,000)            |
| Accounts payable and other liabilities - Justice  | (1,383,000)          | (2,651,000)          |
| Accounts payable and other liabilities  | (452,000)            | 288,000              |
| Due to securities broker  | 6,744,000            | 726,000              |
| Obligations for securities sold   | 410,000              | (1,209,000)          |
| Net cash (used in) provided by operating activities   | <u>(17,032,000)</u>  | <u>2,429,000</u>     |
| <b>Cash flows from investing activities:</b>  |                      |                      |
| Payments for hotel investments  | (333,000)            | (909,000)            |
| Payments for real estate investments  | (483,000)            | (531,000)            |
| Proceeds from other investments   | 118,000              | 48,000               |
| Proceeds from sale of real estate   | 15,178,000           | -                    |
| Payments for investment in Santa Fe   | -                    | (97,000)             |
| Net cash provided by (used in) investing activities   | <u>14,480,000</u>    | <u>(1,489,000)</u>   |
| <b>Cash flows from financing activities:</b>  |                      |                      |
| Net payments of mortgage and other notes payable  | (190,000)            | (2,386,000)          |
| Issuance cost from renewing line of credit  | (5,000)              | -                    |
| Issuance cost from refinance of mortgage notes payable - real estate                        | (233,000)            | -                    |
| Purchase of treasury stock  | (256,000)            | (346,000)            |
| Net cash used in financing activities   | <u>(684,000)</u>     | <u>(2,732,000)</u>   |
| Net decrease in cash, cash equivalents and restricted cash                                  | (3,236,000)          | (1,792,000)          |
| Cash, cash equivalents and restricted cash at the beginning of the period                   | 28,286,000           | 25,132,000           |
| Cash, cash equivalents and restricted cash at the end of the period                         | <u>\$ 25,050,000</u> | <u>\$ 23,340,000</u> |
| <b>Supplemental information:</b>  |                      |                      |
| Interest paid   | \$ 4,631,000         | \$ 4,799,000         |
| Taxes paid  | <u>\$ 2,741,000</u>  | <u>\$ 39,000</u>     |
| <b>Non-cash transaction:</b>  |                      |                      |
| Additions to Hotel equipment through capital lease  | <u>\$ 30,000</u>     |                      |

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, 2020. The December 31, 2020 Condensed Consolidated Balance Sheet was derived from the Consolidated Balance Sheet as included in the Company’s Form 10-K for the year ended June 30, 2020.

The results of operations for the six months ended December 31, 2020 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2021.

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.

As of December 31, 2020, the Company had the power to vote 87.4% of the voting shares of Santa Fe Financial Corporation (“Santa Fe”), a public company (OTCBB: SFEF). This percentage includes the power to vote an approximately 3.7% interest in the common stock in Santa Fe owned by the Company’s Chairman and CEO, John V. Winfield, pursuant to a voting trust agreement entered into on June 30, 1998. Mr. Winfield, Chairman of the Board of both Santa Fe and InterGroup, is a control person of both entities.

Santa Fe’s primary business is conducted through the management of its 68.8% owned subsidiary, Portsmouth Square, Inc. (“Portsmouth”), a public company (OTCBB: PRSI). 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”). InterGroup also directly owns approximately 13.5% of the common stock of Portsmouth.

Justice, through its subsidiaries Justice Operating Company, LLC (“Operating”) and Justice Mezzanine Company, LLC (“Mezzanine”) owns and operates a 544-room hotel property located at 750 Kearny Street, San Francisco California, known as the Hilton San Francisco Financial District (the “Hotel”) and related facilities including a five-level underground parking garage. Mezzanine is a wholly-owned subsidiary of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the borrower under certain mezzanine indebtedness of Justice, and in December 2013, the Partnership conveyed ownership of the Hotel to Operating. The Hotel is operated by the partnership as a full-service Hilton brand hotel pursuant to a Franchise License Agreement with HLT Franchise Holding LLC (Hilton) through January 31, 2030.

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

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 fifteen 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 December 31, 2020, all of 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 is not taxed on its non-controlling interest in the Hotel. The income tax expense during the six months ended December 31, 2020 and 2019 represent the income tax effect on the Company's pretax income which includes its share in the net (loss) income of the Hotel.

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

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize lease assets and lease liabilities on the balance sheet and requires expanded disclosures about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods in fiscal years beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-11 provides entities another option for transition, allowing entities to not apply the new standard in the comparative periods they present in their financial statements in the year of adoption. Effective July 1, 2019, we adopted ASU 2016-02 using the modified retrospective approach provided by ASU 2018-11. We elected certain practical expedients permitted under the transition guidance, including the election to carryforward historical lease classification. We also elected the short-term lease practical expedient, which allowed us to not recognize leases with a term of less than twelve months on our consolidated balance sheets. In addition, we elected the lease and non-lease components practical expedient, which allowed us to calculate the present value of the fixed payments without performing an allocation of lease and non-lease components. We did not record any operating lease right-of-use ("ROU") assets and operating lease liabilities upon adoption of the new standard as the aggregate value of the ROU assets and operating lease liabilities are immaterial relative to our total assets and liabilities as of June 30, 2020 and 2019. The standard did not have an impact on our other finance leases, statements of operations or cash flows. See Note 4 and Note 11 for balances of finance lease ROU assets and liabilities, respectively.

On June 16, 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the timelier recognition of losses. ASU No. 2016-13 will be effective for us as of January 1, 2023. The Company is currently reviewing the effect of ASU No. 2016-13.

In August 2018, the FASB issued Accounting Standard Update No. 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements (Topic 820)* (ASU 2018-13), which improved the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Company has adopted the new standard effective July 1, 2020 and the adoption of this guidance does not have a material impact on its condensed consolidated financial statements.

## 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 six months ended December 31, 2020, our net cash flow used in operations was \$17,032,000. For the six months ended December 31, 2019, our net cash flow provided by operations was \$2,429,000. 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 \$16,815,000 and \$14,163,000 as of December 31, 2020 and June 30, 2020, respectively. The Company had funds available from its investments in marketable securities of \$22,008,000 as of December 31, 2020 net of \$8,320,000 due to securities broker and \$704,000 obligations for securities sold. As of June 30, 2020, the Company had funds available from investments in marketable securities of \$6,178,000 net of \$1,576,000 due to securities broker and \$294,000 obligations for securities sold. In addition, the Hotel had \$5,977,000 and \$10,666,000 of restricted cash held by its senior lender Wells Fargo Bank, N.A. ("Lender") as of December 31, 2020 and June 30, 2020, respectively. Of the \$10,666,000 restricted cash held as of June 30, 2020, \$2,432,000 was for a possible future property improvement plan ("PIP") requested by our franchisor, Hilton. However, Hilton has confirmed that it will not require a PIP for our Hotel until relicensing which shall occur at the earlier of (i) January 2030, which is six years after the maturity date of our current senior and mezzanine loans, or (ii) upon the sale of our Hotel. On August 19, 2020, Lender released PIP deposits in the amount of \$2,379,000 to the Hotel. The funds were utilized to fund operating expenses, including franchise and management fees and other expenses.

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan - Justice") with CIBC Bank USA under the recently enacted CARES Act administered by the U.S. Small Business Administration. The Partnership received proceeds of \$4,719,000 from the SBA Loan - Justice. In accordance with the requirements of the CARES Act, Justice has used proceeds from the loan primarily for payroll costs. As of December 31, 2020, Justice had used all proceeds of the SBA Loan - Justice in qualified expenses. The SBA Loan - Justice is scheduled to mature on April 9, 2022 and has a 1.00% interest rate. 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 December 31, 2020, InterGroup had used all of the \$453,000 loan proceeds in qualified payroll expenses. The SBA Loan - InterGroup is scheduled to mature on April 27, 2022 and has a 1.00% interest rate. All payments of principal and interests are deferred until July 2021, and the repayment obligations under both loans may be forgiven if the funds are used for payroll and other qualified expenses. The SBA Loans are subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. All unforgiven portion of the principal and accrued interest will be due at maturity. As of December 31, 2020, Justice and InterGroup have each submitted its application for full loan forgiveness.

In order to increase its liquidity position and to take advantage of the favorable interest rate environment, InterGroup refinanced its 151-unit apartment complex in Parsippany, New Jersey on April 30, 2020, generating net proceeds of \$6,814,000. In June 2020, InterGroup refinanced one of its California properties and generated net proceeds of \$1,144,000. During the three months ended December 31, 2020, InterGroup completed refinancing on two of its California properties and generated net proceeds of \$4,327,000. In January 2021, InterGroup refinanced an additional California property and generated net proceeds of \$1,057,000. InterGroup is currently evaluating other refinancing opportunities and it could refinance additional multifamily properties should the need arise, or should management consider the interest rate environment favorable. InterGroup has an uncollateralized \$8,000,000 revolving line of credit from CIBC Bank USA ("CIBC") and the entire \$8,000,000 is available to be drawn down as of December 31, 2020 should additional liquidity be necessary. On August 28, 2020, Santa Fe sold its 27-unit apartment complex located in Santa Monica, California for \$15,650,000 and realized a gain on the sale of approximately \$12,043,000. Santa Fe will manage its federal and state income tax liability, and anticipates the utilization of its available net operating losses and capital loss carryforwards. Santa Fe received net proceeds of \$12,163,000 after selling costs and repayment of InterGroup's RLOC of \$2,985,000 as InterGroup had drawn on its RLOC in July 2018 to pay off the previous Fannie Mae mortgage on the property. Furthermore, pursuant to the Contribution Agreement between Santa Fe and InterGroup, Santa Fe paid InterGroup \$662,000 from the sale. Santa Fe will not seek a replacement property.

As the sole general partner of Justice that controls approximately 96.6% of the voting interest in the Partnership, Portsmouth has the ability to amend the partnership agreement to allow for capital calls to the limited partners of Justice if needed. The majority of any capital calls will be met by Portsmouth. Portsmouth will have financing availability, upon the authorization of the respective board of directors, to borrow from InterGroup and/or Santa Fe to meet any capital calls and its other obligations during the next twelve months and beyond. On August 28, 2020, the Board of InterGroup and Santa Fe passed resolutions, respectively, to provide funding to Portsmouth if necessary. 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 from its current loan balance of \$3,000,000 due to InterGroup. On December 31, 2020, InterGroup advanced \$700,000 to Justice per the aforementioned agreement. The Partnership is also allowed to seek additional loans and sell partnership interests. Upon the consent of the general partner and a super majority in interest, the Partnership may sell additional classes or series of units of the Partnership under certain conditions in order to raise additional capital.

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 and low revenue per available room ("RevPAR") 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 December 31, 2020, the Company's material financial obligations which also includes interest payments.

|   | Total                | 6 Months<br>2021   | Year<br>2022        | Year<br>2023        | Year<br>2024         | Year<br>2025       | Thereafter          |
|---|----------------------|--------------------|---------------------|---------------------|----------------------|--------------------|---------------------|
| Mortgage and subordinated notes payable | \$181,372,000        | \$3,856,000        | \$ 3,142,000        | \$28,410,000        | \$108,348,000        | \$3,734,000        | \$33,882,000        |
| Other notes payable                     | 10,443,000           | 520,000            | 6,220,000           | 750,000             | 567,000              | 567,000            | 1,819,000           |
| Interest                                | 29,556,000           | 3,863,000          | 8,419,000           | 7,625,000           | 4,411,000            | 904,000            | 4,334,000           |
| Total                                   | <u>\$221,371,000</u> | <u>\$8,239,000</u> | <u>\$17,781,000</u> | <u>\$36,785,000</u> | <u>\$113,326,000</u> | <u>\$5,205,000</u> | <u>\$40,035,000</u> |

### 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.

| <b>For the three months ended December 31,</b> | <b>2020</b>         | <b>2019</b>          |
|--|---------------------|----------------------|
| Hotel revenues:                                |                     |                      |
| Hotel rooms                                    | \$ 2,584,000        | \$ 12,497,000        |
| Food and beverage                              | 76,000              | 1,425,000            |
| Garage   | 424,000             | 776,000              |
| Other operating departments                    | 25,000              | 203,000              |
| Total hotel revenue                            | <u>\$ 3,109,000</u> | <u>\$ 14,901,000</u> |

| <b>For the six months ended December 31,</b> | <b>2020</b>         | <b>2019</b>          |
|--|---------------------|----------------------|
| Hotel revenues:                              |                     |                      |
| Hotel rooms                                  | \$ 5,474,000        | \$ 25,811,000        |
| Food and beverage                            | 113,000             | 2,647,000            |
| Garage                                       | 894,000             | 1,512,000            |
| Other operating departments                  | 53,000              | 360,000              |
| Total hotel revenue                          | <u>\$ 6,534,000</u> | <u>\$ 30,330,000</u> |

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

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

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

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

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

#### ***Contract assets and liabilities***

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

We record contract liabilities when cash payments are received or due in advance of guests staying at our hotel, which are presented within accounts payable and other liabilities on our condensed consolidated balance sheets. Contract liabilities decreased to \$221,000 as of December 31, 2020, from \$375,000 as of June 30, 2020. The decrease for the six months ended December 31, 2020 was primarily driven by \$154,000 of revenue recognized and refunds issued to guests as a result of the COVID-19 outbreak.

**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>December 31, 2020</b>        | <u>Cost</u>          | <u>Accumulated<br/>Depreciation</u> | <u>Net Book<br/>Value</u> |
|---------------------------------|----------------------|-------------------------------------|---------------------------|
| Land                            | \$ 2,738,000         | \$ -                                | \$ 2,738,000              |
| Finance lease ROU assets        | 1,805,000            | (448,000)                           | 1,357,000                 |
| Furniture and equipment         | 30,282,000           | (27,754,000)                        | 2,528,000                 |
| Building and improvements       | 64,584,000           | (33,237,000)                        | 31,347,000                |
| <b>Investment in Hotel, net</b> | <b>\$ 99,409,000</b> | <b>\$ (61,439,000)</b>              | <b>\$ 37,970,000</b>      |

| <b>June 30, 2020</b>            | <u>Cost</u>          | <u>Accumulated<br/>Depreciation</u> | <u>Net Book<br/>Value</u> |
|---------------------------------|----------------------|-------------------------------------|---------------------------|
| Land                            | \$ 2,738,000         | \$ -                                | \$ 2,738,000              |
| Finance lease ROU assets        | 1,775,000            | (291,000)                           | 1,484,000                 |
| Furniture and equipment         | 30,528,000           | (27,498,000)                        | 3,030,000                 |
| Building and improvements       | 64,005,000           | (32,488,000)                        | 31,517,000                |
| <b>Investment in Hotel, net</b> | <b>\$ 99,046,000</b> | <b>\$ (60,277,000)</b>              | <b>\$ 38,769,000</b>      |

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

The Company's investment in real estate includes fifteen 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. Investment in real estate consisted of the following:

| <b>As of</b>                          | <u>December 31, 2020</u> | <u>June 30, 2020</u> |
|---------------------------------------|--------------------------|----------------------|
| Land                                  | \$ 21,568,000            | \$ 23,565,000        |
| Buildings, improvements and equipment | 67,170,000               | 69,417,000           |
| Accumulated depreciation              | (43,730,000)             | (44,112,000)         |
|                                       | 45,008,000               | 48,870,000           |
| Land held for development             | 1,468,000                | 1,468,000            |
| <b>Investment in real estate, net</b> | <b>\$ 46,476,000</b>     | <b>\$ 50,338,000</b> |

On August 28, 2020, the Company sold its 27-unit apartment complex located in Santa Monica, California for \$15,650,000 and realized a gain on the sale of approximately \$12,043,000. We will manage our federal and state income tax liability, and anticipates the utilization of our available net operating losses and capital loss carryforwards. We received net proceeds of \$12,163,000 after selling costs and repayment of the RLOC of \$2,985,000 as we had drawn on our RLOC in July 2018 to pay off the previous Fannie Mae mortgage on the property. We will not seek a replacement property.

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.

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

| Investment                             | Cost          | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized Loss | Net<br>Unrealized Loss | Fair<br>Value |
|--|---------------|-----------------------------|--------------------------|------------------------|---------------|
| <b>As of<br/>December 31,<br/>2020</b> |               |                             |                          |                        |               |
| Corporate<br>Equities                  | \$ 23,018,000 | \$ 4,001,000                | \$ (5,011,000)           | \$ (1,010,000)         | \$ 22,008,000 |
| <b>As of<br/>June 30, 2020</b>         |               |                             |                          |                        |               |
| Corporate<br>Equities                  | \$ 11,459,000 | \$ 902,000                  | \$ (6,183,000)           | \$ (5,281,000)         | \$ 6,178,000  |

As of December 31, 2020 and June 30, 2020, approximately 3% and 11%, respectively, of the investment in marketable securities balance above is comprised of the common stock of Comstock Mining Inc ("Comstock"). As of December 31, 2020 and June 30, 2020, the Company had \$4,472,000 and \$5,734,000, respectively, of unrealized losses related to securities held for over one year; of which \$4,322,000 and \$5,427,000 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 loss on marketable securities for the three and six months ended December 31, 2020 and 2019, respectively:

| <b>For the three months ended December 31,</b>               | <b>2020</b>  | <b>2019</b>  |
|--|--------------|--------------|
| Realized loss on marketable securities, net                  | \$ (672,000) | \$ (3,000)   |
| Unrealized gain (loss) on marketable securities, net         | 4,173,000    | (50,000)     |
| Unrealized loss on marketable securities related to Comstock | (44,000)     | (66,000)     |
| Net gain (loss) on marketable securities                     | \$ 3,457,000 | \$ (119,000) |

| <b>For the six months ended December 31,</b>                        | <b>2020</b>         | <b>2019</b>         |
|---|---------------------|---------------------|
| Realized loss on marketable securities, net                         | \$ (934,000)        | \$ (77,000)         |
| Unrealized gain (loss) on marketable securities, net                | 4,182,000           | (121,000)           |
| Unrealized gain (loss) on marketable securities related to Comstock | 51,000              | (370,000)           |
| Net gain (loss) on marketable securities                            | <u>\$ 3,299,000</u> | <u>\$ (568,000)</u> |

#### **NOTE 7 – OTHER INVESTMENTS, NET**

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

Other investments, net consist of the following:

| <b>Type</b>                        | <b>December 31, 2020</b> | <b>June 30, 2020</b> |
|------------------------------------|--------------------------|----------------------|
| Private equity hedge fund, at cost | \$ 71,000                | \$ 157,000           |
| Other preferred stock, at cost     | -                        | 121,000              |
|                                    | <u>\$ 71,000</u>         | <u>\$ 278,000</u>    |

#### **NOTE 8 - FAIR VALUE MEASUREMENTS**

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

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

| <b>As of</b>                                | <b>December 31, 2020</b> | <b>June 30, 2020</b>   |
|---|--------------------------|------------------------|
|   | <b>Total - Level 1</b>   | <b>Total - Level 1</b> |
| <b>Assets:</b>                              |                          |                        |
| <b>Investment in marketable securities:</b> |                          |                        |
| REITs and real estate companies             | \$ 8,088,000             | \$ 2,365,000           |
| Financial services                          | 3,972,000                | 282,000                |
| Energy                                      | 3,233,000                | 767,000                |
| Consumer cyclical                           | 1,887,000                | 295,000                |
| Technology                                  | 1,428,000                | 121,000                |
| Industrials                                 | 1,297,000                | 484,000                |
| Basic material                              | 1,269,000                | 1,209,000              |
| Communication services                      | 442,000                  | 157,000                |
| Healthcare                                  | 267,000                  | 43,000                 |
| Other                                       | 125,000                  | 38,000                 |
| Corporate bonds                             | -                        | 417,000                |
|   | <u>\$ 22,008,000</u>     | <u>\$ 6,178,000</u>    |

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

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

| <u>Assets</u>                    | <u>Level 3</u> | <u>December 31, 2020</u> | <u>Net loss for the six months ended<br/>December 31, 2020</u> |
|----------------------------------|----------------|--------------------------|--|
| Other non-marketable investments | \$ 71,000      | \$ 71,000                | \$ (89,000)  |

| <u>Assets</u>                    | <u>Level 3</u> | <u>June 30, 2020</u> | <u>Net loss for the six months ended<br/>December 31, 2019</u> |
|----------------------------------|----------------|----------------------|--|
| Other non-marketable investments | \$ 278,000     | \$ 278,000           | \$ -   |

For the six months ended December 31, 2020 and 2019, we received distribution from other non-marketable investments of \$118,000 and \$48,000, respectively.

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

#### NOTE 9 – 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.

| <u>As of</u>  | <u>December 31, 2020</u> | <u>June 30, 2020</u> |
|---|--------------------------|----------------------|
| Cash and cash equivalents   | \$ 16,815,000            | \$ 14,163,000        |
| Restricted cash   | 8,235,000                | 14,123,000           |
| Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows | <u>\$ 25,050,000</u>     | <u>\$ 28,286,000</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. As of June 30, 2020, restricted cash also includes key money received from Interstate that is restricted for capital improvements for the Hotel. As of December 31, 2020, the key money balance was zero as Hotel obtained approval from Interstate to use the funds for hotel operations during the first quarter of fiscal year 2021.

#### NOTE 10 – 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, 2020 for more detailed information on the Company’s stock-based compensation plans.

During the three months ended December 31, 2020 and 2019, the Company recorded stock option compensation cost of \$5,000 and \$9,000, respectively, related to stock options that were previously issued. During the six months ended December 31, 2020 and 2019, the Company recorded stock option compensation cost of \$10,000 and \$17,000, respectively, related to stock options that were previously issued. As of December 31, 2020, there was a total of \$8,000 of unamortized compensation related to stock options which is expected to be recognized over the weighted-average period of 1.17 years.

In December 2018, the Company's President and Chief Executive Officer, John V. Winfield exercised 26,805 vested Incentive Stock Options by surrendering 17,439 shares of the Company's common stock at fair value as payment of the exercise price, resulting in a net issuance to him of 9,366 shares. No additional compensation expense was recorded related to the issuance.

On February 25, 2020, shareholders of the Company voted in favor of amendments to the Company's 2010 Omnibus Employee Incentive Plan (the "2010 Incentive Plan") which would amend Section 1.3 of the 2010 Incentive Plan to extend the term from ten (10) years to sixteen (16) years, and Section 6.4 of the 2010 Incentive Plan to change "tenth (10th) anniversary date" to "twentieth (20th) anniversary date". This would increase the term of the 2010 Incentive Plan to 20 years (expiring in February 2030 instead of February 2020) and also permit the existence of options with a term longer than ten years. The purpose of the amendment to the term is to extend its existence as our only equity incentive plan. The purpose of amendment of the allowable term of options is so that the Board may extend the term of the 100,000 options granted to John Winfield on March 16, 2010 from ten years to sixteen years so that these options will terminate on March 16, 2026 instead of on March 16, 2020, in recognition of Mr. Winfield's contributions to and leadership of our Company. Upon approval of these amendments by the shareholders, our Board of Directors extended the term of Mr. Winfield's options as described in this paragraph. As a result of extending Mr. Winfield's options, the Company recorded stock option compensation cost of \$116,000 in March 2020.

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, 2019 through December 31, 2020:

|                                |                   | Number of<br>Shares | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining Life | Aggregate<br>Intrinsic Value |
|--------------------------------|-------------------|---------------------|------------------------------------|------------------------------------|------------------------------|
| Ousting at                     | July 1, 2019      | 341,195             | \$ 16.95                           | 3.07 years                         | \$ 4,680,000                 |
| Granted                        |                   | -                   | -                                  |                                    |                              |
| Exercised                      |                   | -                   | -                                  |                                    |                              |
| Forfeited                      |                   | -                   | -                                  |                                    |                              |
| Exchanged                      |                   | -                   | -                                  |                                    |                              |
| Ousting at                     | June 30, 2020     | <u>341,195</u>      | <u>\$ 16.95</u>                    | 3.83 years                         | <u>\$ 3,271,000</u>          |
| Exercisable at                 | June 30, 2020     | <u>323,195</u>      | <u>\$ 16.38</u>                    | 3.67 years                         | <u>\$ 3,271,000</u>          |
| Vested and Expected to vest at | June 30, 2020     | <u>341,195</u>      | <u>\$ 16.95</u>                    | 3.83 years                         | <u>\$ 3,271,000</u>          |
| Ousting at                     | July 1, 2020      | 341,195             | \$ 16.95                           | 3.83 years                         | \$ 3,271,000                 |
| Granted                        |                   | -                   | -                                  |                                    |                              |
| Exercised                      |                   | -                   | -                                  |                                    |                              |
| Forfeited                      |                   | -                   | -                                  |                                    |                              |
| Exchanged                      |                   | -                   | -                                  |                                    |                              |
| Ousting at                     | December 31, 2020 | <u>341,195</u>      | <u>\$ 16.95</u>                    | 3.32 years                         | <u>\$ 5,004,000</u>          |
| Exercisable at                 | December 31, 2020 | <u>333,995</u>      | <u>\$ 16.73</u>                    | 3.26 years                         | <u>\$ 4,973,000</u>          |
| Vested and Expected to vest at | December 31, 2020 | <u>341,195</u>      | <u>\$ 16.95</u>                    | 3.32 years                         | <u>\$ 5,004,000</u>          |

#### NOTE 11 – 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 and six months ended December 31, 2020 and 2019. 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 loss 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 December 31, 2020</b> | <b>Hotel Operations</b> | <b>Real Estate Operations</b> | <b>Investment Transactions</b> | <b>Corporate</b> | <b>Total</b>   |
|---|-------------------------|-------------------------------|--------------------------------|------------------|----------------|
| Revenues  | \$ 3,109,000            | \$ 3,554,000                  | \$ -                           | \$ -             | \$ 6,663,000   |
| Segment operating expenses                                    | (5,133,000)             | (2,101,000)                   | -                              | (559,000)        | (7,793,000)    |
| Segment income (loss) from operations                         | (2,024,000)             | 1,453,000                     | -                              | (559,000)        | (1,130,000)    |
| Interest expense - mortgage                                   | (1,668,000)             | (573,000)                     | -                              | -                | (2,241,000)    |
| Depreciation and amortization expense                         | (582,000)               | (599,000)                     | -                              | -                | (1,181,000)    |
| Gain from investments   | -                       | -                             | 3,224,000                      | -                | 3,224,000      |
| Income tax benefit  | -                       | -                             | -                              | 265,000          | 265,000        |
| Net income (loss)   | \$ (4,274,000)          | \$ 281,000                    | \$ 3,224,000                   | \$ (294,000)     | \$ (1,063,000) |
| Total assets  | \$ 45,990,000           | \$ 46,476,000                 | \$ 22,079,000                  | \$ 23,991,000    | \$ 138,536,000 |

| <b>For the three months ended December 31, 2019</b> | <b>Hotel Operations</b> | <b>Real Estate Operations</b> | <b>Investment Transactions</b> | <b>Corporate</b> | <b>Total</b>  |
|---|-------------------------|-------------------------------|--------------------------------|------------------|---------------|
| Revenues  | \$ 14,901,000           | \$ 3,839,000                  | \$ -                           | \$ -             | \$ 18,740,000 |
| Segment operating expenses                          | (11,730,000)            | (2,089,000)                   | -                              | (581,000)        | (14,400,000)  |
| Segment income (loss) from operations               | 3,171,000               | 1,750,000                     | -                              | (581,000)        | 4,340,000     |
| Interest expense - mortgage                         | (1,735,000)             | (595,000)                     | -                              | -                | (2,330,000)   |
| Depreciation and amortization expense               | (611,000)               | (621,000)                     | -                              | -                | (1,232,000)   |
| Loss from investments                               | -                       | -                             | (249,000)                      | -                | (249,000)     |
| Income tax expense                                  | -                       | -                             | -                              | (149,000)        | (149,000)     |
| Net income (loss)                                   | \$ 825,000              | \$ 534,000                    | \$ (249,000)                   | \$ (730,000)     | \$ 380,000    |

| <b>As of and for the six months ended December 31, 2020</b> | <b>Hotel Operations</b> | <b>Real Estate Operations</b> | <b>Investment Transactions</b> | <b>Corporate</b> | <b>Total</b>   |
|---|-------------------------|-------------------------------|--------------------------------|------------------|----------------|
| Revenues  | \$ 6,534,000            | \$ 7,038,000                  | \$ -                           | \$ -             | \$ 13,572,000  |
| Segment operating expenses                                  | (10,166,000)            | (3,988,000)                   | -                              | (1,926,000)      | (16,080,000)   |
| Segment income (loss) from operations                       | (3,632,000)             | 3,050,000                     | -                              | (1,926,000)      | (2,508,000)    |
| Interest expense - mortgage                                 | (3,368,000)             | (1,188,000)                   | -                              | -                | (4,556,000)    |
| Gain on sale of real estate                                 | -                       | 12,043,000                    | -                              | -                | 12,043,000     |
| Depreciation and amortization expense                       | (1,161,000)             | (1,211,000)                   | -                              | -                | (2,372,000)    |
| Gain from investments                                       | -                       | -                             | 2,859,000                      | -                | 2,859,000      |
| Income tax expense  | -                       | -                             | -                              | (1,710,000)      | (1,710,000)    |
| Net income (loss)   | \$ (8,161,000)          | \$ 12,694,000                 | \$ 2,859,000                   | \$ (3,636,000)   | \$ 3,756,000   |
| Total assets  | \$ 45,990,000           | \$ 46,476,000                 | \$ 22,079,000                  | \$ 23,991,000    | \$ 138,536,000 |

| <b>For the six months ended December 31, 2019</b> | <b>Hotel Operations</b> | <b>Real Estate Operations</b> | <b>Investment Transactions</b> | <b>Corporate</b> | <b>Total</b>  |
|---|-------------------------|-------------------------------|--------------------------------|------------------|---------------|
| Revenues  | \$ 30,330,000           | \$ 7,556,000                  | \$ -                           | \$ -             | \$ 37,886,000 |
| Segment operating expenses                        | (23,078,000)            | (4,039,000)                   | -                              | (1,341,000)      | (28,458,000)  |
| Segment income (loss) from operations             | 7,252,000               | 3,517,000                     | -                              | (1,341,000)      | 9,428,000     |
| Interest expense - mortgage                       | (3,527,000)             | (1,200,000)                   | -                              | -                | (4,727,000)   |
| Depreciation and amortization expense             | (1,204,000)             | (1,241,000)                   | -                              | -                | (2,445,000)   |
| Loss from investments                             | -                       | -                             | (861,000)                      | -                | (861,000)     |
| Income tax expense                                | -                       | -                             | -                              | (371,000)        | (371,000)     |
| Net income (loss)                                 | \$ 2,521,000            | \$ 1,076,000                  | \$ (861,000)                   | \$ (1,712,000)   | \$ 1,024,000  |

## NOTE 12 – RELATED PARTY AND OTHER FINANCING TRANSACTIONS

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

| As of                                       | December 31, 2020   | June 30, 2020       |
|---|---------------------|---------------------|
| Note payable - Hilton                       | 2,850,000           | 3,008,000           |
| Note payable - Interstate                   | 1,521,000           | 1,646,000           |
| SBA Loans                                   | 5,172,000           | 5,172,000           |
| Total related party and other notes payable | <u>\$ 9,543,000</u> | <u>\$ 9,826,000</u> |

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. As of December 31, 2020, the key money balance was zero as Hotel obtained approval from Interstate to use the funds for hotel operations during the first quarter of fiscal year 2021. As of June 30, 2020, balance of the key money plus accrued interest is \$1,009,000 and is included in restricted cash in the condensed consolidated balance sheet. Unamortized portion of the key money is included in the related party notes payable in the condensed consolidated balance sheets.

On April 9, 2020, Justice entered into a loan agreement (“SBA Loan - Justice”) with CIBC Bank USA under the recently enacted CARES Act administered by the U.S. Small Business Administration. The Partnership received proceeds of \$4,719,000 from the SBA Loan - Justice. In accordance with the requirements of the CARES Act, Justice has used proceeds from the loan primarily for payroll costs. As of December 31, 2020, Justice had used all proceeds of the SBA Loan - Justice in qualified expenses. The SBA Loan - Justice is scheduled to mature on April 9, 2022 and has a 1.00% interest rate. 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 December 31, 2020, InterGroup had used all of the \$453,000 loan proceeds in qualified payroll expenses. The SBA Loan – InterGroup is scheduled to mature on April 27, 2022 and has a 1.00% interest rate. All payments of principal and interests are deferred until July 2021, and the repayment obligations under both loans may be forgiven if the funds are used for payroll and other qualified expenses. The SBA Loans are subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. All unforgiven portion of the principal and accrued interest will be due at maturity. As of December 31, 2020, Justice and InterGroup have each submitted its application for full loan forgiveness.

As of December 31, 2020, the Company had finance lease obligations outstanding of \$901,000. 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 December 31, 2020 are as follows:

### For the year ending June 30,

|  |                   |
|--|-------------------|
| 2021   | \$ 262,000        |
| 2022   | 508,000           |
| 2023   | <u>188,000</u>    |
| Total minimum lease payments                   | 958,000           |
| Less interest on finance lease                 | <u>(57,000)</u>   |
| Present value of future minimum lease payments | <u>\$ 901,000</u> |

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

**For the year ending June 30,**

|            |                      |
|------------|----------------------|
| 2021       | \$ 678,000           |
| 2022       | 6,220,000            |
| 2023       | 750,000              |
| 2024       | 567,000              |
| 2025       | 567,000              |
| Thereafter | 1,661,000            |
|            | <u>\$ 10,443,000</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 \$91,536,000 and \$92,292,000 as of December 31, 2020 and June 30, 2020, 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 December 31, 2020, InterGroup is in compliance with both requirements. However, due to the Hotel's current low occupancy and its negative impact on the Hotel's cash flow, Justice Operating Company, LLC may not meet certain of its loan covenants such as the Debt Service Coverage Ratio ("DSCR") which would trigger the creation of a lock-box by the Lender for all cash collected by the Hotel. However, such lockbox has been created and utilized from the loan inception and will be in place up to loan maturity regardless of the DSCR.

On July 2, 2014, the Partnership obtained from InterGroup an unsecured loan in the principal amount of \$4,250,000 at 12% per year fixed interest, with a term of 2 years, payable interest only each month. InterGroup received a 3% loan fee. The loan may be prepaid at any time without penalty. The loan was extended to July 1, 2021. 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 from its current loan balance of \$3,000,000 due to InterGroup. The balance of this loan was \$3,700,000 and \$3,000,000 as of December 31, 2020 and June 30, 2020, 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 increased the RLOC by \$3,000,000 and extended the maturity date from July 24, 2019 to July 23, 2020. The \$2,969,000 mortgage due to InterGroup carries same terms as InterGroup's RLOC. 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 21, 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.

Four of the Portsmouth directors serve as directors of InterGroup. Two of those directors also serve as directors of Santa Fe. The two Santa Fe directors also 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 Portsmouth and Santa Fe and oversees the investment activity of those companies. Effective June 2016, Mr. Winfield became the Managing Director of Justice. Depending on certain market conditions and various risk factors, the Chief Executive Officer, Portsmouth and Santa Fe may, at times, invest in the same companies in which the Company invests. Such investments align the interests of the Company with the interests of related parties because it places the personal resources of the Chief Executive Officer and the resources of the Portsmouth and Santa Fe, at risk in substantially the same manner as the Company in connection with investment decisions made on behalf of the Company.

#### NOTE 13 – ACCOUNTS PAYABLE AND OTHER LIABILITIES - JUSTICE

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

| As of  | December 31, 2020 | June 30, 2020 |
|--|-------------------|---------------|
| Trade payable  | \$ 1,177,000      | \$ 3,000,000  |
| Advance deposits                                       | 221,000           | 375,000       |
| Property tax payable                                   | 523,000           | 523,000       |
| Payroll and related accruals                           | 2,221,000         | 1,969,000     |
| Mortgage interest payable                              | 416,000           | 527,000       |
| Withholding and other taxes payable                    | 519,000           | 370,000       |
| Security deposit                                       | 52,000            | 52,000        |
| Other payables   | 902,000           | 598,000       |
| Total accounts payable and other liabilities - Justice | \$ 6,031,000      | \$ 7,414,000  |

#### NOTE 14 – ACCOUNTS PAYABLE AND OTHER LIABILITIES

The following summarizes the balances of accounts payable and other liabilities as of December 31, 2020 and June 30, 2020.

| As of  | December 31, 2020 | June 30, 2020 |
|--|-------------------|---------------|
| Trade payable                                | \$ 510,000        | \$ 709,000    |
| Advance deposits                             | 318,000           | 422,000       |
| Property tax payable                         | 855,000           | 554,000       |
| Payroll and related accruals                 | 46,000            | 42,000        |
| Interest payable                             | 218,000           | 218,000       |
| Withholding and other taxes payable          | 768,000           | 1,189,000     |
| Security deposit                             | 750,000           | 745,000       |
| Other payables                               | 296,000           | 334,000       |
| Total accounts payable and other liabilities | \$ 3,761,000      | \$ 4,213,000  |

#### NOTE 15 – SUBSEQUENT EVENTS

On January 8, 2021, the Company refinanced one of its California property's \$1.6 million Fannie Mae mortgage with a new Freddie Mac mortgage in the amount of \$2.8 million at a fixed rate of 3.05% for 10-years. The Company received net proceeds of approximately \$1.0 million.

On January 15, 2021, we moved our corporate office from 12121 Wilshire Boulevard, Suite 610, Los Angeles, California to 1516 S. Bundy Dr., Suite 200, Los Angeles, California where we signed a four year lease.

As of November 25, 2020, a group of less than ten shareholders of Santa Fe Financial Corporation approved a Corporate Action to distribute the assets of that company and then liquidate the corporate entity. The Corporate Action was approved by the holders of approximately 87.4% of the total issued and outstanding voting capital stock of that company entitled to vote on matters submitted to the holders of common stock as of that record date.

The terms of the dissolution are:

- The assets of that company consist of:
  - 505,437 shares of Portsmouth Square, Inc. common stock with a per share price of \$41.00 as of January 15, 2021
  - Cash in the approximate amount of \$6.0 million (net of income taxes paid)
- On the 20th calendar day following the date of mailing of the definitive information statement on Schedule 14C which was filed with the SEC on January 22, 2021, the holder of each share of Santa Fe common stock will receive .38 of a share of Portsmouth common stock and the amount of cash in Santa Fe divided by 1,339,310 (the number of issued and outstanding shares of Santa Fe common stock). Subsequent to when the cash of Santa Fe shall be distributed to all shareholders, net of tax liabilities, on a pro rata basis based upon number of shares of common stock of Santa Fe owned by each shareholder on the date of liquidation pursuant to the plan of liquidation and dissolution. With respect thereto, when stockholders of Santa Fe will receive 0.38 shares of Portsmouth stock for each share of Santa Fe stock owned, they will receive cash in lieu of fractional Portsmouth shares.

In January 2021, InterGroup advanced \$2,000,000 to Justice per the loan modification agreement entered into on December 16, 2020.

## **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, 2020. 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 (the “County”) 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. The Mayor announced on January 25, 2021 that hotels and lodging may accept reservations for tourist use from in-state and out of state guests. Out of Bay Area guests are required to quarantine for 10 days and must make a reservation for 10 days or longer in order to do so. Indoor gyms, meeting rooms, ballrooms and dining must remain closed, though outdoor dining can resume.

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 of 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 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, and until there are vaccines or other methodologies to effectively combat this pandemic, we expect that the effects will have a material adverse effect on our business.

As a result of 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. The Partnership received proceeds of \$4,719,000 from the SBA Loan - Justice. In accordance with the requirements of the CARES Act, Justice has used proceeds from the loan primarily for payroll costs. As of December 31, 2020, Justice had used all proceeds of the SBA Loan - Justice in qualified expenses. The SBA Loan - Justice is scheduled to mature on April 9, 2022 and has a 1.00% interest rate. 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 December 31, 2020, InterGroup had used all of the \$453,000 loan proceeds in qualified payroll expenses. The SBA Loan – InterGroup is scheduled to mature on April 27, 2022 and has a 1.00% interest rate. All payments of principal and interests are deferred until July 2021, and the repayment obligations under both loans may be forgiven if the funds are used for payroll and other qualified expenses. The SBA Loans are subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. All unforgiven portion of the principal and accrued interest will be due at maturity. As of December 31, 2020, Justice and InterGroup have each submitted its application for full loan forgiveness.

## RESULTS OF OPERATIONS

As of December 31, 2020, the Company has the power to vote for approximately 87.4% of the common shares of its subsidiary, Santa Fe, and Santa Fe owned approximately 68.8% of the common shares of Portsmouth Square, Inc. InterGroup also directly owns approximately 13.5% of the common shares of Portsmouth. 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 an HMA with Interstate to manage the Hotel and related facilities with an effective takeover date of February 3, 2017. The term of HMA is for an initial period of ten years commencing on the takeover date and automatically renews for an additional year not to exceed five years in aggregate subject to certain conditions. The HMA also provides for Interstate to advance a key money incentive fee to the Hotel for capital improvements in the amount of \$2,000,000 under certain terms and conditions described in a separate key money agreement.

In addition to the operations of the Hotel, the Company also generates income from the ownership, management and, when appropriate, sale of real estate. Properties include fifteen 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 December 31, 2020 Compared to Three Months Ended December 31, 2019**

The Company had net loss of \$1,063,000 for the three months ended December 31, 2020 compared to net income of \$380,000 for the three months ended December 31, 2019. The change is primarily attributable to the decrease in Hotel revenue.

#### **Hotel Operations**

The Company had net loss from Hotel operations of \$4,274,000 for the three months ended December 31, 2020 compared to net income of \$825,000 for the three months ended December 31, 2019. The change is primarily attributable to the decrease in Hotel revenue.

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

| <b>For the three months ended December 31,</b>                         | <b>2020</b>    | <b>2019</b>   |
|--|----------------|---------------|
| <b>Hotel revenues:</b>   |                |               |
| Hotel rooms  | \$ 2,584,000   | \$ 12,497,000 |
| Food and beverage  | 76,000         | 1,425,000     |
| Garage   | 424,000        | 776,000       |
| Other operating departments  | 25,000         | 203,000       |
| Total hotel revenues   | 3,109,000      | 14,901,000    |
| Operating expenses excluding depreciation and amortization             | (5,133,000)    | (11,730,000)  |
| Operating (loss) income before interest, depreciation and amortization | (2,024,000)    | 3,171,000     |
| Interest expense - mortgage  | (1,668,000)    | (1,735,000)   |
| Depreciation and amortization expense                                  | (582,000)      | (611,000)     |
| Net (loss) income from Hotel operations                                | \$ (4,274,000) | \$ 825,000    |

For the three months ended December 31, 2020, the Hotel had operating loss of \$2,024,000 before interest expense, depreciation and amortization on total operating revenues of \$3,109,000 compared to operating income of \$3,171,000 before interest expense, depreciation and amortization on total operating revenues of \$14,901,000 for the three months ended December 31, 2019. For the three months ended December 31, 2020, room revenues decreased by \$9,913,000, food and beverage revenue decreased by \$1,349,000, and garage revenue decreased by \$352,000, compared to the three months ended December 31, 2019. The year over year decline in all areas are result of the business interruption attributable to a variety of responses by federal, state, and local civil authority to the COVID-19 outbreak since March 2020. Total operating expenses decreased by \$6,597,000 due to decrease 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 December 31, 2020 and 2019.

| <b>Three Months<br/>Ended December 31,</b> | <b>Average<br/>Daily Rate</b> | <b>Average<br/>Occupancy %</b> | <b>RevPAR</b> |
|--|-------------------------------|--------------------------------|---------------|
| <b>2020</b>                                | \$ 107                        | 48%                            | \$ 52         |
| <b>2019</b>                                | \$ 255                        | 98%                            | \$ 250        |

The Hotel's revenues decreased by 79% this quarter as compared to the previous comparable quarter. Average daily rate decreased by \$149, average occupancy dropped 50%, and RevPAR decreased by \$199 for the three months ended December 31, 2020 compared to the three months ended December 31, 2019.

#### **Real Estate Operations**

Net income from real estate operations for the three months ended December 31, 2020 decreased by \$253,000 compared to the three months ended December 31, 2019. The decrease year over year is due to increased vacancy loss and bad debt expense as the pandemic has affected some tenants' ability to pay rent on time. All of 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 gain on marketable securities of \$3,457,000 for the three months ended December 31, 2020 compared to a net loss on marketable securities of \$119,000 for the three months ended December 31, 2019. For the three months ended December 31, 2020, the Company had a net realized loss of \$672,000 and a net unrealized gain of \$4,129,000. For the three months ended December 31, 2019, the Company had a net realized loss of \$3,000 and a net unrealized loss of \$116,000. 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 subsidiaries, Portsmouth and Santa Fe, compute and file income tax returns and prepare discrete income tax provisions for financial reporting. The income tax expense during the three months ended December 31, 2020 and 2019 represent primarily the income tax effect of the pretax income (loss) at InterGroup, Santa Fe, and Portsmouth, which includes its share in net income (loss) of Justice.

#### Six Months Ended December 31, 2020 Compared to Six Months Ended December 31, 2019

The Company had net income of \$3,756,000 for the six months ended December 31, 2020 compared to net income of \$1,024,000 for the six months ended December 31, 2019. The change is primarily attributable to gains from marketable securities and sale of real estates.

#### Hotel Operations

The Company had net loss from Hotel operations of \$8,161,000 for the six months ended December 31, 2020 compared to net income of \$2,521,000 for the six months ended December 31, 2019. The change is primarily attributable to the decrease in Hotel revenue.

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

| <b>For the six months ended December 31,</b>                           | <b>2020</b>           | <b>2019</b>         |
|--|-----------------------|---------------------|
| <b>Hotel revenues:</b>   |                       |                     |
| Hotel rooms  | \$ 5,474,000          | \$ 25,811,000       |
| Food and beverage  | 113,000               | 2,647,000           |
| Garage   | 894,000               | 1,512,000           |
| Other operating departments  | 53,000                | 360,000             |
| <b>Total hotel revenues</b>  | <b>6,534,000</b>      | <b>30,330,000</b>   |
| Operating expenses excluding depreciation and amortization             | (10,166,000)          | (23,078,000)        |
| Operating (loss) income before interest, depreciation and amortization | (3,632,000)           | 7,252,000           |
| Interest expense - mortgage  | (3,368,000)           | (3,527,000)         |
| Depreciation and amortization expense                                  | (1,161,000)           | (1,204,000)         |
| <b>Net (loss) income from Hotel operations</b>                         | <b>\$ (8,161,000)</b> | <b>\$ 2,521,000</b> |

For the six months ended December 31, 2020, the Hotel had operating loss of \$3,632,000 before interest expense, depreciation and amortization on total operating revenues of \$6,534,000 compared to operating income of \$7,252,000 before interest expense, depreciation and amortization on total operating revenues of \$30,330,000 for the six months ended December 31, 2019. For the six months ended December 31, 2020, room revenues decreased by \$20,337,000, food and beverage revenue decreased by \$2,534,000, and garage revenue decreased by \$618,000, compared to the six months ended December 31, 2019. The year over year decline in all areas are result of the business interruption attributable to a variety of responses by federal, state, and local civil authority to the COVID-19 outbreak since March 2020. Total operating expenses decreased by \$12,912,000 due to decrease 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 six months ended December 31, 2020 and 2019.

| <b>Six months<br/>Ended December 31,</b> | <b>Average<br/>Daily Rate</b> | <b>Average<br/>Occupancy %</b> | <b>RevPAR</b> |
|--|-------------------------------|--------------------------------|---------------|
| <b>2020</b>                              | \$ 107                        | 51%                            | \$ 55         |
| <b>2019</b>                              | \$ 263                        | 98%                            | \$ 258        |

The Hotel's revenues decreased by 79% for the six months ended December 31, 2020, as compared to the six months ended December 31, 2019. Average daily rate decreased by \$156, average occupancy decreased by 47%, and RevPAR decreased by \$203 for the six months ended December 31, 2020, compared to the six months ended December 31, 2019.

## Real Estate Operations

Net income from real estate operations for the six months ended December 31, 2020 increased by \$11,618,000 compared to the six months ended December 31, 2019. The change year over year is due to the sale of the Company's 27-unit apartment complex located in Santa Monica, California for \$15,650,000. All of 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 gain on marketable securities of \$3,299,000 for the six months ended December 31, 2020 compared to a net loss on marketable securities of \$568,000 for the six months ended December 31, 2019. For the six months ended December 31, 2020, the Company had a net realized loss of \$934,000 and a net unrealized gain of \$4,233,000. For the six months ended December 31, 2019, the Company had a net realized loss of \$77,000 and a net unrealized loss of \$491,000. 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 subsidiaries, Portsmouth and Santa Fe, compute and file income tax returns and prepare discrete income tax provisions for financial reporting. The income tax expense during the six months ended December 31, 2020 and 2019 represent primarily the income tax effect of the pretax income (loss) at InterGroup, Santa Fe, and Portsmouth, which includes its share in net income (loss) of Justice.

## MARKETABLE SECURITIES

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

| <b>As of<br/>December 31, 2020</b> |                      |  |
|------------------------------------|----------------------|--|
| Industry Group                     | Fair Value           | % of Total<br>Investment<br>Securities |
| REITs and real estate companies    | \$ 8,088,000         | 36.7%                                  |
| Financial services                 | 3,972,000            | 18.0%                                  |
| Energy                             | 3,233,000            | 14.7%                                  |
| Consumer cyclical                  | 1,887,000            | 8.6%                                   |
| Technology                         | 1,428,000            | 6.5%                                   |
| Industrials                        | 1,297,000            | 5.9%                                   |
| Basic material                     | 1,269,000            | 5.8%                                   |
| Communication services             | 442,000              | 2.0%                                   |
| Healthcare                         | 267,000              | 1.2%                                   |
| Other                              | 125,000              | 0.6%                                   |
|                                    | <u>\$ 22,008,000</u> | <u>100.0%</u>                          |

| <b>As of<br/>June 30, 2020</b>  |                     |  |
|---------------------------------|---------------------|--|
| Industry Group                  | Fair Value          | % of Total<br>Investment<br>Securities |
| REITs and real estate companies | \$ 2,365,000        | 38.3%                                  |
| Basic material                  | 1,209,000           | 19.6%                                  |
| Energy                          | 767,000             | 12.4%                                  |
| Industrials                     | 484,000             | 7.8%                                   |
| Corporate bonds                 | 417,000             | 6.7%                                   |
| Consumer cyclical               | 295,000             | 4.8%                                   |
| Financial services              | 282,000             | 4.6%                                   |
| Communication services          | 157,000             | 2.5%                                   |
| Technology                      | 121,000             | 2.0%                                   |
| Other                           | 81,000              | 1.3%                                   |
|                                 | <u>\$ 6,178,000</u> | <u>100.0%</u>                          |

As of December 31, 2020, the Company's investment portfolio is diversified with 132 different equity positions. The Company holds one equity security that comprised more than 10% of the equity value of the portfolio. The largest security position represents 10% of the portfolio and consists of the common stock of Colony Financial Inc. (NYSE: CLNY) which is included in the REITs and real estate companies' industry group.

As of June 30, 2020, the Company's investment portfolio is diversified with 59 different equity positions. The Company holds two equity securities that comprised more than 10% of the equity value of the portfolio. The largest security position represents 19% of the portfolio and consists of the common stock of American Realty Investors, Inc. (NYSE: ARL) which is included in the REITs and real estate companies' industry group.

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

| <b>For the three months ended December 31,</b> | <b>2020</b>         | <b>2019</b>         |
|--|---------------------|---------------------|
| Net gain (loss) on marketable securities       | \$ 3,457,000        | \$ (119,000)        |
| Impairment loss on other investments           | (27,000)            | -                   |
| Dividend and interest income                   | 81,000              | 111,000             |
| Margin interest expense                        | (161,000)           | (116,000)           |
| Trading and management expenses                | (126,000)           | (125,000)           |
| Net income (loss) from investment transactions | <u>\$ 3,224,000</u> | <u>\$ (249,000)</u> |

| <b>For the six months ended December 31,</b>   | <b>2020</b>         | <b>2019</b>         |
|--|---------------------|---------------------|
| Net gain (loss) on marketable securities       | \$ 3,299,000        | \$ (568,000)        |
| Impairment loss on other investments           | (89,000)            | -                   |
| Dividend and interest income                   | 205,000             | 241,000             |
| Margin interest expense                        | (281,000)           | (252,000)           |
| Trading and management expenses                | (275,000)           | (282,000)           |
| Net income (loss) from investment transactions | <u>\$ 2,859,000</u> | <u>\$ (861,000)</u> |

### FINANCIAL CONDITION AND LIQUIDITY

The Company had cash and cash equivalents of \$16,815,000 and \$14,163,000 as of December 31, 2020 and June 30, 2020, respectively. The Company had funds available from its investments in marketable securities of \$22,008,000 as of December 31, 2020 net of \$8,320,000 due to securities broker and \$704,000 obligations for securities sold. As of June 30, 2020, the Company had funds available from its investments in marketable securities of \$6,178,000 net of \$1,576,000 due to securities broker and \$294,000 obligations for securities sold. In addition, the Hotel had \$5,977,000 and \$10,666,000 of restricted cash held by its senior lender Wells Fargo Bank, N.A. ("Lender") as of December 31, 2020 and June 30, 2020, respectively. Of the \$10,666,000 restricted cash held as of June 30, 2020, \$2,432,000 was for a possible future property improvement plan ("PIP") requested by our franchisor, Hilton. However, Hilton has confirmed that it will not require a PIP for our Hotel until relicensing which shall occur at the earlier of (i) January 2030, which is six years after the maturity date of our current senior and mezzanine loans, or (ii) upon the sale of our Hotel. On August 19, 2020, Lender released PIP deposits in the amount of \$2,379,000 to the Hotel. The funds were utilized to fund operating expenses, including franchise and management fees and other expenses.

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan - Justice") with CIBC Bank USA under the recently enacted CARES Act administered by the U.S. Small Business Administration. The Partnership received proceeds of \$4,719,000 from the SBA Loan - Justice. In accordance with the requirements of the CARES Act, Justice has used proceeds from the loan primarily for payroll costs. As of December 31, 2020, Justice had used all proceeds of the SBA Loan - Justice in qualified expenses. The SBA Loan - Justice is scheduled to mature on April 9, 2022 and has a 1.00% interest rate. 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 December 31, 2020, InterGroup had used all of the \$453,000 loan proceeds in qualified payroll expenses. The SBA Loan - InterGroup is scheduled to mature on April 27, 2022 and has a 1.00% interest rate. All payments of principal and interests are deferred until July 2021, and the repayment obligations under both loans may be forgiven if the funds are used for payroll and other qualified expenses. The SBA Loans are subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. All unforgiven portion of the principal and accrued interest will be due at maturity. As of December 31, 2020, Justice and InterGroup have each submitted its application for full loan forgiveness.

In order to increase its liquidity position and to take advantage of the favorable interest rate environment, InterGroup refinanced its 151-unit apartment complex in Parsippany, New Jersey on April 30, 2020, generating net proceeds of \$6,814,000. In June 2020, InterGroup refinanced one of its California properties and generated net proceeds of \$1,144,000. During the three months ended December 31, 2020, InterGroup completed refinancing on two of its California properties and generated net proceeds of \$4,327,000. In January 2021, InterGroup refinanced an additional California property and generated net proceeds of \$1,057,000. InterGroup is currently evaluating other refinancing opportunities and it could refinance additional multifamily properties should the need arise, or should management consider the interest rate environment favorable. InterGroup has an uncollateralized \$8,000,000 revolving line of credit from CIBC Bank USA ("CIBC") and the entire \$8,000,000 is available to be drawn down as of December 31, 2020 should additional liquidity be necessary. On August 28, 2020, Santa Fe sold its 27-unit apartment complex located in Santa Monica, California for \$15,650,000 and realized a gain on the sale of approximately \$12,043,000. Santa Fe will manage its federal and state income tax liability, and anticipates the utilization of its available net operating losses and capital loss carryforwards. Santa Fe received net proceeds of \$12,163,000 after selling costs and repayment of InterGroup's RLOC of \$2,985,000 as InterGroup had drawn on its RLOC in July 2018 to pay off the previous Fannie Mae mortgage on the property. Furthermore, pursuant to the Contribution Agreement between Santa Fe and InterGroup, Santa Fe paid InterGroup \$662,000 from the sale. Santa Fe will not seek a replacement property.

As the sole general partner of Justice that controls approximately 96.6% of the voting interest in the Partnership, Portsmouth has the ability to amend the partnership agreement to allow for capital calls to the limited partners of Justice if needed. The majority of any capital calls will be met by Portsmouth. Portsmouth will have financing availability, upon the authorization of the respective board of directors, to borrow from InterGroup and/or Santa Fe to meet any capital calls and its other obligations during the next twelve months and beyond. On August 28, 2020, the Board of InterGroup and Santa Fe passed resolutions, respectively, to provide funding to Portsmouth if necessary. 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 from its current loan balance of \$3,000,000 due to InterGroup. On December 31, 2020, InterGroup advanced \$700,000 to Justice per the aforementioned agreement. The Partnership is also allowed to seek additional loans and sell partnership interests. Upon the consent of the general partner and a super majority in interest, the Partnership may sell additional classes or series of units of the Partnership under certain conditions in order to raise additional capital.

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 and low revenue per available room ("RevPAR") 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 December 31, 2020, the Company's material financial obligations which also includes interest payments.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

## MATERIAL CONTRACTUAL OBLIGATIONS

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

|   | Total          | 6 Months<br>2021 | Year<br>2022  | Year<br>2023  | Year<br>2024   | Year<br>2025 | Thereafter    |
|---|----------------|------------------|---------------|---------------|----------------|--------------|---------------|
| Mortgage and subordinated notes payable | \$ 181,372,000 | \$ 3,856,000     | \$ 3,142,000  | \$ 28,410,000 | \$ 108,348,000 | \$ 3,734,000 | \$ 33,882,000 |
| Other notes payable                     | 10,443,000     | 520,000          | 6,220,000     | 750,000       | 567,000        | 567,000      | 1,819,000     |
| Interest                                | 29,556,000     | 3,863,000        | 8,419,000     | 7,625,000     | 4,411,000      | 904,000      | 4,334,000     |
| Total                                   | \$ 221,371,000 | \$ 8,239,000     | \$ 17,781,000 | \$ 36,785,000 | \$ 113,326,000 | \$ 5,205,000 | \$ 40,035,000 |

## 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 six months ended December 31, 2020. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2020 for a summary of the critical accounting policies.

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

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

### Item 4. Controls and Procedures.

#### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

#### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

**PART II.  
OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

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

**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**

As of November 25, 2020, a group of less than ten shareholders of Santa Fe Financial Corporation approved a Corporate Action to distribute the assets of that company and then liquidate the corporate entity. The Corporate Action was approved by the holders of approximately 87.4% of the total issued and outstanding voting capital stock of that company entitled to vote on matters submitted to the holders of common stock as of that record date.

The terms of the dissolution are:

- The assets of that company consist of:
  - 505,437 shares of Portsmouth Square, Inc. common stock with a per share price of \$41.00 as of January 15, 2021
  - Cash in the approximate amount of \$6.0 million (net of income taxes paid)
- On the 20th calendar day following the date of mailing of the definitive information statement on Schedule 14C which was filed with the SEC on January 22, 2021, the holder of each share of Santa Fe common stock will receive .38 of a share of Portsmouth common stock and the amount of cash in the Company divided by 1,339,310 (the number of issued and outstanding shares of Santa Fe common stock). Subsequent to when the cash of the Company shall be distributed to all shareholders, net of tax liabilities, on a pro rata basis based upon number of shares of common stock of the Company owned by each shareholder on the date of liquidation pursuant to the plan of liquidation and dissolution. With respect thereto, when the Company stockholders will receive 0.38 shares of Portsmouth stock for each share of Company stock owned, they will receive cash in lieu of fractional Portsmouth shares.
- Santa Fe shall file a final U.S. Corporate Income Tax Return for the period ending on the date of liquidation, as well as file Form 966, Corporate Dissolution or Liquidation,” within 30 days of the liquidation.
- However, with respect to third party shareholders, the transaction is expected to be treated as a taxable liquidation under section 331 of the IRS Code. Therefore, Santa Fe is expected to recognize built-in gain or loss on the assets distributed third party shareholders under Section 336 of the Code, and the third-party shareholders are expected to recognize gain or loss on the cancellation of their shares equal to the difference between the fair market value of the assets received and their stock basis in Santa Fe. To the extent third party shareholders include non-U.S. persons, these shareholders are not expected to be subject to U.S. federal income tax unless Santa Fe is considered a U.S. real property holding corporation (“USRPHC”) under the Foreign Investment in Real Property Tax Act within five years preceding the date of the liquidation. A U.S. corporation is generally considered a USRPHC if at least 50 percent of its assets includes “U.S. Real Property Interests.” If Santa Fe is considered a USRPHC, then it is responsible for withholding 15% of the amount realized by the non-U.S. SHs on the liquidation.

**Item 6. EXHIBITS**

- 31.1 [Certification of Principal Executive Officer of Periodic Report Pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\).](#)
- 31.2 [Certification of Principal Financial Officer of Periodic Report Pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\).](#)
- 32.1 [Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.](#)
- 32.2 [Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

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

THE INTERGROUP CORPORATION  
(Registrant)

Date: January 29, 2021

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

Date: January 29, 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: January 29, 2021

/s/ John V. Winfield

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: January 29, 2021

/s/ Danfeng Xu

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 December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John V. Winfield, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

*/s/ John V. Winfield*

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

Date: January 29, 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 December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Danfeng Xu, Treasurer and Controller of the Company, serving as its Principal Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

*/s/ Danfeng Xu*

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Danfeng Xu  
Treasurer and Controller  
(Principal Financial Officer)

Date: January 29, 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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