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

**FORM 10-Q**

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

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

or

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

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

Commission File Number **0-4057**

**PORTSMOUTH SQUARE, INC.**

(Exact name of registrant as specified in its charter)

CALIFORNIA  
(State or other jurisdiction of  
Incorporation or organization)

94-1674111  
(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)

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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

The number of shares outstanding of registrant's Common Stock, as of November 12, 2021 was 734,187.

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

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

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**PART 1  
FINANCIAL INFORMATION**

**Item 1 – Condensed Consolidated Financial Statements**

**PORTSMOUTH SQUARE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

As of	September 30, 2021 (unaudited)	June 30, 2021 (audited)
<b>ASSETS</b>		
Investment in hotel, net	\$ 31,225,000	\$ 31,513,000
Investment in marketable securities	2,505,000	3,536,000
Cash and cash equivalents	1,782,000	2,310,000
Restricted cash	7,063,000	6,222,000
Accounts receivable - hotel, net	215,000	194,000
Other assets, net	629,000	721,000
Deferred tax assets	8,830,000	8,055,000
	<u>52,249,000</u>	<u>52,551,000</u>
Total assets	<u>\$ 52,249,000</u>	<u>\$ 52,551,000</u>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
<b>Liabilities:</b>		
Accounts payable and other liabilities - Justice	\$ 9,404,000	\$ 8,104,000
Accounts payable and other liabilities	204,000	190,000
Accounts payable to related party	3,396,000	3,193,000
Due to securities broker	1,170,000	1,715,000
Obligations for securities sold	54,000	-
Related party notes payable	12,058,000	10,738,000
Other note payable - SBA Loan	2,000,000	2,000,000
Mortgage notes payable - hotel, net	109,805,000	110,134,000
	<u>138,091,000</u>	<u>136,074,000</u>
Total liabilities	<u>138,091,000</u>	<u>136,074,000</u>
<b>Shareholders' deficit:</b>		
Common stock, no par value: Authorized shares - 750,000; 734,187 shares issued and outstanding shares as of September 30, 2021 and June 30, 2021	2,092,000	2,092,000
Accumulated deficit	(87,934,000)	(84,960,000)
Total Portsmouth shareholders' deficit	(85,842,000)	(82,868,000)
Noncontrolling interest	-	(655,000)
Total shareholders' deficit	(85,842,000)	(83,523,000)
	<u>(85,842,000)</u>	<u>(83,523,000)</u>
Total liabilities and shareholders' deficit	<u>\$ 52,249,000</u>	<u>\$ 52,551,000</u>

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

**PORTSMOUTH SQUARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

For the three months ended September 30,

	<u>2021</u>	<u>2020</u>
<b>Revenue - Hotel</b>	\$ 6,805,000	\$ 3,425,000
<b>Costs and operating expenses</b>		
Hotel operating expenses	(6,333,000)	(5,033,000)
Hotel depreciation and amortization expense	(529,000)	(530,000)
General and administrative expense	(328,000)	(176,000)
Total costs and operating expenses	(7,190,000)	(5,739,000)
Loss from operations	(385,000)	(2,314,000)
Other income (expense)		
Interest expense - mortgage	(1,661,000)	(1,700,000)
Interest expense - related party	(237,000)	(91,000)
Net (loss) gain on marketable securities	(268,000)	11,000
Net (loss) gain on marketable securities - Comstock	(177,000)	46,000
Impairment loss on other investments	-	(22,000)
Dividend and interest income	34,000	15,000
Trading and margin interest expense	(56,000)	(31,000)
Total other expense, net	(2,365,000)	(1,772,000)
Loss before income taxes	(2,750,000)	(4,086,000)
Income tax benefit	775,000	1,071,000
<b>Net Loss</b>	(1,975,000)	(3,015,000)
Less: Net loss attributable to noncontrolling interest	-	264,000
Net loss attributable to Portsmouth	\$ (1,975,000)	\$ (2,751,000)
Basic and diluted net loss per share attributable to Portsmouth	\$ (2.69)	\$ (3.75)
Weighted average number of common shares outstanding - basic and diluted	734,187	734,183

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

**PORTSMOUTH SQUARE, INC**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT**  
(Unaudited)

	<u>Common Stock</u>		<u>Accumulated</u>	<u>Total</u>	<u>Noncontrolling</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		<u>Shareholders'</u>		<u>Shareholders'</u>
			<u>Deficit</u>	<u>Deficit</u>	<u>Interest</u>	<u>Deficit</u>
<b>Balance at July 1, 2021</b>	734,187	\$2,092,000	\$ (84,960,000)	\$ (82,868,000)	\$ (655,000)	\$ (83,523,000)
Net loss	-	-	(1,975,000)	(1,975,000)	-	(1,975,000)
Investment in Justice	-	-	-	-	(344,000)	(344,000)
Purchase of Remaining Interest in Justice	-	-	(999,000)	(999,000)	999,000	-
<b>Balance at September 30, 2021</b>	<u>734,187</u>	<u>\$2,092,000</u>	<u>\$ (87,934,000)</u>	<u>\$ (85,842,000)</u>	<u>\$ -</u>	<u>\$ (85,842,000)</u>

	<u>Common Stock</u>		<u>Accumulated</u>	<u>Total</u>	<u>Noncontrolling</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		<u>Shareholders'</u>		<u>Shareholders'</u>
			<u>Deficit</u>	<u>Deficit</u>	<u>Interest</u>	<u>Deficit</u>
<b>Balance at July 1, 2020</b>	734,183	\$2,092,000	\$ (73,809,000)	\$ (71,717,000)	\$ (5,824,000)	\$ (77,541,000)
Net loss	-	-	(2,751,000)	(2,751,000)	(264,000)	(3,015,000)
<b>Balance at September 30, 2020</b>	<u>734,183</u>	<u>\$2,092,000</u>	<u>\$ (76,560,000)</u>	<u>\$ (74,468,000)</u>	<u>\$ (6,088,000)</u>	<u>\$ (80,556,000)</u>

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

**PORTSMOUTH SQUARE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

For the three months ended September 30,

	2021	2020
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,975,000)	\$ (3,015,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net unrealized loss on marketable securities	401,000	(68,000)
Deferred taxes	(775,000)	(1,071,000)
Impairment loss on other investments	-	22,000
Depreciation and amortization	459,000	461,000
Changes in operating assets and liabilities:		
Investment in marketable securities	630,000	(3,000)
Accounts receivable	(21,000)	185,000
Other assets	92,000	283,000
Accounts payable and other liabilities - Justice	1,420,000	(650,000)
Accounts payable and other liabilities	14,000	(52,000)
Accounts payable related party	203,000	243,000
Due to securities broker	(545,000)	-
Obligations for securities sold	54,000	-
Net cash used in operating activities	<u>(43,000)</u>	<u>(3,665,000)</u>
<b>Cash flows from investing activities:</b>		
Payments for hotel furniture, equipment and building improvements	(240,000)	(106,000)
Proceeds from other investments	-	29,000
Investment in Justice	(344,000)	-
Net cash used in investing activities	<u>(584,000)</u>	<u>(77,000)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from related party note payable	1,500,000	-
Issuance cost from refinance of related party loan	(50,000)	-
Payments of mortgage and other notes payable	(510,000)	(482,000)
Net cash provided by (used in) financing activities	<u>940,000</u>	<u>(482,000)</u>
<b>Net increase (decrease) in cash, cash equivalents, and restricted cash</b>	<b>313,000</b>	<b>(4,224,000)</b>
Cash, cash equivalents, and restricted cash at the beginning of the period	8,532,000	16,385,000
Cash, cash equivalents, and restricted cash at the end of the period	<u>\$ 8,845,000</u>	<u>\$ 12,161,000</u>
Supplemental information:		
Interest paid	\$ 1,677,000	\$ 1,791,000
Taxes paid	\$ -	\$ 1,000
Non-cash transaction:		
Additions to Hotel equipment through capital lease	\$ -	\$ 30,000

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

**PORTSMOUTH SQUARE, INC.**  
**NOTES TO THE 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 Portsmouth Square, Inc. (“Portsmouth” 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 Portsmouth and the notes therein included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2021. The June 30, 2021 condensed consolidated balance sheet was derived from the consolidated balance sheet as included in the Company’s Form 10-K for the year ended June 30, 2021.

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

Portsmouth’s primary business is conducted through its general and limited partnership interest in Justice Investors Limited Partnership, a California limited partnership (“Justice” or the “Partnership”). As of September 30, 2021, Portsmouth completed the purchase of 100% of the limited partnership interest of Justice and is in the process of dissolving the partnership. The financial statements of Justice are consolidated with those of the Company.

As of September 30, 2021, the InterGroup Corporation (“InterGroup”), a public company, owns approximately 74.9% of the outstanding common shares of Portsmouth. As of September 30, 2021, the Company’s Chairman of the Board and Chief Executive Officer, John Winfield, owns approximately 2.5% of the outstanding common shares of the Company. Mr. Winfield also serves as the President, Chairman of the Board and Chief Executive Officer of InterGroup.

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

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

**Due to Securities Broker**

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

### **Obligations for Securities Sold**

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

### **Income Tax**

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

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

None.

### **NOTE 2 - LIQUIDITY**

Historically, our cash flows have been primarily generated from our Hotel operations. However, the responses by federal, state, and local civil authorities to the COVID-19 pandemic has had a material detrimental impact on our liquidity. For the three months ended September 30, 2021 and 2020, our net cash flow used in operations was \$43,000 and \$3,665,000, respectively. 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 major capital expenditures, renegotiating certain reoccurring expenses, and temporarily closing certain hotel services and outlets.

The Company had cash and cash equivalents of \$1,782,000 and \$2,310,000 as of September 30, 2021 and June 30, 2021, respectively. The Company had marketable securities, net of margin due to securities brokers, of \$1,281,000 and \$1,821,000 as of September 30, 2021 and June 30, 2021, respectively. These marketable securities are short-term investments and liquid in nature.

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



In order to increase 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 fiscal year ended June 30, 2021, InterGroup completed refinancing on six of its California properties and generated net proceeds of \$6,762,000. During the three months ending September 30, 2021, InterGroup refinanced four of its California properties' existing mortgages and obtained a mortgage note payable on one of its California properties, generating net proceeds totaling \$3,161,000 as a result. 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 \$5,000,000 revolving line of credit from CIBC Bank USA ("CIBC") and the entire \$5,000,000 is available to be drawn down as of September 30, 2021 should additional liquidity be necessary.

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") administered by the U.S. Small Business Administration (the "SBA"). Justice received proceeds of \$4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, Justice used the proceeds from the SBA Loan for payroll costs and other qualified expenses. The SBA Loan was scheduled to mature on April 9, 2022 with a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. On June 10, 2021, the SBA Loan was forgiven in full.

On February 3, 2021, Justice entered into a second loan agreement ("Second SBA Loan") with CIBC Bank USA administered by the SBA. Justice received proceeds of \$2,000,000 from the Second SBA Loan. As of June 30, 2021, Justice had used all proceeds from the Second SBA Loan primarily for payroll costs. The Second SBA Loan is scheduled to mature on February 3, 2026 and has a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. All payments of principal and interest are deferred until either: (a) if the SBA approves the forgiveness amount, the date the forgiveness amount is remitted by the SBA to CIBC; or (b) if Justice does not apply for forgiveness within 10 months after the last day of the covered period specified in the loan agreement or if the forgiveness amount is not approved, the date that is 10 months after the last day of the covered period. The loan may be forgiven if the funds are used for payroll and other qualified expenses. All unforgiven portion of the principal and accrued interest will be due at maturity. Justice submitted its application for full loan forgiveness on September 3, 2021.

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

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

	Total	9 Months 2022	Year 2023	Year 2024	Year 2025	Year 2026	Thereafter
Mortgage notes payable	\$110,355,000	\$1,242,000	\$ 1,721,000	\$107,392,000	\$ -	\$ -	\$ -
PPP and other notes payable	2,544,000	361,000	183,000	-	-	2,000,000	-
Related party notes payable	12,097,000	425,000	8,717,000	567,000	567,000	567,000	1,254,000
Interest	15,063,000	5,431,000	6,180,000	3,452,000	-	-	-
<b>Total</b>	<b>\$140,059,000</b>	<b>\$7,459,000</b>	<b>\$16,801,000</b>	<b>\$111,411,000</b>	<b>\$567,000</b>	<b>\$2,567,000</b>	<b>\$1,254,000</b>

### NOTE 3 – REVENUE

The following table present our revenues disaggregated by revenue streams.

For the three months ended September 30,	2021	2020
Hotel revenues:		
Hotel rooms	\$ 5,562,000	\$ 2,890,000
Food and beverage	266,000	37,000
Garage	907,000	470,000
Other operating departments	70,000	28,000
Total hotel revenue	<u>\$ 6,805,000</u>	<u>\$ 3,425,000</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 September 30, 2021 and June 30, 2021, other than trade and other receivables, net on our condensed consolidated balance sheets. Our receivables are primarily the result of contracts with customers, which are reduced by an allowance for doubtful accounts that reflects our estimate of amounts that will not be collected.

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

**Contract costs**

We consider sales commissions earned to be incremental costs of obtaining a contract with our customers. As a practical expedient, we expense these costs as incurred as our contracts with customers are less than one year.

**NOTE 4 – INVESTMENT IN HOTEL, NET**

Investment in hotel consisted of the following as of:

<b>September 30, 2021</b>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 1,124,000	\$ -	\$ 1,124,000
Finance lease ROU assets	1,805,000	(685,000)	1,120,000
Furniture and equipment	31,254,000	(28,087,000)	3,167,000
Building and improvements	56,196,000	(30,382,000)	25,814,000
Investment in Hotel, net	<u>\$ 90,379,000</u>	<u>\$ (59,154,000)</u>	<u>\$ 31,225,000</u>
<b>June 30, 2021</b>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 1,124,000	\$ -	\$ 1,124,000
Finance lease ROU assets	1,805,000	(606,000)	1,199,000
Furniture and equipment	31,014,000	(27,956,000)	3,058,000
Building and improvements	56,194,000	(30,062,000)	26,132,000
Investment in Hotel, net	<u>\$ 90,137,000</u>	<u>\$ (58,624,000)</u>	<u>\$ 31,513,000</u>

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

The Company's investment in marketable securities consists primarily of corporate equities. The Company has also periodically invested in 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.

As of September 30, 2021, and June 30, 2021, all the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments are included in earnings. Trading securities are summarized as follows:

Investment	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Net Unrealized Loss	Fair Value
<b>As of September 30, 2021</b>					
Corporate					
Equities	<u>\$4,365,000</u>	<u>\$ 216,000</u>	<u>\$(2,076,000)</u>	<u>\$(1,860,000)</u>	<u>\$2,505,000</u>
<b>As of June 30, 2021</b>					
Corporate					
Equities	<u>\$4,987,000</u>	<u>\$ 438,000</u>	<u>\$(1,889,000)</u>	<u>\$(1,451,000)</u>	<u>\$3,536,000</u>

As of September 30, 2021, and June 30, 2021, approximately 19% of the investment marketable securities balance above is comprised of the common stock of Comstock Mining, Inc. ("Comstock" - NYSE AMERICAN: LODE), respectively.

As of September 30, 2021, and June 30, 2021, the Company had \$1,958,000 and \$1,873,000, respectively, of unrealized losses related to securities held for over one year; of which \$1,947,000 and \$1,789,000 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 gain (loss) on marketable securities for the three months ended September 30, 2021 and 2020, respectively:

For the three months ended September 30,	2021	2020
Realized loss on marketable securities, net	\$ (5,000)	\$ (11,000)
Realized loss on marketable securities related to LODE	(40,000)	-
Unrealized gain (loss) on marketable securities, net	(263,000)	22,000
Unrealized gain (loss) on marketable securities related to LODE	(137,000)	46,000
Net gain (loss) on marketable securities	<u>\$ (445,000)</u>	<u>\$ 57,000</u>

#### NOTE 6 - FAIR VALUE MEASUREMENTS

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

As of	September 30, 2021 Total - Level 1	June 30, 2021 Total - Level 1
<b>Assets:</b>		
Investment in marketable securities:		
Communication services	\$ 1,177,000	\$ 1,334,000
Basic materials	509,000	720,000
REITs and real estate companies	412,000	438,000
Industrials	210,000	653,000
Energy	187,000	250,000
Healthcare	10,000	141,000
	<u>\$ 2,505,000</u>	<u>\$ 3,536,000</u>

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

#### NOTE 7 - CASH, CASH EQUIVALENTS AND RESTRICTED CASH

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

As of	September 30, 2021	June 30, 2021
Cash and cash equivalents	\$ 1,782,000	\$ 2,310,000
Restricted cash	<u>7,063,000</u>	<u>6,222,000</u>
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	<u>\$ 8,845,000</u>	<u>\$ 8,532,000</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.

## NOTE 8 - SEGMENT INFORMATION

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

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

<b>As of and for the three months ended September 30, 2021</b>	<b>Hotel Operations</b>	<b>Investment Transactions</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 6,805,000	\$ -	\$ -	\$ 6,805,000
Segment operating expenses	(6,333,000)	-	(328,000)	(6,661,000)
Segment income (loss)	472,000	-	(328,000)	144,000
Interest expense - mortgage	(1,661,000)	-	-	(1,661,000)
Interest expense - related party	(237,000)	-	-	(237,000)
Depreciation and amortization expense	(529,000)	-	-	(529,000)
Loss from investments	-	(467,000)	-	(467,000)
Income tax benefit	-	-	775,000	775,000
Net loss	<u>\$ (1,955,000)</u>	<u>\$ (467,000)</u>	<u>\$ 447,000</u>	<u>\$ (1,975,000)</u>
Total assets	<u>\$ 40,704,000</u>	<u>\$ 2,525,000</u>	<u>\$ 9,020,000</u>	<u>\$ 52,249,000</u>

<b>For the three months ended September 30, 2020</b>	<b>Hotel Operations</b>	<b>Investment Transactions</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 3,425,000	\$ -	\$ -	\$ 3,425,000
Segment operating expenses	(5,033,000)	-	(176,000)	(5,209,000)
Segment loss	(1,608,000)	-	(176,000)	(1,784,000)
Interest expense - mortgage	(1,700,000)	-	-	(1,700,000)
Interest expense - related party	(91,000)	-	-	(91,000)
Depreciation and amortization expense	(530,000)	-	-	(530,000)
Income from investments	-	19,000	-	19,000
Income tax benefit	-	-	1,071,000	1,071,000
Net income (loss)	<u>\$ (3,929,000)</u>	<u>\$ 19,000</u>	<u>\$ 895,000</u>	<u>\$ (3,015,000)</u>

## NOTE 9 - RELATED PARTY AND OTHER FINANCING TRANSACTIONS

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

<b>As of</b>	<b>September 30, 2021</b>	<b>June 30, 2021</b>
Note payable - InterGroup	\$ 8,112,000	\$ 6,650,000
Note payable - Hilton	2,613,000	2,692,000
Note payable - Interstate	1,333,000	1,396,000
SBA Loan - Justice	2,000,000	2,000,000
Total related party and other notes payable	<u>\$ 14,058,000</u>	<u>\$ 12,738,000</u>

On July 2, 2014, the Partnership obtained from InterGroup an unsecured loan in the principal amount of \$4,250,000 at 12% per year fixed interest, with a term of 2 years, payable interest only each month. InterGroup received a 3% loan fee. The loan may be prepaid at any time without penalty. The loan was extended to July 31, 2022. On December 16, 2020, Justice and InterGroup entered into a loan modification agreement which increased Justice's borrowing from InterGroup as needed up to \$10,000,000. As of September 30, 2021 and June 30, 2021, the balance of the loan was \$8,150,000 and \$6,650,000, net of loan amortization costs of \$37,500 and zero, respectively.

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

On February 1, 2017, Justice entered into an HMA with Interstate to manage the Hotel with an effective takeover date of February 3, 2017. The term of the management agreement is for an initial period of 10 years commencing on the takeover date and automatically renews for an additional year not to exceed five years in aggregate subject to certain conditions. The HMA also provides for Interstate to advance a key money incentive fee to the Hotel for capital improvements in the amount of \$2,000,000 under certain terms and conditions described in a separate key money agreement. The key money contribution shall be amortized in equal monthly amounts over an eight (8) year period commencing on the second anniversary of the takeover date. During the first quarter of fiscal year 2021, the Hotel obtained approval from Interstate to use the key money for hotel operations and the funds were exhausted by December 31, 2020. Unamortized portion of the key money is included in the related party notes payable in the condensed consolidated balance sheets.

On February 3, 2021, Justice entered into a second loan agreement ("Second SBA Loan") with CIBC Bank USA administered by the SBA. Justice received proceeds of \$2,000,000 from the Second SBA Loan. As of June 30, 2021, Justice had used all proceeds from the Second SBA Loan primarily for payroll costs. The Second SBA Loan is scheduled to mature on February 3, 2026 and has a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. All payments of principal and interest are deferred until either: (a) if the SBA approves the forgiveness amount, the date the forgiveness amount is remitted by the SBA to CIBC; or (b) if Justice does not apply for forgiveness within 10 months after the last day of the covered period specified in the loan agreement or if the forgiveness amount is not approved, the date that is 10 months after the last day of the covered period. The loan may be forgiven if the funds are used for payroll and other qualified expenses. All unforgiven portion of the principal and accrued interest will be due at maturity. Justice submitted its application for full loan forgiveness on September 3, 2021.

As of September 30, 2021, the Company had finance lease obligations outstanding of \$544,000. These finance leases expire in various years through 2023 at rates ranging from 4.62% to 6.25% per annum. Minimum future lease payments for assets under finance leases as of September 30, 2021 are as follows:

**For the year ending June 30,**

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

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

**For the year ending June 30,**

2022	\$	786,000
2023		8,900,000
2024		567,000
2025		567,000
2026		2,567,000
Thereafter		1,254,000
	\$	<u>14,641,000</u>

As of September 30, 2021, and June 30, 2021, the Company had accounts payable to related party of \$3,396,000 and \$3,193,000, respectively. These are amounts due to InterGroup and represent certain shared costs and expenses, primarily general and administrative expenses, rent, insurance and other expenses.

To fund the redemption of limited partnership interests and to repay the prior mortgage of \$42,940,000, Justice obtained a \$97,000,000 mortgage loan and a \$20,000,000 mezzanine loan in December 2013. The mortgage loan is secured by the Partnership's principal asset, the Hotel. The mortgage loan bears an interest rate of 5.275% per annum with interest only payments due through January 2017. Beginning in February 2017, the loan began to amortize over a thirty-year period through its maturity date of January 2024. Outstanding principal balance on the loan was \$90,355,000 and \$90,745,000 as of September 30, 2021 and June 30, 2021, respectively. As additional security for the mortgage loan, there is a limited guaranty executed by Portsmouth in favor of the mortgage lender. The mezzanine loan is secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The mezzanine interest only loan had an interest rate of 9.75% per annum and a maturity date of January 1, 2024. As additional security for the mezzanine loan, there is a limited guaranty executed by Portsmouth in favor of the mezzanine lender. On July 31, 2019, Mezzanine refinanced the mezzanine loan by entering into a new mezzanine loan agreement ("New Mezzanine Loan Agreement") with Cred Reit Holdco LLC in the amount of \$20,000,000. The prior Mezzanine Loan which had a 9.75% per annum interest rate was paid off. Interest rate on the new mezzanine loan is 7.25% and the loan matures on January 1, 2024. Interest only payments are due monthly.

Effective May 11, 2017, InterGroup agreed to become an additional guarantor under the limited guaranty and an additional indemnitor under the environmental indemnity for Justice Investors limited partnership's \$97,000,000 mortgage loan and the \$20,000,000 mezzanine loan. Pursuant to the agreement, InterGroup is required to maintain certain net worth and liquidity. As of September 30, 2021, InterGroup is in compliance with both requirements. However, due to the Hotel's current low occupancy and its negative impact on the Hotel's cash flow, Justice Operating Company, LLC may not meet certain of its loan covenants such as the Debt Service Coverage Ratio ("DSCR") which would trigger the creation of a lock-box by the Lender for all cash collected by the Hotel. However, such lockbox has been created and utilized from the loan inception and will be in place up to loan maturity regardless of the DSCR.

The Company's Board of Directors is currently comprised of directors John V. Winfield, William J. Nance, John C. Love, Jerold R. Babin, and Steve Grunwald. All of the Company's directors also serve as directors of InterGroup except for Mr. Grunwald.

John V. Winfield serves as Chief Executive Officer and Chairman of the Company and InterGroup. Effective June 2016, Mr. Winfield became the Managing Director of Justice. Depending on certain market conditions and various risk factors, the Chief Executive Officer and InterGroup may, at times, invest in the same companies in which the Company invests. The Company encourages such investments because it places personal resources of the Chief Executive Officer and the resources of InterGroup, at risk in connection with investment decisions made on behalf of the Company.

#### NOTE 10 – ACCOUNTS PAYABLE AND OTHER LIABILITIES - JUSTICE

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

As of	September 30, 2021	June 30, 2021
Trade payable	\$ 3,497,000	\$ 2,809,000
Advance deposits	399,000	161,000
Property tax payable	509,000	-
Payroll and related accruals	2,549,000	2,345,000
Mortgage interest payable	518,000	582,000
Withholding and other taxes payable	649,000	885,000
Security deposit	52,000	52,000
Finance leases	544,000	664,000
Other payables	687,000	606,000
Total accounts payable and other liabilities - Justice	\$ 9,404,000	\$ 8,104,000

#### NOTE 11 – SUBSEQUENT EVENTS

None.

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

### **FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

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

Such statements are subject to certain risks and uncertainties. These risks and uncertainties include, but are not limited to, the following: national and worldwide economic conditions, including the impact of recessionary conditions on tourism, travel and the lodging industry; the impact of terrorism and war on the national and international economies, including tourism, securities markets, energy and fuel costs; natural disasters; general economic conditions and competition in the hotel industry in the San Francisco area; seasonality, labor relations and labor disruptions; actual and threatened pandemics such as swine flu or the outbreak of COVID-19 or similar outbreaks; partnership distributions; the ability to obtain financing at favorable interest rates and terms; securities markets, regulatory factors, litigation and other factors discussed below in this Report and in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2021. These risks and uncertainties could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as to the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### **NEGATIVE EFFECTS OF CIVIL AUTHORITY ACTIONS ON OUR BUSINESS**

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

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



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

In response to the decrease in demand, we have since furloughed all managers at the Hotel except for members of the executive team and continue to limit hourly staff to a minimum. By the end of March 2020, we had temporarily closed all our food and beverage outlets, valet parking, concierge and bell services, fitness center, as well as the executive lounge facility. We continue to implement social distancing standards and cleaning processes designed by Interstate and Hilton to keep employees and guests safe. The full impact and duration of the COVID-19 outbreak continues to evolve as of the date of this report. The pandemic effectively eliminated our ability to generate any profits, due to the drastic decline in both leisure and business travel. As a result, management believes the ongoing length and severity of the economic downturn caused by the pandemic will have a material adverse impact on our future business, financial condition, liquidity and financial results. We are also assessing the potential impact on the impairment analysis of our long-lived assets and the realization of our deferred tax assets. As of the date of this report, the effects of the pandemic continue to affect our economy, business and leisure travel, and our needs to continue to curtail certain revenue generating activities at the Hotel. We expect that the effects will have a material adverse effect on our business until the pandemic ends.

As a result of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020, additional avenues of relief may be available to workers and families through enhanced unemployment insurance provisions and to small businesses through programs administered by the Small Business Administration ("SBA"). The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program ("PPP"), whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs. On April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the CARES Act. Justice received proceeds of \$4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, Justice used proceeds from the SBA Loan for payroll costs and other qualified expenses. The SBA Loan was scheduled to mature on April 9, 2022 with a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. On June 10, 2021, the SBA Loan was forgiven in full.

On February 3, 2021, Justice entered into a second loan agreement ("Second SBA Loan") with CIBC Bank USA administered by the SBA. Justice received proceeds of \$2,000,000 from the Second SBA Loan. As of June 30, 2021, Justice had used all proceeds from the Second SBA Loan primarily for payroll costs. The Second SBA Loan is scheduled to mature on February 3, 2026 and has a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. All payments of principal and interest are deferred until either: (a) if the SBA approves the forgiveness amount, the date the forgiveness amount is remitted by the SBA to CIBC; or (b) if Justice does not apply for forgiveness within 10 months after the last day of the covered period specified in the loan agreement or if the forgiveness amount is not approved, the date that is 10 months after the last day of the covered period. The loan may be forgiven if the funds are used for payroll and other qualified expenses. All unforgiven portion of the principal and accrued interest will be due at maturity. Justice submitted its application for full loan forgiveness on September 3, 2021.

## RESULTS OF OPERATIONS

The Company's principal source of revenue continues to be derived from its general and limited partnership interest 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.

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

On February 1, 2017, Justice entered into a Hotel management agreement ("HMA") with Interstate Management Company, LLC ("Interstate") to manage the Hotel and related facilities with an effective takeover date of February 3, 2017. The term of HMA is for an initial period of ten years commencing on the takeover date and automatically renews for an additional year not to exceed five years in aggregate subject to certain conditions. The HMA also provides for Interstate to advance a key money incentive fee to the Hotel for capital improvements in the amount of \$2,000,000 under certain terms and conditions described in a separate key money agreement. On October 25, 2019, Interstate merged with Aimbridge Hospitality, North America's largest independent hotel management firm. With the completion of the merger, the newly combined company will be positioned under the Aimbridge Hospitality name in the Americas. During the first quarter of fiscal year 2021, the Hotel obtained approval from Interstate to use the key money for hotel operations and the funds were exhausted by December 31, 2020.

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

The Company had net loss of \$1,975,000 for the three months ended September 30, 2021 compared to net loss of \$3,015,000 for the three months ended September 30, 2020. The change is primarily attributable to the increase in Hotel revenue.

#### Hotel Operations

The Company had net loss from Hotel operations of \$1,955,000 for the three months ended September 30, 2021 compared to net loss of \$3,929,000 for the three months ended September 30, 2020. The change is primarily attributable to increase in Hotel revenue.

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

For the three months ended September 30,	2021	2020
Hotel revenues:		
Hotel rooms	\$ 5,562,000	\$ 2,890,000
Food and beverage	266,000	37,000
Garage	907,000	470,000
Other operating departments	70,000	28,000
Total hotel revenues	6,805,000	3,425,000
Operating expenses excluding depreciation and amortization	(6,333,000)	(5,033,000)
Operating income (loss) before interest, depreciation and amortization	472,000	(1,608,000)
Interest expense - mortgage	(1,898,000)	(1,791,000)
Depreciation and amortization expense	(529,000)	(530,000)
Net loss from Hotel operations	\$ (1,955,000)	\$ (3,929,000)

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

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

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

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

#### Investment Transactions

The Company had a net loss on marketable securities of \$445,000 for the three months ended September 30, 2021 compared to a net gain on marketable securities of \$57,000 for the three months ended September 30, 2020. For the three months ended September 30, 2021, the Company had a net realized loss of \$45,000 and a net unrealized loss of \$400,000. For the three months ended September 30, 2020, the Company had a net realized loss of \$11,000 and a net unrealized gain of \$68,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's results of operations. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities see the Marketable Securities section below.

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

## MARKETABLE SECURITIES

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

<b>As of September 30, 2021</b>		% of Total
Industry Group	Fair Value	Investment Securities
Communication services	\$ 1,177,000	47.0%
Basic materials	509,000	20.3%
REITs and real estate companies	412,000	16.4%
Industrials	210,000	8.4%
Energy	187,000	7.5%
Healthcare	10,000	0.4%
	<u>\$ 2,505,000</u>	<u>100.0%</u>

<b>As of June 30, 2021</b>		% of Total
Industry Group	Fair Value	Investment Securities
Communication services	\$ 1,334,000	37.7%
Basic materials	720,000	20.3%
Industrials	653,000	18.5%
REITs and real estate companies	438,000	12.4%
Energy	250,000	7.1%
Healthcare	141,000	4.0%
	<u>\$ 3,536,000</u>	<u>100.0%</u>

As of September 30, 2021, the Company's investment portfolio includes eleven equity positions. The Company holds one equity securities that are more than 10% of the equity value of the portfolio. The largest security position represents 19% of the portfolio and consists of the common stock of Comstock, which is included in the basic materials industry group.

As of June 30, 2021, the Company held twelve different equity positions in its investment portfolio. The Company held three equity securities that comprised more than 10% of the equity value of the portfolio. The largest security position represents 38% of the portfolio and consists of the common stock of ViacomCBS Inc. (NASDAQ: VIACP) which is included in the communication services industry group.

The following table shows the net gain (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 September 30,</b>	<b>2021</b>	<b>2020</b>
Net (loss) gain on marketable securities	\$ (445,000)	\$ 57,000
Impairment loss on other investments	-	(22,000)
Dividend and interest income	34,000	15,000
Margin interest expense	(16,000)	-
Trading and management expenses	(40,000)	(31,000)
	<u>\$ (467,000)</u>	<u>\$ 19,000</u>

## FINANCIAL CONDITION AND LIQUIDITY

The Company had cash and cash equivalents of \$1,782,000 and \$2,310,000 as of September 30, 2021 and June 30, 2021, respectively. The Company had marketable securities, net of margin due to securities brokers, of \$1,281,000 and \$1,821,000 as of September 30, 2021 and June 30, 2020, respectively. These marketable securities are short-term investments and liquid in nature.

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

In order to increase 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 fiscal year ended June 30, 2021, InterGroup completed refinancing on six of its California properties and generated net proceeds of \$6,762,000. During the three months ending September 30, 2021, InterGroup refinanced four of its California properties' existing mortgages and obtained a mortgage note payable on one of its California properties, generating net proceeds totaling \$3,161,000 as a result. 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 \$5,000,000 revolving line of credit from CIBC Bank USA ("CIBC") and the entire \$5,000,000 is available to be drawn down as of September 30, 2021 should additional liquidity be necessary.

On April 9, 2020, Justice entered into a loan agreement ("SBA Loan") with CIBC Bank USA under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") administered by the U.S. Small Business Administration (the "SBA"). Justice received proceeds of \$4,719,000 from the SBA Loan. In accordance with the requirements of the CARES Act, Justice used the proceeds from the SBA Loan for payroll costs and other qualified expenses. The SBA Loan was scheduled to mature on April 9, 2022 with a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. On June 10, 2021, the SBA Loan was forgiven in full.

On February 3, 2021, Justice entered into a second loan agreement ("Second SBA Loan") with CIBC Bank USA administered by the SBA. Justice received proceeds of \$2,000,000 from the Second SBA Loan. As of June 30, 2021, Justice had used all proceeds from the Second SBA Loan primarily for payroll costs. The Second SBA Loan is scheduled to mature on February 3, 2026 and has a 1.00% interest rate and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration under the CARES Act. All payments of principal and interest are deferred until either: (a) if the SBA approves the forgiveness amount, the date the forgiveness amount is remitted by the SBA to CIBC; or (b) if Justice does not apply for forgiveness within 10 months after the last day of the covered period specified in the loan agreement or if the forgiveness amount is not approved, the date that is 10 months after the last day of the covered period. The loan may be forgiven if the funds are used for payroll and other qualified expenses. All unforgiven portion of the principal and accrued interest will be due at maturity. Justice submitted its application for full loan forgiveness on September 3, 2021.

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

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

## MATERIAL CONTRACTUAL OBLIGATIONS

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

	Total	9 Months 2022	Year 2023	Year 2024	Year 2025	Year 2026	Thereafter
Mortgage notes payable	\$110,355,000	\$1,242,000	\$ 1,721,000	\$107,392,000	\$ -	\$ -	\$ -
PPP and other notes payable	2,544,000	361,000	183,000	-	-	2,000,000	-
Related party notes payable	12,097,000	425,000	8,717,000	567,000	567,000	567,000	1,254,000
Interest	15,063,000	5,431,000	6,180,000	3,452,000	-	-	-
Total	<u>\$140,059,000</u>	<u>\$7,459,000</u>	<u>\$16,801,000</u>	<u>\$111,411,000</u>	<u>\$567,000</u>	<u>\$2,567,000</u>	<u>\$1,254,000</u>

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no material off balance sheet arrangements.

## IMPACT OF INFLATION

Hotel room rates are typically impacted by supply and demand factors, not inflation, since rental of a hotel room is usually for a limited number of nights. Room rates can be, and usually are, adjusted to account for inflationary cost increases. Since Aimbridge 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.

## CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Critical accounting policies are those that are most significant to the presentation of our financial position and results of operations and require judgments by management in order to make estimates about the effect of matters that are inherently uncertain. The preparation of these condensed financial statements requires us to make estimates and judgments that affect the reported amounts in our consolidated financial statements. We evaluate our estimates on an on-going basis, including those related to the consolidation of our subsidiaries, to our revenues, allowances for bad debts, accruals, asset impairments, other investments, income taxes and commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The actual results may differ from these estimates or our estimates may be affected by different assumptions or conditions. There have been no material changes to the Company's critical accounting policies during the three months ended September 30, 2021. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2021 for a summary of the critical accounting policies.

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

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

#### **Item 4. Controls and Procedures**

##### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

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

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

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

#### **PART II. OTHER INFORMATION**

##### **Item 1. LEGAL PROCEEDINGS**

During the period ending September 30, 2021, 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**

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

##### **Item 6. EXHIBITS**

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

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

32.1 [Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.](#)

32.2 [Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350](#)

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

**SIGNATURES**

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

PORTSMOUTH SQUARE, INC.  
(Registrant)

Date: November 12, 2021  
\_\_\_\_\_

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

Date: November 12, 2021  
\_\_\_\_\_

by /s/ David C. Gonzalez  
David C. Gonzalez  
President, Advisor of Executive  
Strategic Real Estate and Securities  
Investment Committee

Date: November 12, 2021  
\_\_\_\_\_

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



## CERTIFICATION

I, John V. Winfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Portsmouth Square, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

*/s/ John V. Winfield*

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John V. Winfield  
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 Portsmouth Square, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - (a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

*/s/ Danfeng Xu*

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Danfeng Xu  
Treasurer and Controller  
(Principal Financial Officer)

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

In connection with the Quarterly Report of Portsmouth Square, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John V. Winfield, 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  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 12, 2021

A signed original of this written statement required by Section 906 has been provided to Portsmouth Square, Inc. and will be retained by Portsmouth Square, Inc. 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 Portsmouth Square, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Danfeng Xu, Treasurer and Controller of the Company, serving as its Principal Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

*/s/ Danfeng Xu*

\_\_\_\_\_  
Danfeng Xu  
Treasurer and Controller  
(Principal Financial Officer)

Date: November 12, 2021

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

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