

**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, 2014

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.)

10940 Wilshire Blvd., Suite 2150, Los Angeles, California 90024
(Address of principal executive offices)(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] Yes [] No

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

Large accelerated filer []

Accelerated filer []

Non-accelerated filer []

Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): [] Yes [X] No

The number of shares outstanding of registrant's Common Stock, as of January 30, 2015, was 734,183.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

| | <u>Page</u> |
|--|-------------|
| Item 1. Financial Statements. | |
| Condensed Consolidated Balance Sheets as of December 31, 2014 (Unaudited) and June 30, 2014. | 3 |
| Condensed Consolidated Statements of Operations (Unaudited) for the Three Months ended December 31, 2014 and 2013. | 4 |
| Condensed Consolidated Statements of Operations (Unaudited) for the Six Months ended December 31, 2014 and 2013. | 5 |
| Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months ended December 31, 2014 and 2013. | 6 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations. | 15 |
| Item 4. Controls and Procedures. | 21 |

PART II – OTHER INFORMATION

| | |
|--|----|
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 22 |
| Item 6. Exhibits. | 23 |
| Signatures | 23 |

**PART 1
FINANCIAL INFORMATION**

Item 1 – Condensed Consolidated Financial Statements

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

| As of | December 31, 2014 (Unaudited) | June 30, 2014 |
|--|--|----------------------|
| | <hr/> | <hr/> |
| ASSETS | | |
| Investment in hotel, net | \$ 35,880,000 | \$ 34,416,000 |
| Investment in real estate | 973,000 | 973,000 |
| Investment in marketable securities | 2,059,000 | 3,280,000 |
| Other investments, net | 5,276,000 | 5,297,000 |
| Cash and cash equivalents | 476,000 | 1,058,000 |
| Restricted cash - redemption | 1,605,000 | 16,163,000 |
| Restricted cash - mortgage impounds | 829,000 | 945,000 |
| Accounts receivable - hotel, net | 1,368,000 | 1,964,000 |
| Other assets, net | 4,297,000 | 3,810,000 |
| Deferred tax asset | 7,975,000 | 7,246,000 |
| | <hr/> | <hr/> |
| Total assets | \$ 60,738,000 | \$ 75,152,000 |
| | <hr/> | <hr/> |
| LIABILITIES AND SHAREHOLDERS' DEFICIT | | |
| Liabilities: | | |
| Accounts payable and other liabilities | \$ 12,495,000 | \$ 15,863,000 |
| Redemption payable | 1,605,000 | 16,163,000 |
| Due to securities broker | 349,000 | 629,000 |
| Obligations for securities sold | 156,000 | 61,000 |
| Other notes payable | 4,958,000 | 282,000 |
| Mortgage notes payable - hotel | 117,000,000 | 117,000,000 |
| | <hr/> | <hr/> |
| Total liabilities | 136,563,000 | 149,998,000 |
| | <hr/> | <hr/> |
| Commitments and contingencies | | |
| Shareholders' deficit: | | |
| Common stock, no par value: Authorized shares - 750,000; 734,183 shares issued and outstanding shares | 2,092,000 | 2,092,000 |
| Accumulated deficit | (71,670,000) | (70,732,000) |
| Total Portsmouth shareholders' deficit | (69,578,000) | (68,640,000) |
| Noncontrolling interest | (6,247,000) | (6,206,000) |
| Total shareholders' deficit | (75,825,000) | (74,846,000) |
| | <hr/> | <hr/> |
| Total liabilities and shareholders' deficit | \$ 60,738,000 | \$ 75,152,000 |
| | <hr/> | <hr/> |

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

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

| For the three months ended December 31, | <u>2014</u> | <u>2013</u> |
|--|----------------------|-----------------------|
| Revenue - Hotel | <u>\$ 14,044,000</u> | <u>\$ 12,274,000</u> |
| Costs and operating expenses | | |
| Hotel operating expenses | (12,033,000) | (9,493,000) |
| Hotel restructuring costs | - | (7,295,000) |
| Hotel occupancy tax - penalty fees | - | (1,084,000) |
| Hotel depreciation and amortization expense | (664,000) | (698,000) |
| General and administrative expense | <u>(157,000)</u> | <u>(174,000)</u> |
| Total costs and operating expenses | <u>(12,854,000)</u> | <u>(18,744,000)</u> |
| Income (loss) from operations | <u>1,190,000</u> | <u>(6,470,000)</u> |
| Other income (expense) | | |
| Interest expense - mortgage | (1,939,000) | (767,000) |
| Interest expense - occupancy tax | - | (328,000) |
| Loss on extinguishment of debt | - | (3,910,000) |
| Loss on disposal of assets | (51,000) | (1,092,000) |
| Net (loss) gain on marketable securities | (554,000) | 114,000 |
| Net unrealized gain (loss) on other investments | 4,000 | (3,000) |
| Dividend and interest income | 166,000 | 167,000 |
| Trading and margin interest expense | <u>(70,000)</u> | <u>(57,000)</u> |
| Other expense, net | <u>(2,444,000)</u> | <u>(5,876,000)</u> |
| Loss before income taxes | (1,254,000) | (12,346,000) |
| Income tax benefit | <u>547,000</u> | <u>2,732,000</u> |
| Net loss | (707,000) | (9,614,000) |
| Less: Net income attributable to the noncontrolling interest | <u>54,000</u> | <u>955,000</u> |
| Net loss attributable to Portsmouth | <u>\$ (653,000)</u> | <u>\$ (8,659,000)</u> |
| Basic and diluted net loss per share attributable to Portsmouth | <u>\$ (0.89)</u> | <u>\$ (11.79)</u> |
| Weighted average number of common shares outstanding - basic and diluted | <u>734,183</u> | <u>734,183</u> |

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

| For the six months ended December 31, | <u>2014</u> | <u>2013</u> |
|--|---------------------|-----------------------|
| Revenue - Hotel | \$ 28,874,000 | \$ 25,579,000 |
| Costs and operating expenses | | |
| Hotel operating expenses | (23,871,000) | (19,025,000) |
| Hotel restructuring costs | - | (7,295,000) |
| Hotel occupancy tax - penalty fees | - | (1,084,000) |
| Hotel depreciation and amortization expense | (1,306,000) | (1,298,000) |
| General and administrative expense | (345,000) | (343,000) |
| Total costs and operating expenses | <u>(25,522,000)</u> | <u>(29,045,000)</u> |
| Income (loss) from operations | <u>3,352,000</u> | <u>(3,466,000)</u> |
| Other income (expense) | | |
| Interest expense - mortgage | (3,963,000) | (1,402,000) |
| Interest expense - occupancy tax | - | (328,000) |
| Loss on extinguishment of debt | - | (3,910,000) |
| Loss on disposal of assets | (51,000) | (1,092,000) |
| Net (loss) gain on marketable securities | (1,033,000) | 207,000 |
| Net unrealized loss on other investments | (21,000) | (3,000) |
| Dividend and interest income | 169,000 | 171,000 |
| Trading and margin interest expense | (161,000) | (123,000) |
| Other expense, net | <u>(5,060,000)</u> | <u>(6,480,000)</u> |
| Loss before income taxes | (1,708,000) | (9,946,000) |
| Income tax benefit | <u>729,000</u> | <u>2,261,000</u> |
| Net loss | (979,000) | (7,685,000) |
| Less: Net loss (income) attributable to the noncontrolling interest | <u>41,000</u> | <u>(257,000)</u> |
| Net loss attributable to Portsmouth | <u>\$ (938,000)</u> | <u>\$ (7,942,000)</u> |
| Basic and diluted net loss per share attributable to Portsmouth | <u>\$ (1.28)</u> | <u>\$ (10.82)</u> |
| Weighted average number of common shares outstanding - basic and diluted | <u>734,183</u> | <u>734,183</u> |

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

| For the six months ended December 31, | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (979,000) | \$ (7,685,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Net unrealized loss (gain) on marketable securities | 1,089,000 | (201,000) |
| Unrealized (gain) loss on other investments | (4,000) | 3,000 |
| Hotel loss on extinguishment of debt | - | 3,910,000 |
| Loss on disposal of assets | 51,000 | 1,092,000 |
| Depreciation and amortization | 1,306,000 | 1,298,000 |
| Changes in assets and liabilities: | | |
| Investment in marketable securities | 132,000 | 165,000 |
| Accounts receivable | 596,000 | 377,000 |
| Other assets | (367,000) | (1,626,000) |
| Accounts payable and other liabilities | (3,368,000) | 4,708,000 |
| Due to securities broker | (280,000) | (293,000) |
| Obligations for securities sold | 95,000 | (13,000) |
| Deferred tax asset | (729,000) | (2,261,000) |
| Net cash used in operating activities | <u>(2,458,000)</u> | <u>(526,000)</u> |
| Cash flows from investing activities: | | |
| Payments for hotel furniture, equipment and building improvements | <u>(2,916,000)</u> | <u>(1,525,000)</u> |
| Net cash used in investing activities | <u>(2,916,000)</u> | <u>(1,525,000)</u> |
| Cash flows from financing activities: | | |
| Restricted cash - withdrawal of (payments to) mortgage impounds, net | 116,000 | (852,000) |
| Redemption payments, net | - | (64,152,000) |
| Proceeds from other notes payable | 4,250,000 | 69,677,000 |
| Proceeds from (payments of) mortgage and other notes payable | <u>426,000</u> | <u>(864,000)</u> |
| Net cash provided by financing activities | <u>4,792,000</u> | <u>3,809,000</u> |
| Net (decrease) increase in cash and cash equivalents | (582,000) | 1,758,000 |
| Cash and cash equivalents at the beginning of the period | <u>1,058,000</u> | <u>668,000</u> |
| Cash and cash equivalents at the end of the period | <u>\$ 476,000</u> | <u>\$ 2,426,000</u> |
| Supplemental information: | | |
| Interest paid | <u>\$ 3,985,000</u> | <u>\$ 1,438,000</u> |

The accompanying notes are an integral part of these 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, 2014. The June 30, 2014 Condensed Consolidated Balance Sheet was derived from the Company’s Form 10-K for the year ended June 30, 2014.

The results of operations for the three and six months ended December 31, 2014 are not necessarily indicative of results to be expected for the full fiscal year ending June 30, 2015.

For the three and six months ended December 31, 2014 and 2013, the Company had no components of comprehensive income other than net income itself.

As of December 31, 2014, Santa Fe Financial Corporation (“Santa Fe”), a public company, owns approximately 68.8% of the outstanding common shares of Portsmouth Square, Inc. (“Portsmouth” or the “Company”). Santa Fe is an 81.2%-owned subsidiary of The InterGroup Corporation (“InterGroup”), a public company. InterGroup also directly owns approximately 13.1% of the common stock of Portsmouth.

Portsmouth’s primary business is conducted through its general and limited partnership interest in Justice Investors, a California limited partnership (“Justice” or the “Partnership”). Portsmouth controls approximately 93% of the voting interest in Justice and is the sole general partner. The financial statements of Justice are consolidated with those of the Company.

Justice, through its subsidiaries Justice Holdings Company, LLC (“Holdings”), a Delaware Limited Liability Company, Justice Operating Company, LLC (“Operating”) and Justice Mezzanine Company, LLC (“Mezzanine”), owns a 543-room hotel property located at 750 Kearny Street, San Francisco California, known as the Hilton San Francisco Financial District (the Hotel) and related facilities including a five level underground parking garage. Holdings and Mezzanine are both a wholly-owned subsidiaries of the Partnership; Operating is a wholly-owned subsidiary of Mezzanine. Mezzanine is the Mezzanine borrower under certain 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 Hilton Hotels Corporation. Justice also has a Management Agreement with Prism Hospitality L.P. (“Prism”) to perform management functions for the Hotel. The management agreement with Prism had an original term of ten years and can be terminated at any time with or without cause by the Partnership owner. Effective January 2014, the management agreement with Prism was amended by the Partnership. Effective December 1, 2013, GMP Management, Inc., a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement, which is for a term of 3 years, but which can be terminated earlier by the Partnership for cause.

Portsmouth also receives management fees as a general partner of Justice for its services in overseeing and managing the Partnership’s assets. Those fees are eliminated in consolidation.

Basic income (loss) per share is calculated based upon the weighted average number of common shares outstanding during each period. During the three and six months December 31, 2014 and 2013, the Company did not have any potentially dilutive securities outstanding.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15. This ASU requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the ASU (1) provides a definition of the term substantial doubt, (2) requires an evaluation every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plans, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). This standard is effective for the fiscal years ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

The FASB has issued Accounting Standards Update (ASU) No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under Generally Accepted Accounting Principles (GAAP), financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued.

NOTE 2 – INVESTMENT IN HOTEL, NET

Investment in hotel consisted of the following as of:

| | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|---------------------------|----------------------|-------------------------------------|---------------------------|
| December 31, 2014 | | | |
| Land | \$ 1,124,000 | \$ - | \$ 1,124,000 |
| Furniture and equipment | 25,025,000 | (20,852,000) | 4,173,000 |
| Building and improvements | 52,506,000 | (21,923,000) | 30,583,000 |
| | <u>\$ 78,655,000</u> | <u>\$ (42,775,000)</u> | <u>\$ 35,880,000</u> |
| June 30, 2014 | | | |
| Land | \$ 1,124,000 | \$ - | \$ 1,124,000 |
| Furniture and equipment | 23,306,000 | (20,074,000) | 3,232,000 |
| Building and improvements | 51,428,000 | (21,368,000) | 30,060,000 |
| | <u>\$ 75,858,000</u> | <u>\$ (41,442,000)</u> | <u>\$ 34,416,000</u> |

NOTE 3 - INVESTMENT IN MARKETABLE SECURITIES

The Company's investment in marketable securities consists primarily of corporate equities. The Company has also 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, 2014 and June 30, 2014, all of the Company's marketable securities are classified as trading securities. The change in the unrealized gains and losses on these investments are included in earnings. Trading securities are summarized as follows:

| <u>Investment</u> | <u>Cost</u> | <u>Gross Unrealized Gain</u> | <u>Gross Unrealized Loss</u> | <u>Net Unrealized Gain (Loss)</u> | <u>Fair Value</u> |
|--------------------------------|--------------|----------------------------------|----------------------------------|---------------------------------------|-----------------------|
| As of December 31, 2014 | | | | | |
| Corporate Equities | \$ 2,982,000 | \$ 441,000 | \$ (1,364,000) | \$ (923,000) | \$ 2,059,000 |
| As of June 30, 2014 | | | | | |
| Corporate Equities | \$ 3,105,000 | \$ 818,000 | \$ (643,000) | \$ 175,000 | \$ 3,280,000 |

As of December 31, 2014 and June 30, 2014, the Company had \$731,000 and \$634,000, respectively, of unrealized losses related to securities held for over one year.

Net gain (loss) on marketable securities on the statement of operations is comprised of realized and unrealized gains (losses). Below is the composition of the two components for the three months December 31, 2014 and 2013, respectively.

| For the three months ended December 31, | <u>2014</u> | <u>2013</u> |
|---|----------------------------|--------------------------|
| Realized gain on marketable securities | \$ 13,000 | \$ 78,000 |
| Unrealized (loss) gain on marketable securities | <u>(567,000)</u> | <u>36,000</u> |
| Net (loss) gain on marketable securities | <u><u>\$ (554,000)</u></u> | <u><u>\$ 114,000</u></u> |

| For the six months ended December 31, | <u>2014</u> | <u>2013</u> |
|---|------------------------------|--------------------------|
| Realized gain on marketable securities | \$ 56,000 | \$ 6,000 |
| Unrealized (loss) gain on marketable securities | <u>(1,089,000)</u> | <u>201,000</u> |
| Net (loss) gain on marketable securities | <u><u>\$ (1,033,000)</u></u> | <u><u>\$ 207,000</u></u> |

NOTE 4 – OTHER INVESTMENTS, NET

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

Other investments, net consist of the following:

| <u>Type</u> | <u>December 31, 2014</u> | <u>June 30, 2014</u> |
|--|----------------------------|----------------------------|
| Preferred stock - Comstock, at cost | \$ 4,410,000 | \$ 4,410,000 |
| Private equity hedge fund, at cost | 601,000 | 601,000 |
| Corporate debt and equity instruments, at cost | 101,000 | 101,000 |
| Other preferred stock | 120,000 | 120,000 |
| Warrants - at fair value | 44,000 | 65,000 |
| | <u><u>\$ 5,276,000</u></u> | <u><u>\$ 5,297,000</u></u> |

NOTE 5 - 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, due to securities broker 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:

As of December 31, 2014

| Assets: | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|---------------------|-------------|------------------|---------------------|
| Other investments - warrants | \$ - | \$ - | \$ 44,000 | \$ 44,000 |
| Investment in marketable securities: | | | | |
| Basic materials | 1,196,000 | - | - | 1,196,000 |
| Technology and telecommunications | 290,000 | - | - | 290,000 |
| Energy | 181,000 | - | - | 181,000 |
| Financial services | 133,000 | - | - | 133,000 |
| REITs and real estate companies | 122,000 | - | - | 122,000 |
| Other | 137,000 | - | - | 137,000 |
| | 2,059,000 | - | - | 2,059,000 |
| | <u>\$ 2,059,000</u> | <u>\$ -</u> | <u>\$ 44,000</u> | <u>\$ 2,103,000</u> |

As of June 30, 2014

| Assets: | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|---------------------|-------------|------------------|---------------------|
| Other investments - warrants | \$ - | \$ - | \$ 65,000 | \$ 65,000 |
| Investment in marketable securities: | | | | |
| Basic materials | 1,772,000 | - | - | 1,772,000 |
| Technology | 389,000 | - | - | 389,000 |
| Financial services | 175,000 | - | - | 175,000 |
| REITs and real estate companies | 167,000 | - | - | 167,000 |
| Other | 777,000 | - | - | 777,000 |
| | 3,280,000 | - | - | 3,280,000 |
| | <u>\$ 3,280,000</u> | <u>\$ -</u> | <u>\$ 65,000</u> | <u>\$ 3,345,000</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. The fair value of the warrants was determined based upon a Black-Scholes option valuation model.

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

| Assets | Level 1 | Level 2 | Level 3 | December 31, 2014 | Net gain for the six months ended December 31, 2014 |
|----------------------------------|---------|---------|--------------|-------------------|---|
| Other non-marketable investments | \$ - | \$ - | \$ 5,232,000 | \$ 5,232,000 | \$ - |

| Assets | Level 1 | Level 2 | Level 3 | June 30, 2014 | Net gain for the six months ended December 31, 2013 |
|----------------------------------|---------|---------|--------------|---------------|---|
| Other non-marketable investments | \$ - | \$ - | \$ 5,232,000 | \$ 5,232,000 | \$ - |

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 6 - 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 December 31, 2014 and 2013, respectively. Operating income from Hotel operations consists of the operation of the hotel and operation of the garage. Operating income for investment transactions consist of net investment income and dividend and interest income.

| As of and for the three months ended December 31, 2014 | Hotel Operations | Investment Transactions | Other | Total |
|---|------------------------|----------------------------|---------------------|-----------------------|
| Revenues | \$ 14,044,000 | \$ - | \$ - | \$ 14,044,000 |
| Segment operating expenses | (12,033,000) | - | (157,000) | (12,190,000) |
| Segment income (loss) | 2,011,000 | - | (157,000) | 1,854,000 |
| Interest expense - mortgage | (1,939,000) | - | - | (1,939,000) |
| Loss on disposal of assets | (51,000) | - | - | (51,000) |
| Depreciation and amortization expense | (664,000) | - | - | (664,000) |
| Loss from investments | - | (454,000) | - | (454,000) |
| Income tax benefit | - | - | 547,000 | 547,000 |
| Net income (loss) | <u>\$ (643,000)</u> | <u>\$ (454,000)</u> | <u>\$ 390,000</u> | <u>\$ (707,000)</u> |
| Total assets | <u>\$ 44,307,000</u> | <u>\$ 7,335,000</u> | <u>\$ 9,096,000</u> | <u>\$ 60,738,000</u> |
| | | | | |
| As of and for the three months ended December 31, 2013 | Hotel Operations | Investment Transactions | Other | Total |
| Revenues | \$ 12,274,000 | \$ - | \$ - | \$ 12,274,000 |
| Segment operating expenses | (17,872,000) | - | (174,000) | (18,046,000) |
| Segment loss | (5,598,000) | - | (174,000) | (5,772,000) |
| Interest expense - mortgage | (767,000) | - | - | (767,000) |
| Interest expense - occupancy tax | (328,000) | - | - | (328,000) |
| Loss on extinguishment of debt | (3,910,000) | - | - | (3,910,000) |
| Loss on disposal of assets | (1,092,000) | - | - | (1,092,000) |
| Depreciation and amortization expense | (698,000) | - | - | (698,000) |
| Income from investments | - | 221,000 | - | 221,000 |
| Income tax benefit | - | - | 2,732,000 | 2,732,000 |
| Net income (loss) | <u>\$ (12,393,000)</u> | <u>\$ 221,000</u> | <u>\$ 2,558,000</u> | <u>\$ (9,614,000)</u> |
| Total assets | <u>\$ 60,560,000</u> | <u>\$ 8,517,000</u> | <u>\$ 6,629,000</u> | <u>\$ 75,706,000</u> |

As of and for the six months ended December 31, 2014

| | Hotel Operations | Investment Transactions | Other | Total |
|---------------------------------------|----------------------|----------------------------|---------------------|----------------------|
| Revenues | \$ 28,874,000 | \$ - | \$ - | \$ 28,874,000 |
| Segment operating expenses | (23,871,000) | - | (345,000) | (24,216,000) |
| Segment income (loss) | 5,003,000 | - | (345,000) | 4,658,000 |
| Interest expense - mortgage | (3,963,000) | - | - | (3,963,000) |
| Interest expense - occupancy tax | - | - | - | - |
| Loss on extinguishment of debt | - | - | - | - |
| Loss on disposal of assets | (51,000) | - | - | (51,000) |
| Depreciation and amortization expense | (1,306,000) | - | - | (1,306,000) |
| Loss from investments | - | (1,046,000) | - | (1,046,000) |
| Income tax benefit | - | - | 729,000 | 729,000 |
| Net income (loss) | <u>\$ (317,000)</u> | <u>\$ (1,046,000)</u> | <u>\$ 384,000</u> | <u>\$ (979,000)</u> |
| Total assets | <u>\$ 44,307,000</u> | <u>\$ 7,335,000</u> | <u>\$ 9,096,000</u> | <u>\$ 60,738,000</u> |

As of and for the six months ended December 31, 2013

| | Hotel Operations | Investment Transactions | Other | Total |
|---------------------------------------|-----------------------|----------------------------|---------------------|-----------------------|
| Revenues | \$ 25,579,000 | \$ - | \$ - | \$ 25,579,000 |
| Segment operating expenses | (27,404,000) | - | (343,000) | (27,747,000) |
| Segment loss | (1,825,000) | - | (343,000) | (2,168,000) |
| Interest expense - mortgage | (1,402,000) | - | - | (1,402,000) |
| Interest expense - occupancy tax | (328,000) | - | - | (328,000) |
| Loss on extinguishment of debt | (3,910,000) | - | - | (3,910,000) |
| Loss on disposal of assets | (1,092,000) | - | - | (1,092,000) |
| Depreciation and amortization expense | (1,298,000) | - | - | (1,298,000) |
| Income from investments | - | 252,000 | - | 252,000 |
| Income tax benefit | - | - | 2,261,000 | 2,261,000 |
| Net income (loss) | <u>\$ (9,855,000)</u> | <u>\$ 252,000</u> | <u>\$ 1,918,000</u> | <u>\$ (7,685,000)</u> |
| Total assets | <u>\$ 60,560,000</u> | <u>\$ 8,517,000</u> | <u>\$ 6,629,000</u> | <u>\$ 75,706,000</u> |

NOTE 7 - RELATED PARTY TRANSACTIONS

On July 2, 2014, the Partnership obtained from the Intergroup Corporation (parent company of Portsmouth) 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 proceeds of the loan were applied to the July 2014 payments to Holdings described in Note 19 of the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Certain shared costs and expenses, primarily administrative expenses, rent and insurance are allocated among the Company, the Company's parent, Santa Fe and InterGroup, the parent of Santa Fe, based on management's estimate of the pro rata utilization of resources. For the three and six months ended December 31, 2014 and 2013, these expenses were approximately \$18,000 and \$36,000, for each respective period.

During the three months ended December 31, 2014 and 2013, the Company received management fees from Justice Investors totaling \$140,000 and \$108,000, respectively. During the six months ended December 31, 2014 and 2013, the Company received management fees from Justice Investors totaling \$281,000 and \$220,000, respectively. These fees are eliminated in consolidation.

In connection with the redemption of limited partnership interests of Justice Investors, Limited Partnership (which took place during fiscal year ended June 30, 2014), Justice Operating Company, LLC agreed to pay a total of \$1,550,000 in fees to certain officers and directors of the Company for services rendered in connection with the redemption of partnership interests, refinancing of Justice's properties and reorganization of Justice Investors. This agreement was superseded by a letter dated December 11, 2013 from Justice Investors, Limited Partnership, in which Justice Investors Limited Partnership assumed the payment obligations of Justice Operating Company, LLC. The first payment under this agreement was made concurrently with the closing of the loan agreements, with the remaining

payments due upon Justice Investor's having adequate available cash as described in the letter. As of December 31, 2014, \$1,250,000 of these fees remain payable.

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

John V. Winfield serves as Chief Executive Officer and Chairman of the Company, Santa Fe, and InterGroup. Depending on certain market conditions and various risk factors, the Chief Executive Officer, his family, Santa Fe 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 his family members, and the resources of Santa Fe and InterGroup, at risk in connection with investment decisions made on behalf of the Company.

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. These statements are subject to certain risks and uncertainties, such as national and worldwide economic conditions, including the impact of recessionary conditions on tourism, travel and the lodging industry, the impact of terrorism and war on the national and international economies, including tourism and securities markets, energy and fuel costs, natural disasters, general economic conditions and competition in the hotel industry in the San Francisco area, seasonality, labor relations and labor disruptions, actual and threatened pandemics such as swine flu, partnership distributions, the ability to obtain financing at favorable interest rates and terms, securities markets, regulatory factors, litigation and other factors discussed below in this Report and in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2014, that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as to the date hereof. The Company undertakes no obligation to publicly release the results of any revisions to those forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

The Company's principal business is conducted through its general and limited partnership interest in the Justice Investors limited partnership (“Justice” or the “Partnership”). Justice owns a 543 room hotel property located at 750 Kearny Street, San Francisco, California 94108, known as the “Hilton San Francisco Financial District” (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 with Hilton Hotels Corporation. The term of the Agreement is for a period of 15 years commencing on January 12, 2006, with an option to extend the license term for another five years, subject to certain conditions. Justice also has a Management Agreement with Prism Hospitality L.P. (“Prism”) to perform management functions for the Hotel. The management agreement with Prism had an original term of ten years and can be terminated at any time with or without cause by the Partnership owner. Effective January 2014, the management agreement with Prism was amended by the Partnership. Effective December 1, 2013, GMP Management, Inc., a company owned by a Justice limited partner and related party, also provides management services for the Partnership pursuant to a Management Services Agreement, which is for a term of 3 years, but which can be terminated earlier by the Partnership for cause.

The parking garage that is part of the Hotel property is managed by Ace Parking pursuant to a contract with the Partnership. Portsmouth also receives management fees as a general partner of Justice for its services in overseeing and managing the Partnership’s assets. Those fees are eliminated in consolidation.

Three Months Ended December 31, 2014 Compared to Three Months Ended December 31, 2013

The Company had a net loss of \$707,000 for the three months ended December 31, 2014 compared to a net loss of \$9,614,000 for the three months ended December 31, 2013. The change in the net loss is primarily attributable to all of the costs associated with the redemption of the limited partners of Justice that occurred in the quarter ended December 31, 2013, partially offset by the lower income from hotel operations due to the higher operating expenses, legal costs and mortgage interest expense in the current quarter. During the current quarter, the Company had a net loss from investing activity versus income in the comparable period.

The Company had net loss from hotel operations of \$643,000 for the three months ended December 31, 2014, compared to a net loss of \$12,393,000 for the three months ended December 31, 2013. The change in the net loss as

noted above was primarily attributable to all of the costs associated with the redemption of the limited partners of Justice that occurred in the quarter ended December 31, 2013. Although revenues from the Hotel increased, the increase was offset by higher operating expenses which resulted in lower operating income before non-recurring charges and interest and depreciation and amortization for the current quarter.

The following table sets forth a more detailed presentation of Hotel operations for the three months ended December 31, 2014 and 2013.

| <u>For the three months ended December 31,</u> | <u>2014</u> | <u>2013</u> |
|--|---------------------|------------------------|
| Hotel revenues: | | |
| Hotel rooms | \$ 10,916,000 | \$ 9,761,000 |
| Food and beverage | 2,073,000 | 1,568,000 |
| Garage | 721,000 | 744,000 |
| Other operating departments | <u>334,000</u> | <u>201,000</u> |
| Total hotel revenues | 14,044,000 | 12,274,000 |
| Operating expenses, excluding non-recurring charges, depreciation and amortization | <u>(12,033,000)</u> | <u>(9,493,000)</u> |
| Operating income before non-recurring charges, interest and depreciation and amortization | 2,011,000 | 2,781,000 |
| Hotel restructuring costs | - | (7,295,000) |
| Hotel occupancy tax - penalty fees | <u>-</u> | <u>(1,084,000)</u> |
| Income (loss) before loss on extinguishment of debt, loss on disposal of assets, interest, depreciation and amortization | 2,011,000 | (5,598,000) |
| Loss on extinguishment of debt | - | (3,910,000) |
| Loss on disposal of assets | (51,000) | (1,092,000) |
| Interest expense - mortgage | (1,939,000) | (767,000) |
| Interest expense - occupancy tax | - | (328,000) |
| Depreciation and amortization expense | <u>(664,000)</u> | <u>(698,000)</u> |
| Net loss from Hotel operations | <u>\$ (643,000)</u> | <u>\$ (12,393,000)</u> |

For the three months ended December 31, 2014, the Hotel generated operating income of \$2,011,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of \$14,044,000 compared to operating income of \$2,781,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of \$12,274,000 for the three months ended December 31, 2013. Room revenues increased by \$1,155,000 for the three months ended December 31, 2014 compared to the three months ended December 31, 2013 primarily as the result of higher room rates and increased occupancy from business groups. Food and beverage revenue increased by \$505,000 as result of increase in group stays during the current period.

Operating expenses increased by \$2,540,000 compared to the prior period primarily due to higher legal fees and higher operating expenses which include employee related expenses, room occupancy related expenses and food and beverage related expenses, franchise and credit card fees as the result in the increase in revenues and higher property taxes as the result of the redemption the limited partners and the refinancing of the Hotel.

The following table sets forth the average daily room rate, average occupancy percentage and room revenue per available room ("RevPAR") of the Hotel for the three months ended December 31, 2014 and 2013.

| <u>Three Months Ended December 31,</u> | <u>Average Daily Rate</u> | <u>Average Occupancy %</u> | <u>RevPAR</u> |
|---|--------------------------------------|---------------------------------------|----------------------|
| 2014 | \$245 | 89% | \$218 |
| 2013 | \$218 | 89% | \$195 |

Room revenues remained strong as the San Francisco market continued to have good demand for higher rated business. The Hotel's average daily rate increased by \$27 for the three months ended December 31, 2014 compared to the three months ended December 31, 2013, while occupancy percentages remained consistent at 89%. As a result, the Hotel was able to achieve a RevPAR number that was \$23 higher than the comparative three month period.

Our highest priority is guest satisfaction. We believe that enhancing the guest experience differentiates the Hotel from our competition by building the most sustainable guest loyalty. In addition to the recent completion of “The Cloud” (technology lounge), three new premium executive meeting rooms and the Karaoke lounge, the hotel has enhanced the arrival experience of the guests by renovating and upgrading the entrance and the lobby. The lobby, the porte cochere and the second floor furniture have been modernized. The carpet flooring in the lobby has been replaced by oak wood creating an open and welcoming environment. The Wellness Center on the fifth floor features a new spa with two treatment rooms and a room for manicure and pedicure. The fitness center has been expanded with state of the art equipment.

In order to further the client experience, the hotel plans to renovate the fourth floor meeting rooms to make a state of the art meeting space. The third floor and the ballroom carpets will be replaced. The bathrooms in the Hotel rooms will be remodeled with modern shower amenities. And finally, the Hotel in conjunction with the Chinese Cultural Center is developing a landscape area on the Pedestrian Bridge that connects the hotel to Portsmouth Square. We continue taking steps that further develop our ties with the local Chinese community and the city of San Francisco, representing good corporate citizenship and promoting important, new business opportunities.

The Company had a net loss on marketable securities of \$554,000 for the three months ended December 31, 2014 compared to a net gain on marketable securities of \$114,000 for the three months ended December 31, 2013. Approximately 78% of the \$554,000 net loss is related to the Company’s investment in the common stock of Comstock. Such investments represent approximately 47% of the Company’s portfolio. For the three months ended December 31, 2014, the Company had a net realized gain of \$13,000 and a net unrealized loss of \$567,000. For the three months ended December 31, 2013, the Company had a net realized gain of \$78,000 and a net unrealized gain of \$36,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company’s results of operations. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company’s marketable securities see the Marketable Securities section below.

The Company consolidates Justice (Hotel) for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax benefit (expense) during the three months ended December 31, 2014 and 2013 represents the income tax effect on the Company’s pretax income (loss) which includes its share in net income (loss) of the Hotel. The Company’s tax benefit as a percentage of the Company’s (loss) income before income taxes has increased in fiscal 2015 due to the redemption and a larger ownership in Justice.

Six Months ended December 31, 2014 Compared to Six Months ended December 31, 2013

The Company had a net loss of \$979,000 for the six months ended December 31, 2014 compared to a net loss of \$7,685,000 for the six months ended December 31, 2013. The change in the net loss is primarily attributable to all of the costs associated with the redemption of the limited partners of Justice that occurred in the quarter ended December 31, 2013, partially offset by the lower income from hotel operations due to the higher operating expenses, legal costs and mortgage interest expense in the current period. During the current period, the Company had a net loss from investing activity versus income in the comparable period.

The Company had net loss from hotel operations of \$317,000 for the six months ended December 31, 2014, compared to a net loss of \$9,855,000 for the six months ended December 31, 2013. The change in the net loss as noted above was primarily attributable to all of the costs associated with the redemption of the limited partners of Justice that occurred in the quarter ended December 31, 2013. Although revenues from the Hotel increased, the increase was offset by higher operating expenses which resulted in lower operating income before non-recurring charges and interest and depreciation and amortization for the current quarter.

The following table sets forth a more detailed presentation of Hotel operations for the six months ended December 31, 2014 and 2013.

| <u>For the six months ended December 31,</u> | <u>2014</u> | <u>2013</u> |
|--|---------------------|-----------------------|
| Hotel revenues: | | |
| Hotel rooms | \$ 23,260,000 | \$ 20,815,000 |
| Food and beverage | 3,646,000 | 2,896,000 |
| Garage | 1,418,000 | 1,499,000 |
| Other operating departments | <u>550,000</u> | <u>369,000</u> |
| Total hotel revenues | 28,874,000 | 25,579,000 |
| Operating expenses, excluding non-recurring charges, depreciation and amortization | <u>(23,871,000)</u> | <u>(19,025,000)</u> |
| Operating income before non-recurring charges, interest and depreciation and amortization | 5,003,000 | 6,554,000 |
| Hotel restructuring costs | - | (7,295,000) |
| Hotel occupancy tax - penalty fees | <u>-</u> | <u>(1,084,000)</u> |
| Income (loss) before loss on extinguishment of debt, loss on disposal of assets, interest, depreciation and amortization | 5,003,000 | (1,825,000) |
| Loss on extinguishment of debt | - | (3,910,000) |
| Loss on disposal of assets | (51,000) | (1,092,000) |
| Interest expense - mortgage | (3,963,000) | (1,402,000) |
| Interest expense - occupancy tax | - | (328,000) |
| Depreciation and amortization expense | <u>(1,306,000)</u> | <u>(1,298,000)</u> |
| Net loss from Hotel operations | <u>\$ (317,000)</u> | <u>\$ (9,855,000)</u> |

For the six months ended December 31, 2014, the Hotel generated operating income of \$5,003,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of \$28,874,000 compared to operating income of \$6,554,000 before non-recurring charges and interest and depreciation and amortization on total operating revenues of \$25,579,000 for the six months ended December 31, 2013. Room revenues increased by \$2,445,000 for the six months ended December 31, 2014 compared to the six months ended December 31, 2013 primarily as the result of higher room rates and increased occupancy from business groups. Food and beverage revenue increased by \$750,000 as result of increase in group stays during the current period.

Operating expenses increased by \$4,846,000 compared to the prior period primarily due to higher legal fees and higher operating expenses which include employee related expenses, room occupancy related expenses and food and beverage related expenses, franchise and credit card fees as the result in the increase in revenues and higher property taxes as the result of the redemption the limited partners and the refinancing of the Hotel.

The following table sets forth the average daily room rate, average occupancy percentage and room revenue per available room ("RevPAR") of the Hotel for the six months ended December 31, 2014 and 2013.

| <u>Six Months Ended December 31,</u> | <u>Average Daily Rate</u> | <u>Average Occupancy %</u> | <u>RevPAR</u> |
|---|----------------------------------|-----------------------------------|----------------------|
| 2014 | \$252 | 93% | \$232 |
| 2013 | \$227 | 92% | \$208 |

Room revenues remained strong as the San Francisco market continued to have good demand for higher rated business. The Hotel's average daily rate increased by \$25 for the six months ended December 31, 2014 compared to the six months ended December 31, 2013, while occupancy percentages increase to 93% from 92%. As a result, the Hotel was able to achieve a RevPAR number that was \$24 higher than the comparative three month period.

Our highest priority is guest satisfaction. We believe that enhancing the guest experience differentiates the Hotel from our competition by building the most sustainable guest loyalty. In addition to the recent completion of "The Cloud" (technology lounge), three new premium executive meeting rooms and the Karaoke lounge, the hotel has enhanced the arrival experience of the guests by renovating and upgrading the entrance and the lobby. The lobby, the porte cochere and the second floor furniture have been modernized. The carpet flooring in the lobby has been replaced by oak wood creating an open and welcoming environment. The Wellness Center on the fifth floor features a new spa with two treatment rooms and a room for manicure and pedicure. The fitness center has been expanded with state of the art equipment.

In order to further the client experience, the hotel plans to renovate the fourth floor meeting rooms to make a state of the art meeting space. The third floor and the ballroom carpets will be replaced. The bathrooms in the Hotel rooms will be remodeled with modern shower amenities. And finally, the Hotel in conjunction with the Chinese Cultural Center is developing a landscape area on the Pedestrian Bridge that connects the hotel to Portsmouth Square. We continue taking steps that further develop our ties with the local Chinese community and the city of San Francisco, representing good corporate citizenship and promoting important, new business opportunities.

The Company had a net loss on marketable securities of \$1,033,000 for the six months ended December 31, 2014 compared to a net gain on marketable securities of \$207,000 for the six months ended December 31, 2013. Approximately 86% of the \$1,033,000 net loss is related to the Company's investment in the common stock of Comstock. Such investments represent approximately 47% of the Company's portfolio. For the six months ended December 31, 2014, the Company had a net realized gain of \$56,000 and a net unrealized loss of \$1,089,000. For the six months ended December 31, 2013, the Company had a net realized gain of \$6,000 and a net unrealized gain of \$201,000. Gains and losses on marketable securities may fluctuate significantly from period to period in the future and could have a significant impact on the Company's results of operations. However, the amount of gain or loss on marketable securities for any given period may have no predictive value and variations in amount from period to period may have no analytical value. For a more detailed description of the composition of the Company's marketable securities see the Marketable Securities section below.

The Company consolidates Justice (Hotel) for financial reporting purposes and is not taxed on its non-controlling interest in the Hotel. The income tax benefit (expense) during the six months ended December 31, 2014 and 2013 represents the income tax effect on the Company's pretax income (loss) which includes its share in net income (loss) of the Hotel. The Company's tax benefit as a percentage of the Company's (loss) income before income taxes has increased in fiscal 2015 due to the redemption and a larger ownership in Justice.

MARKETABLE SECURITIES

As of December 31, 2014 and June 30, 2014, the Company had investments in marketable equity securities of \$2,059,000 and \$3,280,000, respectively. The following table shows the composition of the Company's marketable securities portfolio by selected industry groups as:

| As of December 31, 2014 | | % of Total Investment Securities |
|-----------------------------------|---------------------|---|
| Industry Group | Fair Value | |
| Basic materials | \$ 1,196,000 | 58.1% |
| Technology and telecommunications | 290,000 | 14.1% |
| Energy | 181,000 | 8.8% |
| Financial services | 133,000 | 6.5% |
| REITs and real estate companies | 122,000 | 5.9% |
| Other | 137,000 | 6.6% |
| | <u>\$ 2,059,000</u> | <u>100.0%</u> |

| As of June 30, 2014 | | % of Total Investment Securities |
|---------------------------------|---------------------|---|
| Industry Group | Fair Value | |
| Basic materials | \$ 1,772,000 | 54.0% |
| Technology | 389,000 | 11.9% |
| Financial services | 175,000 | 5.3% |
| REITs and real estate companies | 167,000 | 5.1% |
| Other | 777,000 | 23.7% |
| | <u>\$ 3,280,000</u> | <u>100.0%</u> |

The Company's investment in marketable securities portfolio is diversified with 26 different equity positions as of December 31, 2014. The Company holds two equity securities that are individually more than 10% of the equity value of the portfolio. The largest security represents 47% of the portfolio and consists of the common stock of Comstock Mining, Inc. ("Comstock" - NYSE MKT: LODE) which is included in the basic materials industry group. The amount of the Company's investment in any particular issuer may increase or decrease, and additions or deletions to its securities portfolio may occur, at any time. While it is the internal policy of the Company to limit its initial investment in any single equity to less than 10% of its total portfolio value, that investment could eventually exceed 10% as a result of equity appreciation or reduction of other positions. A significant percentage of the portfolio consists of common stock in Comstock that was obtained through dividend payments by Comstock on its 7.5% Series A-1 Convertible Preferred Stock. The Company also owns Comstock convertible preferred stock that is valued at its cost basis of \$4,410,000 as of December 31, 2014 and June 30, 2014 and included in Other Investments.

Marketable securities are stated at fair value as determined by the most recently traded price of each security at the balance sheet date.

FINANCIAL CONDITION AND LIQUIDITY

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

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

To fund redemption of limited partnership interests and to repay the prior mortgage, Justice obtained a \$97,000,000 mortgage loan and a \$20,000,000 mezzanine loan. The mortgage loan is secured by the Partnership's principal asset, the Hilton San Francisco-Financial District. The mortgage loan initially bears an interest rate of 5.28% per annum and matures in January 2024. As additional security for the mortgage loan, there is a limited guaranty executed by the Company in favor of mortgage lender. The mezzanine loan is a secured by the Operating membership interest held by Mezzanine and is subordinated to the Mortgage Loan. The mezzanine loan initially bears interest at 9.75% per annum and matures in January 2024. As additional security for the mezzanine loan, there is a limited guaranty executed by the Company in favor of mezzanine lender.

On July 2, 2014, the Partnership obtained from the Intergroup Corporation (parent company of Portsmouth) 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 proceeds of the loan were applied to the July 2014 payments to Holdings described in Note 19 of the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Despite an uncertain economy, the Hotel has continued to generate strong revenue growth. While the debt service requirements related the new loans and the ongoing legal dispute with some of the former Justice partners, may create some additional risk for the Company and its ability to generate cash flows in the future, management believes that cash flows from the operations of the Hotel and the garage will continue to be sufficient to meet all of the Partnership's current and future obligations and financial requirements. Management also believes that there is sufficient equity in the Hotel assets to support future borrowings, if necessary, to fund any new capital improvements and other requirements.

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

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

MATERIAL CONTRACTUAL OBLIGATIONS

The following table provides a summary as of December 31, 2014, the Company's material financial obligations which also including interest payments.

| | Total | 6 Months 2015 | Year 2016 | Year 2017 | Year 2018 | Year 2019 | Thereafter |
|---|----------------|------------------|--------------|---------------|--------------|--------------|----------------|
| Mortgage and subordinated notes payable | \$ 117,000,000 | \$ - | \$ - | \$ 672,000 | \$ 1,398,000 | \$ 1,473,000 | \$ 113,457,000 |
| Redemption payable | 1,605,000 | 1,605,000 | - | - | - | - | - |
| Other notes payable | 4,958,000 | 313,000 | 316,000 | 4,329,000 | - | - | - |
| Interest | 59,721,000 | 3,803,000 | 7,595,000 | 7,532,000 | 7,070,000 | 6,489,000 | 27,232,000 |
| Total | \$ 183,284,000 | \$ 5,721,000 | \$ 7,911,000 | \$ 12,533,000 | \$ 8,468,000 | \$ 7,962,000 | \$ 140,689,000 |

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 Prism has the power and ability under the terms of its management agreement 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 portrayal 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 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, 2014. Please refer to the Company's Annual Report on Form 10-K for the year ended June 30, 2014 for a summary of the critical accounting policies.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Chief Executive Officer and Principal Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in

ensuring that information required to be disclosed in this filing is accumulated and communicated to management and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) Not applicable.

(c) Purchases of equity securities by the small business issuer and affiliated purchasers.

Portsmouth did not repurchase any of its own securities during the second quarter of its fiscal year ending June 30, 2015 and does not have any publicly announced repurchase program. The following table reflects purchases of Portsmouth's common stock made by its parent company, The InterGroup Corporation, for its own account, during the second quarter of fiscal 2015. InterGroup can be considered an affiliated purchaser.

SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

| Fiscal 2015 Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| Month #1 (October 1- October 31) | - | - | - | N/A |
| Month #2 (November 1- November 30) | 920 | \$35.04 | - | N/A |
| Month #3 (December 1- December 31) | - | - | - | N/A |
| TOTAL: | 920 | \$35.04 | - | N/A |

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

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: February 11, 2015

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

Date: February 11, 2015

by /s/ Geoffrey M. Palermo
Assistant Secretary

Date: February 11, 2015

by /s/ David T. Nguyen
David T. Nguyen, Treasurer
and Controller