

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000079661-96-000011**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### PORTSMOUTH SQUARE INC

CIK: **79661** | IRS No.: **941674111** | State of Incorporation: **CA** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-04057** | Film No.: **96664406**  
SIC: **6552** Land subdividers & developers (no cemeteries)

Mailing Address  
*P O BOX 80037*  
*SAN DIEGO CA 92138*

Business Address  
*2251 SAN DIEGO AVE*  
*STE A 151*  
*SAN DIEGO CA 92110-2926*  
*6192987201*

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----

FORM 10-Q

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

For the quarterly period ended September 30, 1996

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

94-1674111

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

-----  
(IRS Employer  
Identification No.)

Mailing Address: P.O. Box 80037  
San Diego, CA 92138-0037

Street Address: 2251 San Diego Avenue, Suite A-151  
San Diego, CA 92110-2926

(619) 298-7201

-----  
(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, and (2) has been subject to such  
filing requirements for the past 90 days.

(1) Yes X No (2) Yes X No  
--- --- --- ---

The number of shares outstanding of the issuer's common stock as of

2

INDEX

PORTSMOUTH SQUARE, INC.

<TABLE>

<CAPTION>

PART I. FINANCIAL INFORMATION

PAGE NO.

<S>

<C>

Item 1. Financial Statements

Balance Sheets--September 30, 1996 (Unaudited)  
and December 31, 1995 3

Income Statements (Unaudited)--Quarters ended  
September 30, 1996 and 1995 and for the Nine Months  
ended September 30, 1996 and 1995 4

Statements of Cash Flow (Unaudited)--Nine Months  
ended September 30, 1996 and 1995 5

Notes to Financial Statements--September 30, 1996 6

Item 2. Management's Discussion and Analysis of Financial  
Condition and Results of Operations 7

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 9

Item 4. Submission of Matters to a Vote of Security Holders 9

Item 6. Exhibits and Reports on Form 8-K 9

SIGNATURES 9

</TABLE>

3

PART 1 - FINANCIAL INFORMATION

Item 1 - Financial Statements

Portsmouth Square, Inc.  
Balance Sheets

<TABLE>

<CAPTION>

September 30, December 31,  
1996 1995

	(Unaudited)	
<S>	----- <C>	----- <C>
Assets		
Current assets:		
Cash and cash equivalents	\$ 206,145	\$ 1,206,138
Marketable securities	928,574	---
Deferred income taxes	45,480	45,480
Receivable from Justice Investors	--	18,000
	-----	-----
Total current assets	1,180,199	1,269,618
Investment in Justice Investors	727,140	364,259
Deferred income taxes	1,207	1,207
	-----	-----
Total assets	\$ 1,908,546	\$ 1,635,084
	=====	=====
Liabilities and shareholders' equity		
Current liabilities:		
Amount owed to Santa Fe	\$ 28,504	\$ 35,951
Accounts payable and accrued expenses	10,082	148
Income taxes payable	130,505	81,203
	-----	-----
Total current liabilities	169,091	117,302
Shareholders' equity:		
Common stock, no par value:		
Authorized shares - 750,000		
Issued and outstanding shares - 750,000	2,092,300	2,092,300
Additional paid-in capital	1,240,291	1,240,291
Accumulated deficit	(1,593,136)	(1,814,809)
	-----	-----
Total shareholders' equity	1,739,455	1,517,782
	-----	-----
Total liabilities and shareholders' equity	\$ 1,908,546	\$ 1,635,084
	=====	=====

See accompanying notes.

</TABLE>

Portsmouth Square, Inc.  
Income Statements  
(Unaudited)

<TABLE>

<CAPTION>

Quarter Ended  
September 30,

Nine Months Ended  
September 30,

	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Revenues:				
Partnership income	\$ 630,553	\$ 424,913	\$1,304,101	\$1,034,500
Interest income	24,516	17,450	57,272	51,017
Miscellaneous income	6,000	1,500	18,872	4,500
	-----	-----	-----	-----
	661,069	443,863	1,380,245	1,090,017
	-----	-----	-----	-----
Costs and expenses:				
General and administrative	41,238	38,838	153,590	117,842
Professional services	16,398	6,850	41,978	37,253
	-----	-----	-----	-----
	57,636	45,688	195,568	155,095
	-----	-----	-----	-----
Income before income taxes	603,433	398,175	1,184,677	934,922
Income taxes	242,205	159,820	475,505	375,260
	-----	-----	-----	-----
Net income	\$ 361,228	\$ 238,355	\$ 709,172	\$ 559,662
	=====	=====	=====	=====
Net income per share	\$ 0.48	\$ 0.32	\$ 0.95	\$ 0.75
	=====	=====	=====	=====
Dividends per share	\$ 0.25	\$ 0.35	\$ 0.65	\$ 0.70
	=====	=====	=====	=====

See accompanying notes.

</TABLE>

5

Portsmouth Square, Inc.  
Statements of Cash Flow  
(Unaudited)

<TABLE>

<CAPTION>

	Nine Months Ended September 30,	
	1996	1995
<S>	<C>	<C>
Operating activities		
Net income	\$ 709,172	\$ 559,662
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in net income of Justice Investors	(1,304,101)	(1,034,500)
Decrease in accounts receivable	18,000	--
Change in accounts payable, accrued expenses and income taxes	51,790	39,726

Net cash used in operating activities	(525,139)	(435,112)
Investing activities		
Cash distribution from Justice Investors	941,220	941,220
Purchase of securities	(928,574)	--
Net cash provided by investing activities	12,646	941,220
Financing activities		
Dividends paid	(487,500)	(525,000)
Net cash used in financing activities	(487,500)	(525,000)
Net increase (decrease) in cash and cash equivalents	(999,993)	(18,892)
Cash and cash equivalents at the beginning of the period	1,206,138	1,103,421
Cash and cash equivalents at the end of the period	\$ 206,145	\$ 1,084,529

See accompanying notes.

</TABLE>

6

PORTSMOUTH SQUARE, INC.  
NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

The financial statements included herein have been prepared by Portsmouth Square, Inc. (the "Company"), without audit, according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles 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 financial statements reflect, in the opinion of management, all adjustments (which included only normal recurring adjustments) necessary to state fairly the financial position 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 and the notes therein included in the Company's Form 10-K.

The results of operations for the three and nine months ended September 30, 1996 are not necessarily indicative of results to be expected for the full

fiscal year ending December 31, 1996.

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standard No. 121, (Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of). The adoption of the new standard had no effect on the financial statements.

## 2. Litigation

-----

On March 26, 1996, a suit was filed in the San Francisco Superior Court against the Company and more than 60 other defendants alleging injuries suffered by the plaintiff as a result of exposure to asbestos containing materials. The Company is named among the "premises defendants" as opposed to the "manufacturing/distributing defendants". The Complaint seeks an unspecified amount of damages. The Company is being defended through its insurance carrier under a reservation of rights. Based on currently available facts, it is impossible to estimate the amount of the Company's liability, if any, at this time.

## 3. Additional Rent

-----

Partnership income for the third quarter ended September 30, 1996 includes an estimated \$262,000 relating to additional rents due, as determined on an annual basis, in accordance with the Holiday Inn lease.

7

## 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 "estimate," "project," "anticipate" and similar expressions, are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including estimated additional rents due as discussed below, uncertainties such as general economic conditions, securities markets, litigation and other factors discussed in the Company's Form 10-K for the year ended December 31, 1995, 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 portions of the Form 10-K referred to in this paragraph are expressly incorporated herein by reference. 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

Registrant's major source of revenue continues to be its 49.8% investment in Justice Investors, a limited partnership, which derives the majority of its income from a lease with Holiday Inn and a lease with Evon Garage Corporation. The Company also derives revenue from the investment of its cash and securities assets.

Quarter Ended September 30, 1996 Compared to the Quarter Ended September 30, 1995

Comparison of the third quarter results of 1996 to the third quarter of 1995 shows that total revenues increased 48.9%, income before taxes increased 51.5% and net income increased 51.6%. The increase in total revenues, income before taxes and net income reflects the inclusion of an estimated \$262,000 in partnership income for the third quarter of 1996 relating to additional rents due in accordance with the partnership's lease with Holiday Inn which became effective on January 1, 1995. Additional rent is determined on an annual basis and, if applicable, paid once a year. In the prior year, additional rents due of approximately \$159,000 were recorded in partnership income for the fourth quarter at which time they became estimatable.

The increase in total revenues also reflects an increase in fees received from the partnership and higher yields obtained by the Company from the investment of its cash assets.

The moderate increase in expenses is primarily attributable to the retention of a consultant to advise the Company on certain operational and partnership matters.

8

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS--CONTINUED

Nine Months Ended September 30, 1996 Compared to the Nine Months Ended September 30, 1995

Comparison of the results of operations for the first nine months of 1996 to the first nine months of 1995, reveals that total revenues increased 26.6%, expenses increased approximately 26.1%, income before taxes increased 26.7% and net income increased 26.7%. The increase in total revenues is primarily attributable to the inclusion of an estimated \$262,000 in partnership income during the third quarter of 1996 relating to additional rents due in accordance with the Holiday Inn lease which became effective on January 1, 1995. Additional rent is determined on an annual basis and, if applicable, paid once a year. In the prior year, additional rents due in the approximate amount of \$159,000 were recorded in partnership income for the fourth quarter at which time they became estimatable.

The increase in total revenues also reflects a decline in expenses at the partnership level, primarily due to the refinancing of the hotel asset in 1995, and a modest increase in garage revenues.

The increase in expenses is primarily due to higher costs associated with the Company's annual meeting of shareholders and the payment of director' fees to both incoming and outgoing directors during the second quarter of this year.

#### FINANCIAL CONDITION AND LIQUIDITY

At September 30, 1996, the Company had cash, cash equivalents and marketable securities of \$1,134,719, after the payment of cash dividends equal to \$.65 per common share during the first nine months.

The Company remains liquid with a current ratio of approximately 7 to 1. Management believes that its capital resources are currently adequate to meet its short and long term obligations. The Company is diversifying its investment of its cash assets in an effort to obtain an overall higher yield while seeking to minimize the associated increased degree of risk. The Company may also make limited investments in equities when deemed appropriate.

At its July 25, 1996 meeting of its Board of Directors, the Company declared a regular dividend of \$.25 per common share which was paid on September 3, 1996 to shareholders of record as of August 12, 1996.

9

#### PART II. OTHER INFORMATION

##### Item 1. Legal Proceedings

On May 30, 1996, the Company was served with a personal injury action entitled, Taylor v. Raybestos-Manhattan, et al., San Francisco Superior Court Case No. 977148. The suit, which was filed on March 26, 1996, names more than 60 defendants, including Evon Garage Corporation, and alleges injuries suffered as a result of exposure to asbestos containing materials. The Company and Evon Garage Corporation are named among the premises defendants. The Complaint seeks an unspecified amount of damages. The Company is being defended through its insurance carrier under a reservation of rights. Discovery is continuing in that action. Based on currently available facts, it is impossible estimate the amount of the Company's liability, if any, at this time.

##### Item 4. Submission of Matters to a Vote of Security-Holders.

No matters were submitted to a vote of security holders during the period covered by this report.

##### Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibit 27 - the Financial Data Schedule is filed as an exhibit to this report.
- (b) Registrant did not file any Reports on Form 8-K during the period covered by this report.

SIGNATURES

Pursuant to the requirements 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: October 14, 1996  
by /s/ John V. Winfield

-----  
John V. Winfield, President  
and Chairman of the Board

Date: October 14, 1996  
by /s/ L. Scott Shields

-----  
L. Scott Shields, Treasurer  
and Chief Financial Officer

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET AND INCOME STATEMENT OF PORTSMOUTH SQUARE, INC. SET FORTH IN ITS FORM 10-Q REPORT FOR THE QUARTERLY PERIOD ENDED September 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH 10-Q REPORT.

<CIK> 0000079661

<NAME> PORTSMOUTH SQUARE, INC.

<S>	<C>
<PERIOD-TYPE>	9-MOS
<FISCAL-YEAR-END>	DEC-31-1996
<PERIOD-START>	JAN-1-1996
<PERIOD-END>	SEP-30-1996
<CASH>	206145
<SECURITIES>	928574
<RECEIVABLES>	0
<ALLOWANCES>	0
<INVENTORY>	0
<CURRENT-ASSETS>	1180199
<PP&E>	0
<DEPRECIATION>	0
<TOTAL-ASSETS>	1908546
<CURRENT-LIABILITIES>	169091
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	2092300
<OTHER-SE>	(183754)
<TOTAL-LIABILITY-AND-EQUITY>	1908546
<SALES>	1304101
<TOTAL-REVENUES>	1380245
<CGS>	0
<TOTAL-COSTS>	0
<OTHER-EXPENSES>	195568
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	0
<INCOME-PRETAX>	1184677
<INCOME-TAX>	475505
<INCOME-CONTINUING>	709172
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	709172
<EPS-PRIMARY>	.95
<EPS-DILUTED>	.95

</TABLE>