CV Holdings, Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2023 and 2022

Independent Auditors' Report

To the Board of Directors of
CV Holdings, Inc. and Subsidiaries

Opinion

We have audited the consolidated financial statements of CV Holdings, Inc. and Subsidiaries (collectively the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audits.

Baker Tilly US, LLP

Irvine, California
April 5, 2024

CV Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
Assets		
Cash	$ 2,536,509	$ 10,958,353
Restricted cash	-	686,773
Prepaid expenses and other assets	735,034	1,131,444
Loans receivable, net (Note 3)	141,196,625	129,880,749
Investment in real estate joint venture	3,937,969	3,937,969
Investments in Opportunity Funds	943,053	2,242,167
Total assets	$ 149,349,190	$ 148,837,455
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 9,146,771	$ 8,835,004
Line of credit	112,608,949	87,196,953
Securitized debt, net of deferred financing costs	-	18,230,303
Mandatorily redeemable senior non-convertible preferred stock (Note 6)	115,150,855	102,526,928
Total liabilities	236,906,575	216,789,188
Commitments and Contingencies (Note 9)		
Stockholders' Deficit		
Common stock, $0.01 par value; 200,000,000 shares authorized; 64,413,784 issued and outstanding	644,136	644,136
Additional paid-in capital	10,295,229	10,295,229
Accumulated deficit	(98,496,750)	(78,891,098)
Stockholders' deficit	(87,557,385)	(67,951,733)
Total liabilities and stockholders' deficit	$ 149,349,190	$ 148,837,455

See notes to consolidated financial statements

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022

	2023	2022
Revenues		
Interest income on loans receivable	$ 22,244,184	$ 17,343,688
Force-placed insurance, early termination and other income	2,078,524	806,273
Management and servicing fees from affiliates	205,098	350,000
Loss from unconsolidated entities	(949,114)	(867,633)
Total revenues	23,578,692	17,632,328
Operating Expenses		
Salaries and related payroll	6,649,628	5,244,937
General and administrative	4,518,766	4,746,251
Credit loss expense (Note 3)	7,423,794	4,297,028
Total operating expenses	18,592,188	14,288,216
Income from operations	4,986,504	3,344,112
Interest Expense and Other		
Interest on senior non-convertible preferred stock (Note 6)	(12,860,976)	(11,478,988)
Interest on lines of credit and securitized debt (Note 5)	(7,986,605)	(3,664,551)
Total interest expense and other, net	(20,847,581)	(15,143,539)
Loss before income tax provision	(15,861,077)	(11,799,427)
Income Tax Provision	(97,928)	(44,616)
Net loss	$ (15,959,005)	$ (11,844,043)

See notes to consolidated financial statements

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholders' (Deficit) Equity
Years Ended December 31, 2023 and 2022

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Beginning Balance, January 1, 2022	64,413,784	$ 644,136	$ 10,295,229	$ (67,047,055)	$ (56,107,690)
Net loss	-	-	-	(11,844,043)	(11,844,043)
Ending Balance, December 31, 2022	64,413,784	644,136	10,295,229	(78,891,098)	(67,951,733)
Cumulative effect from change in accounting principle (Note 2)	-	-	-	(3,646,647)	(3,646,647)
Net loss	-	-	-	(15,959,005)	(15,959,005)
Ending Balance, December 31, 2023	64,413,784	$ 644,136	$ 10,295,229	$ (98,496,750)	$ (87,557,385)

See notes to consolidated financial statements

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Net loss	$ (15,959,005)	$ (11,844,043)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Cumulative effect from change in accounting principle (Note 2)	(3,646,647)	-
Credit loss expense	7,423,794	4,297,028
Depreciation	58,414	69,451
Amortization of debt discount and financing costs	460,184	486,270
Paid in-kind interest on mandatorily redeemable preferred stock (Note 6)	12,623,927	11,026,575
Loss from unconsolidated entities	949,114	867,633
Changes in operating assets and liabilities:		
Management and servicing fees receivable from affiliates	-	6,890
Prepaid expenses and other assets	272,334	(392,480)
Accounts payable, accrued expenses and other liabilities	311,769	948,531
Net cash provided by operating activities	2,493,884	5,465,855
Cash Flows From Investing Activities		
Acquisition of property and equipment	-	(53,018)
Funding of loans receivable	(112,187,559)	(117,222,489)
Principal payments on loans receivable	93,447,890	75,399,420
Purchases of investments in Opportunity Funds	(152,000)	-
Distributions from Opportunity Funds	502,000	-
Net cash used in investing activities	(18,389,669)	(41,876,087)
Cash Flows From Financing Activities		
Payments of deferred financing costs	(39,653)	(114,425)
Payments on securitized debt	(18,585,175)	(21,667,869)
Borrowings on line of credit	101,804,402	101,613,157
Payments on line of credit	(76,392,406)	(43,730,843)
Net cash provided by financing activities	6,787,168	36,100,020
Net decrease in cash and restricted cash	(9,108,617)	(310,212)
Cash and Restricted Cash, Beginning	11,645,126	11,955,338
Cash and Restricted Cash, Ending	$ 2,536,509	$ 11,645,126
Supplemental Disclosure of Cash Flows Information		
Cash paid during the year for:		
Interest	$ 7,172,164	$ 2,771,571
Income tax provision	$ 97,928	$ 44,616

See notes to consolidated financial statements

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

		2023		2022
Supplemental Disclosure of Noncash Investing and Financing Activities				
Deferred financing costs paid with borrowings on line of credit	$	39,653	$	114,425

See notes to consolidated financial statements

1. Organization and Business

CV Holdings, Inc. is a corporation organized in Maryland on May 10, 2005. CV Holdings, Inc. and its subsidiaries described below are collectively referred to as the Company hereinafter. The Company operates as a holding company for several finance-related businesses. The Company, through its wholly-owned or controlled subsidiaries, holds several types of investment assets, including loans receivable, finance leases, commercial Collateralized Debt Obligations (CDO) interests, and investments in joint ventures and limited liability companies. Specifically, the Company owns and operates: (i) a small ticket finance and leasing business through Centra Funding, LLC (Centra); (ii) a commercial real estate lending business through CV Capital Funding, LLC (CVCF); and (iii) a residential nonperforming loan (NPL) servicer and asset manager through LongVue Mortgage Capital, Inc. (LongVue). The various operating businesses are owned by the Company's wholly owned taxable REIT subsidiary, RFC TRS, Inc. (TRS), while the portfolio investments are held through other subsidiaries outside of TRS.

The Company's primary businesses, as mentioned above, include: (i) Centra, which is focused on commercial small ticket equipment leases or finance contracts nationwide across various industries where originations utilize a broker- and vendor-based model; and (ii) CVCF, which focuses on the commercial real estate bridge loan market. CVCF's loans are secured primarily by first mortgages on commercial real estate assets.; and (iii) LongVue's business encompassed the servicing and asset management of NPL portfolios on behalf of several nondiscretionary investment funds (Opportunity Funds) which were managed and sponsored by LongVue or its affiliates. The underlying assets of these Opportunity Funds included portfolios of NPLs and real estate owned (REO) assets. LongVue and another Company affiliate co-invested in each Opportunity Fund. All remaining assets in the LongVue Opportunity Funds have been disposed of or otherwise resolved.

Merger of Realty Finance Corporation and ClearVue Management, Inc.

On August 5, 2013, Realty Finance Corporation (RFC) completed a merger transaction (the Merger) with ClearVue Management, Inc. (CVM), a California-based private real estate investment company. Upon completion of the Merger, RFC was renamed CV Holdings, Inc. (CVH). For legal and capital purposes, CVH (formerly RFC) is considered the acquiring entity.

Collateralized Debt Obligations

Prior to the Merger, RFC's primary business involved collateralized debt obligations, or CDOs. A wholly-owned subsidiary of RFC, Realty Finance Holdings, LLC (RFH), invested in CDO entities in 2006 (CDO I) and 2007 (CDO II). The majority of the CDO legacy commercial mortgage assets are pledged as collateral for the CDO bonds. Due to the decline in value of the CDO assets during the financial crisis of 2008-2010, both CDO I and CDO II are significantly under-collateralized. Due to the under-collateralization of both CDOs, management believes any recovery of the Company's investment in each CDO through RFH is highly unlikely and the Company fully reserved for those losses in prior years. Additionally, as the Company has no responsibility to fund the under-collateralization due to the CDOs providing no future benefit or future obligation for the Company, the assets and liabilities associated with both CDO I and CDO II have been excluded from these consolidated financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) as contained within the Financial Accounting Standards Board (FASB).

Pursuant to Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statement Going Concern (Subtopic 205-40)*, management evaluates the Company's ability to continue as a going concern for one year after the date of the consolidated financial statements are available for issuance. Management has performed its evaluation as of April 5, 2024 of the accompanying consolidated financial statements and determined that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CV Holdings, Inc. and its wholly-owned and controlled subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results could differ from those estimates.

Risks and Uncertainties

The Company maintains cash balances at several banks. The Company's cash balance exceeded federally insurable limits as of December 31, 2023. The Company intends to mitigate this risk by depositing funds with a major financial institution or limiting the balance to federally insurable limits; however, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets. From time to time, the Company maintains deposits in financial institutions in excess of federally-insured limits. Management, however, believes the Company is not exposed to any significant credit risk due to the financial position of the depository institutions in which those deposits are held.

Fluctuations in interest rates may reduce interest income from loans receivable and otherwise negatively impact the Company's financial condition and results of operations. Interest income is a principal component of the Company's total revenue. If interest rates decrease, the rate of interest the Company receives on loans receivable may decline.

Restricted Cash

Cash balances that have restrictions as to the Company's ability to withdraw funds are considered restricted cash. The restricted cash as of December 31, 2022 consisted of funds necessary to satisfy the terms of the Company's securitized debt agreements (See Note 5). In accordance with the terms of the agreements, the Company was required to maintain cash balances with the lender as collateral for interest reserves. These restricted funds were subject to supervision and disbursement approval by the Company's lender.

Investments in Unconsolidated Entities

The Company accounts for its noncontrolling interests in real estate joint venture using the cost method of accounting and the Opportunity Funds using the equity method of accounting. Under the equity method, the Company recognizes its proportionate share of earnings and losses generated by these unconsolidated entities.

The Company reviews its investments in the Opportunity Funds and the real estate joint venture for impairment at each balance sheet date. Investments in these entities are reviewed for evidence of other-than-temporary declines in value. To the extent that investments are not deemed recoverable, the Company would record an impairment adjustment to its investment accordingly. As of December 31, 2023 and 2022, management determined that no additional impairment adjustments relating to investments in unconsolidated entities were warranted.

Deferred Financing Costs

Deferred financing costs consist of fees and other related costs incurred in connection with the outstanding indebtedness and line of credit, and are amortized to interest expense over the terms of the related debt. Deferred financing costs on fixed debt are presented as a direct reduction from the carrying amount of that debt liability. Deferred financing costs associated with line of credit arrangements are presented as an asset, regardless of whether there are any outstanding borrowings.

Loans Receivable

The Company's loans receivable are recorded at amortized cost, net of allowance for credit losses and unearned interest income. The amortized cost of a contract receivable is the outstanding unpaid principal balance, net of fees directly associated with the origination of the contract and reserves for contract losses. The contracts are collateralized by various commercial equipment.

The allowance for credit losses is a valuation allowance that reflects management's estimate of lifetime contract losses inherent in the contract portfolio as of the balance sheet date. The reserve is adjusted through "allowance for credit losses" on the Company's consolidated statements of operations and is decreased by charge-offs to specific contracts when losses are confirmed. Management estimates the allowance for credit losses using relevant available information, from internal and external sources, relating to past events and current conditions. Historical loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current pool specific risk characteristics such as differences in underwriting standards and delinquency level as well as for changes in environmental conditions, such as changes in the economy, interest rates, future business opportunities, or other relevant factors. The allowance for credit losses is measured on a collective basis for pools of loans grouped by loan origination dates due to such loans having similar risk characteristics.

Force-Placed Insurance Income

Borrowers are required to have insurance coverage on the equipment. When a borrower fails to provide evidence of sufficient insurance coverage to a designated insurance carrier, the Company places the contract with insurance and charges the borrower insurance premiums underwritten by the insurance carrier. Income on force-placed insurance is recognized as revenue when cash has been received and is net of cost paid to the contracted insurance carrier. Force-placed insurance income totaled $554,684 for the year ended December 31, 2023 and is included in force-placed insurance, early termination and other income on the accompanying consolidated statements of operations.

Early Termination and Other Income

Early termination income represents income related to the prepayment of the borrower's contractual obligation. The Company permits a loan to be paid off prior to the end of the full term of the contract by having the borrower pay a discounted present value of the unpaid monthly payments. Other income represents broker fees, late fees, delinquent title fees, UCC termination fees, payoff quote fees, non-sufficient fund (NSF) fees, wire fees and other income related to the servicing of the contracts. Income is recognized as revenue when cash has been received from the borrower. Early termination income totaled $826,477 and $503,892 for the years ended December 31, 2023 and 2022, respectively, and is included in force-place insurance, early termination and other income on the accompanying consolidated statements of operations.

Revenue Recognition

Interest income on the Company's contracts receivable is recognized on an accrual basis over the life of the investment using the effective interest method. Direct origination fees and origination costs are amortized over the term of the contract as an adjustment to interest income. The Company places contracts on nonaccrual status when any portion of principal or interest is 90 days past due, or earlier when concern exists as to the ultimate collection of principal or interest. When a contract is placed on nonaccrual status, the Company reverses the accrual for unpaid interest and generally does not recognize subsequent interest income until cash is received, or the contract returns to accrual status. The Company will resume the accrual of interest when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. As of December 31, 2023, 79 contracts at Centra are greater than 90 days delinquent with an aggregate unpaid principal balance of $2,163,934. As of December 31, 2022, 48 contracts at Centra are greater than 90 days delinquent with an aggregate unpaid principal balance of $1,366,775.

The Company provides general management services for debt investments and asset management, acquisition, due diligence and performance services to the Opportunity Funds. Generally, management and servicing fees from affiliates are recognized when these services are provided or when considered earned in accordance with the provisions under the service agreements.

Income Taxes

The Company uses an asset and liability approach for financial accounting and reporting for income taxes. Deferred taxes are recorded based on differences between the financial statement and tax basis of assets and liabilities. These differences will result in taxable or deductible amounts in the future, based on tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. In making an assessment regarding the probability of realizing a benefit from these deductible differences, management considers the Company's current and past performance, the market environment in which the Company operates, tax planning strategies and the length of carryforward periods for loss carryforwards, if any. Valuation allowances are established when necessary to reduce deferred tax assets to amounts that are more likely than not to be realized. Further, the Company provides for income tax issues not yet resolved with federal, state and local tax authorities.

In estimating the benefit or provision for income taxes, the Company evaluates all tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. The Company has evaluated the application of Accounting Standard Codification Topic (ASC) No. 740-10, *Accounting for Income Taxes*, for the years ended December 31, 2023 and 2022 and has concluded that under its provisions no accrual for uncertain tax positions, penalty or interest is required.

The Company is currently not under income tax examination by any taxing agency, and is currently unaware of any pending examinations by such agencies. The general statute of limitations for Internal Revenue Service examinations is three years. Therefore, the tax years ended December 31, 2020 through December 31, 2022 remain open for examination by the Internal Revenue Service. In addition, the general statute of limitations in states where the Company files is three to four years; therefore, the tax years ended December 31, 2019 through December 31, 2022 also remain open for examination.

Concentration of Credit Risk

The Company originates commercial equipment contracts in all 50 states and District of Columbia. The concentration of contracts in certain states as of December 31, 2023, as a percentage of its total portfolio, is reflected below. No other state accounted for more than five percent of such total.

Texas	16.8%
California	12.3%
Florida	7.5%
New York	5.4%
All Others	58.0%
Total	100.0%

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842) (ASU No. 2016-02)*, which requires companies to recognize assets and liabilities on the balance sheet for the rights and obligations created by the leased assets and provide additional disclosures. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2021. Effective January 1, 2022, the Company adopted the requirements of ASU No. 2016-02. The implementation did not have a material impact on the Company's financial statements.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses, (Accounting Standard Codification Topic 326), which changes the criteria under which credit losses on financial instruments (such as the Company’s contracts receivable) are measured. ASC No. 326 introduces a new credit reserving model known as the Current Expected Credit Loss (CECL) model, which replaces the incurred loss impairment methodology previously used under U.S. GAAP with a methodology that records the expected lifetime credit losses on financial instruments. To establish such lifetime credit loss estimates, consideration of a broadened range of reasonable and supportable information to establish credit loss estimates is required. The Company adopted ASC 326 on January 1, 2023 and recorded a net decrease to retained earnings of $3,646,647 as of January 1, 2023 for the cumulative effect of adopting ASC 326.

3. Loans Receivable

The Company, through certain of its wholly owned subsidiaries, originated loans during the years ended December 31, 2023 and 2022. As of December 31, 2023 and 2022, outstanding loans receivable were as follows:

	2023	2022
Commercial equipment contracts. These finance contracts are secured by small ticket equipment. The contracts require monthly payments, bear interest at a weighted average interest rate of 16.90% per annum and mature at various dates through October 2029.	$ 146,643,229	$ 132,765,558
Principal on loans receivable	146,643,229	132,765,558
Deferred loan origination income and cost, net	1,012,186	811,954
Less allowance for credit losses	(6,458,790)	(3,696,763)
Loans receivable, net	$ 141,196,625	$ 129,880,749

As of December 31, 2023, expected future installments on loans receivable are due in succeeding years as follows:

2024	$ 6,251,366
2025	20,248,986
2026	44,347,081
2027	65,389,481
2028	50,715,533
Thereafter	660,749
Total expected future installments	187,613,196
Less unearned interest	(40,969,967)
Principal on loans receivable	$ 146,643,229

Activity relating to allowance for credit losses for the years ended December 31, 2023 and 2022 consists of the following:

	2023	2022
Balance, beginning	$ 3,696,763	$ 3,525,214
Cumulative effect from adopting ASC 326 (Note 1)	3,646,647	-
Credit loss expense	7,423,794	4,297,028
Loans receivable charge-offs	(8,724,891)	(4,195,974)
Recoveries	416,477	70,495
Balance at end of year	$ 6,458,790	$ 3,696,763

The cumulative loss rate used as the basis for the estimate of credit losses is comprised of the Company’s historical loss experience from 2017 through 2023. As of December 31, 2023, the Company expects that the markets in which it operates will experience further delinquencies and costs for recoveries. Management adjusted the historical loss experience for these expectations.

The following table presents the aging status of the principal on loans receivable as of December 31, 2023, classified by the original score granted by the Company's proprietary scoring model:

	Current	31 to 60 Days Past Due	61 to 90 Days Past Due	Over 90 Days Past Due (Non-Accrual)	Total	Over 90 Days Accruing
Better credit quality	$ 62,276,872	$ 1,025,249	$ 609,175	$ 518,079	$ 64,429,375	$ -
Lower credit quality	75,632,096	3,413,464	1,522,439	1,645,855	82,213,854	-
Principal on contracts receivable	$ 137,908,968	$ 4,438,713	$ 2,131,614	$ 2,163,934	$ 146,643,229	$ -
Percent of total	94.0%	3.0%	1.5%	1.5%	100.0%	

4. Investments in Unconsolidated Entities

Investments in Opportunity Funds

The Company, as an investor in the Opportunity Funds, receives a preferred return distribution based on its invested capital. Total preferred return and capital return distributions received for the years ended December 31, 2023 and 2022 were $502,000 and $0, respectively, and are reflected as a reduction of the investment balance.

Investments in the Opportunity Funds consisted of the following as of December 31, 2023 and 2022:

Entity	Ownership Interest	2023	2022
WestVue NPL Venture, LLC	0.10 %	$ -	$ -
CVH Co-Invest Partners LP	36.53 %	-	-
Invictus, CVCF I, LLC	20.00 %	943,053	2,242,167
		$ 943,053	$ 2,242,167

Unaudited condensed combined selected financial information for the Opportunity Funds listed above as of December 31, 2023 and 2022 and for the years then ended is as follows:

Unaudited Condensed Combined Balance Sheets	2023	2022
Assets		
Investments in real estate assets	$ 7,290,832	$ 9,700,295
Other assets	1,634,165	4,610,033
Total assets	8,924,997	14,310,328
Liabilities		
Accounts payable and accrued expenses	1,182,550	72,313
Debt	3,000,000	3,000,000
Total liabilities	4,182,550	3,072,313
	$ 4,742,447	$ 11,238,015
Net assets		
Net assets attributable to the Company	$ 943,053	$ 2,242,167
Net assets attributable to other investors	3,799,394	8,995,848
	$ 4,742,447	$ 11,238,015

Unaudited Condensed Combined Statements of Operations	2023	2022
Net investment revenue	$ 239,263	$ 170,988
Operating expenses	(2,575,368)	(1,379,249)
Investment loss	(2,336,105)	(1,208,261)
Increase in net realized and unrealized loss on real estate investment assets	(2,409,463)	(3,129,906)
Net decrease in net assets resulting from operations	(4,745,568)	(4,338,167)
Net decrease in net assets attributable to other investors	(3,796,454)	(3,470,534)
Net decrease in net assets attributable to the Company	$ (949,114)	$ (867,633)

Investment in Real Estate Joint Venture

The Company has a noncontrolling ownership interest in a joint venture which owns a hospitality-based real estate asset. The Company's position is a minority position with no operational control or influence over the asset or the entity which owns the asset. The Company received no distributions from the real estate joint venture during the years ended December 31, 2023 and 2022. The Company recorded $200,000 and $350,000 of revenue for asset management fees associated with this asset during the years ended December 31, 2023 and 2022, respectively.

The Company records its investment in the real estate joint venture using the cost method of accounting. Under the cost method of accounting, investments are assessed for other-than-temporary impairment (OTTI) and are adjusted accordingly. Based on management's evaluation, no OTTI was recorded for the years ended December 31, 2023 and 2022.

5. Debt

Line of Credit

On May 1, 2017, the Company, through Centra, entered into a warehouse debt facility with a financial institution (the Line of Credit). The Line of Credit has been amended several times and, as of December 31, 2023, allows for maximum borrowings of up to $200,000,000 and matures on August 27, 2024.

The Line of Credit bears a per annum interest at 1M Term SOFR plus the Applicable Margin, as defined (7.34% at December 31, 2023). The outstanding balance under Line of Credit was $112,608,949 as of December 31, 2023. The Line of Credit bears a per annum interest at 1M Term SOFR plus the Applicable Margin, as defined (6.12% at December 31, 2022). The outstanding balance under the Line of Credit was $87,196,953 as of December 31, 2022.

On January 26, 2024, the Company amended the Loan and Security Agreement among Centra Funding, LLC and related entities, the lenders signatory thereto and Wells Fargo Bank, National Association as Administrative Agent. The amendments reflected changes to certain of the agreement’s terms (including certain covenants and definitions), extended the Line of Credit’s maturity date to April 30, 2026, and amended the Maximum Revolver Amount, as defined therein, to $160,000,000, which may be increased to $230,000,000.

Securitized Debt

On March 16, 2021, the Company closed its $58,375,000 term securitization with an institutional investor which is composed of $52,881,000 of Class A Note and $5,494,000 of Class B Note with a maturity date in November 2027. The securitized debt bore a fixed per annum interest rate at 2.49% for the Class A Note and 3.77% for the Class B Note. The Company had a balance of $18,230,303, net of deferred financing costs due under the securitized debt, as of December 31, 2022, and was fully repaid in November 2023.

Interest Expense

The Company incurred $7,986,605 of interest expense on its Line of Credit and securitized debt for the year ended December 31, 2023, which includes $460,184 of amortization of deferred financing costs and $107,580 of unused line fees. The Company incurred $3,664,551 of interest expense on its Line of Credit and securitized debt for the year ended December 31, 2022, which includes $486,270 of amortization of deferred financing costs and $40,923 of unused line fees. The Company was in compliance with all covenants under the credit agreement as of December 31, 2023 and 2022.

6. Mandatorily Redeemable Stock

Senior Non-Convertible Preferred Stock

During 2015, the Company entered into a securities purchase agreement and investor rights agreement with Colborne Brighton, LLC (Colborne) in connection with the sale in a private placement of shares of Senior Non-Convertible Preferred Stock of the Company (Senior Non-Convertible Preferred) and common stock for the purpose of growing the Company's NPL business and developing other business lines as agreed with Colborne. Colborne agreed to purchase up to 50,000 shares (representing a face amount of $50,000,000) of Senior Non-Convertible Preferred through multiple issuances, subject to certain agreed-upon conditions. The Senior Non-Convertible Preferred shares are entitled to receive dividends on the last day of each calendar quarter beginning June 30, 2015 at the rate of 10% per annum. The Company has the option to pay or accrue a 10% dividend on Senior Non-Convertible Preferred through the three-year anniversary of each issuance, and then may either continue to pay dividends at the rate of 12% per annum until the Senior Non-Convertible Preferred is redeemed or otherwise defeased. The Company may redeem any Senior Non-Convertible Preferred, subject to certain approvals by Colborne, on and after the three-year anniversary of its issuance. The Senior Non-Convertible Preferred is not convertible into common stock or debt. The Senior Non-Convertible Preferred is optionally redeemable by the Company under certain circumstances and Colborne has the right to demand a mandatory redemption starting with the fifth anniversary of its respective issuance date.

The redemption rights of the Senior Non-Convertible Preferred are on a pari passu basis with the redemption rights of the Senior Perpetual Preferred. Colborne has material corporate governance rights, including among other things, the equivalent of two board seats and approval rights over major corporate decisions.

In 2015, Colborne purchased 20,000 shares of Senior Non-Convertible Preferred for $20,000,000 and received 10,000,000 out of the 12,621,596 shares of common stock, which represents 20% of the fully diluted common equity of the Company, plus the right to receive additional common stock at its option. Colborne received the remaining 2,621,596 shares of common stock in 2016. At each subsequent funding by Colborne, the Company was required to issue additional shares of common stock comprising 1% of the fully diluted common equity of the Company for every $1,000,000 of Senior Non-Convertible Preferred purchased.

In 2016, the Company issued an additional 189 shares of Senior Non-Convertible Preferred for $189,000 and 123,769 shares of common stock to Colborne to facilitate Colborne's acquisition of the common shares and warrant to purchase common shares held by JAM Special Opportunities Fund II, LP. Colborne exercised 1,792,283 shares of common stock on the warrants acquired.

In accordance with ASC Topic No. 480, *Distinguishing Liabilities from Equity*, the Company recorded the Senior Non-Convertible Preferred as debt based on the redemption feature. The instrument is subsequently measured at its redemption amount, including dividends, at each reporting period. The shares of common stock issued in conjunction with the Senior Non-Convertible Preferred were freestanding instruments. The Company recorded the cash proceeds based on the relative fair value of the Senior Non-Convertible Preferred and common stock. The allocation of proceeds to the common stock created a debt discount which is recognized as interest expense over the period from issuance to the fifth anniversary of the respective issuance date.

The Company issued a total of 20,189 shares (representing a face amount of $20,189,000) of Senior Non-Convertible Preferred and 12,745,365 of common shares to Colborne as of December 31, 2016. Of the $20,189,000, $2,463,903 was allocated to the common stock and $17,725,097 was allocated to the Senior Non-Convertible Preferred. The allocation of the common stock created a debt discount which was amortized and recognized as interest expense. The Company incurred a total of $323,425 in issuance costs in connection with the transaction, $39,429 of which was allocated to the common shares and $283,996 was allocated to the Senior Non-Convertible Preferred in the same manner as the proceeds. Issuance costs allocated to the issuance of Senior Non-Convertible Preferred are recorded as a deduction from the corresponding liability, whereas issuance costs allocated to the issuance of common shares are recorded as contra equity.

The Company incurred $12,860,976 and $11,478,988 of interest expense on its mandatorily redeemable Senior Non-Convertible Preferred Stock for the years ended December 31, 2023 and 2022, which includes no amortization of deferred financing costs and no amortization of debt discount, respectively. As of December 31, 2023 and 2022, the redemption amount of the Senior Non-Convertible Preferred was $115,150,855 and $102,526,928, respectively, which includes $49,261,854 and $36,637,927 of cumulative dividends recognized as interest expense as of December 31, 2023 and 2022, respectively.

Senior Perpetual Preferred Stock

On February 6, 2017, pursuant to the amended securities purchase agreement, Colborne purchased 20,000 shares (representing a face amount of $20,000,000) of Senior Perpetual Preferred Stock (Senior Perpetual Preferred). The Senior Perpetual Preferred is entitled to receive dividends on the last day of each calendar quarter at the rate of 15% per annum for the first 36 months. The Company has the option to pay dividends in cash or in kind. The Company may redeem any Senior Perpetual Preferred, subject to certain approvals by Colborne, on and after the three-year anniversary of its issuance. The Senior Perpetual Preferred was optionally (at any time after the issuance date) or automatically converted (beginning on the fourth anniversary of the related issuance date) to shares of Senior Non-Convertible Stock. Upon either automatic or an optional conversion, any Accrued Incremental Dividend, as defined in the articles and securities purchase agreement, was to be satisfied with the delivery of the Company's common stock based on a formula outlined in the agreement. The Senior Perpetual Preferred ranked pari-passu in all matters with the Senior Non-Convertible Preferred.

On September 1, 2017, Colborne purchased additional 10,000 shares (representing a face amount of $10,000,000) of Senior Perpetual Preferred.

On September 1, 2018, Colborne, through an optional conversion, converted 5,993 shares of Senior Perpetual Preferred into 5,625 shares of Senior Non-Convertible Preferred and 6,000,000 shares of common stock.

On October 1, 2020, Colborne, through an optional conversion, converted 4,380 shares of Senior Perpetual Preferred into 3,801 shares of Senior Non-Convertible Preferred and 3,200,000 shares of common stock.

On February 6, 2021, the Company automatically converted 13,749 shares of Senior Perpetual Preferred into 11,803 shares of Senior Non-Convertible Preferred and delayed the issuance of 9,467,972 shares of common stock. The Company recorded a related liability of $1,945,741 for the unissued common stock which is included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets.

On September 1, 2021, the Company automatically converted the remaining 28,968 shares of Senior Perpetual Preferred into 24,471 shares of Senior Non-Convertible Preferred and delayed the issuance of 18,154,935 shares of common stock. The Company recorded a related liability of $4,496,870 for the unissued common stock which is included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets. As of December 31, 2021, all Senior Perpetual Preferred has been converted into shares of Senior Non-Convertible Preferred.

As of December 31, 2023, the Company is not in default under the terms and conditions of the Senior Non-Convertible Preferred and Colborne has no present intention to require redemption of the Company's Senior Non-Convertible Preferred in the near term and through June 30, 2024.

From time to time, Colborne has requested that the Company defray certain expenses and make certain payments on its behalf, including a portion of the compensation of the Company's Chairman and Chief Executive Officer. Colborne has agreed that sums equal to all such amounts paid by the Company at Colborne's request, together with any associated expenses incurred by the Company, compounded from the date of payment at the applicable dividend rate of the Senior Non-Convertible Preferred, may be offset against future amounts required to be paid to Colborne in respect of the Senior Non-Convertible Preferred.

7. Income Taxes

A summary of the consolidated income tax provision for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Current		
Federal	$ -	$ -
State	97,928	44,616
	97,928	44,616
Noncurrent		
Federal	-	-
State	-	-
	-	-
Total income tax provision	$ 97,928	$ 44,616

The effective income tax rates for 2023 and 2022 vary from the federal statutory tax rate due to permanent book/tax differences, state income tax expense, and change in valuation allowances. For the years ended December 31, 2023 and 2022, the effective income tax rates were (0.51)% and (0.44)%, respectively, versus the statutory federal rate of 21%.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company operates as a holding company to several wholly owned subsidiaries. The components of the Company's deferred tax assets (liabilities) as of December 31, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets (liabilities):		
Accounts payable and accruals	$ 5,121	$ 5,190
Investment in Opportunity Funds	1,606,208	585,994
Interest expense	-	-
Net operating losses	122,812,356	123,240,622
State taxes	-	-
Other	98,663	97,269
Valuation allowance	(124,522,348)	(123,929,075)
Net deferred tax assets, net	$ -	$ -

The Company's primary deferred tax asset is net operating losses (NOLs), aggregating to approximately $494 million and $295 million for federal and state purposes, respectively, through December 31, 2023. As management is not certain that the Company will generate taxable income in future periods to utilize the NOLs, a full valuation allowance has been recorded. Use of the NOLs may be subject to certain limitation requirements under Section 382 of the Internal Revenue Code.

8. Stockholders' Deficit

Stockholders' deficit is comprised of two classes of stock: common stock and preferred stock. The Company is authorized to issue 200,000,000 common shares and 50,000,000 preferred shares. As of December 31, 2023, issued and outstanding shares were comprised of 64,413,784 shares of common stock at $0.01 par value and 115,151 shares of Senior Non-Convertible Preferred at $1,000 par value.

Stock Options

The activity under the stock option plans for the years ended December 31, 2023 and 2022 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Options outstanding at January 1, 2022	3,024,242	$ 0.30	3
Expired in 2022	(250,000)	0.21	2
Options outstanding at December 31, 2022	2,774,242	0.39	1
Expired in 2023	(2,774,242)	0.39	-
Options outstanding at December 31, 2023	-		
Options exercisable at December 31, 2023	-		

Warrants

As of December 31, 2023 and 2022, the Company had warrants outstanding for 4,148,532 shares and exercisable for 1,203,074 shares of common stock at an exercise price of $0.01 per share. The warrants expire on October 6, 2024.

9. Commitments and Contingencies

In the ordinary course of its business, the Company may be, from time to time, subject to disputes. The Company is not aware of any disputes that would reasonably be expected to have a material adverse effect on its results of operations or financial condition.

10. Retirement Plan

The Company has a 401(k) plan (the Plan) which covers all eligible employees. Employees may elect to contribute up to a maximum percentage allowable, not to exceed federal tax law limitations. The Company's contributions are discretionary and are determined on an annual basis. The Company provides a 100% matching of contributions to the Plan annually up to $4,000 per employee. The contributions by the Company are vested depending on the employee's length of service. For the years ended December 31, 2023 and 2022, the Company made matching contributions of $145,912 and $102,919, respectively, which are included in salaries and related payroll in the accompanying consolidated statements of operations.

11. Subsequent Events

Management has evaluated subsequent events for their potential impact on the accompanying consolidated financial statements and disclosures through April 5, 2024, which is the date the accompanying consolidated financial statements were available to be issued.