CV Holdings, Inc. Update and Financial Statements for Year Ended December 31, 2022

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NEWPORT BEACH, Calif., April 14, 2023 (GLOBE NEWSWIRE) -- CV Holdings, Inc. (OTC Pink Limited: CVHL) (the “Company”) today reported a net loss for the year ended December 31, 2022 of $(11,844,043) or $(0.18) per common share with weighted average common shares of 64,413,784 issued and outstanding during 2022. Taking into account the December 31, 2022 balance of 64,413,784 common shares issued and outstanding and 6,922,774 common shares issuable upon exercise of warrants and stock options outstanding, the net loss was $(0.17) per diluted common share based on 71,336,558 common shares outstanding on a fully-diluted basis. The net loss for the year ended December 31, 2022 was primarily due to interest expense on preferred equity of $11,478,988 and a significant increase over the course of the year in the cost of debt of the Company’s principal business, as well as salaries and related payroll expenses of $5,244,937, general and administrative expenses of $4,746,251, provision for loan losses of $4,297,028 and loss from unconsolidated entities of $867,633.

For comparative purposes, for the year ended December 31, 2021, the Company reported a net loss of $(12,399,758) or $(0.19) per common share with weighted average common shares of 64,413,784 issued and outstanding during 2021. Taking into account the December 31, 2021 balance of 64,413,784 common shares issued and outstanding and 7,172,774 common shares issuable upon exercise of warrants and stock options outstanding, the net loss was $(0.17) per diluted common share based on 71,586,558 common shares outstanding on a fully-diluted basis. Interest expense on preferred equity during 2021 was $11,529,709, salaries and related payroll expenses were $5,026,138, administrative expenses were $3,398,403, provision for loan losses was $2,004,301 and loss from unconsolidated entities was $793,465.

Liquidity

As of December 31, 2022, the Company had unrestricted cash of $10,958,353, as compared to $11,268,565 of unrestricted cash as of December 31, 2021. The Company’s primary sources of cash flow consisted of interest earned on equipment finance contracts held by its principal business, Centra Funding, LLC (“Centra”).

As described below, the Company was unable to begin redeeming its Senior Non-Convertible Preferred Stock, the initial installment of which was required to be paid in June 2020, and this obligation was deferred for a period of one year. In June 2021, this obligation was deferred again for an additional six months, was subsequently deferred through June 30, 2022, December 31, 2022 and June 30, 2023, and may be deferred further in six-month increments in the sole discretion of Colborne (as defined below), the sole holder of the Company's preferred stock. As noted below, as of December 31, 2022, the liquidation preference of the Senior Non-Convertible Preferred Stock had reached approximately $103 million, and this amount continues to accrete additional dividends while it remains outstanding.

The Company remains unable to redeem the Senior Non-Convertible Preferred Stock as required, is unlikely to become able to do so for the foreseeable future and may never be able to do so. If the Company is unsuccessful in negotiating continued forbearance or a restructuring of these obligations, Colborne may, at its election, require that all outstanding shares of Colborne Preferred Stock (as defined below) be redeemed, including those which are not currently scheduled to be redeemed, or otherwise pursue remedies against the Company.

If Colborne were to pursue remedies, the Company could be required to take drastic measures, including the liquidation and winding down of its operations, and it is unclear how much, if any, value would be allocated to the Company's common stock as a result. There can be no assurance that Colborne will continue to forbear or agree to a restructuring of these obligations that would provide significant value to common stockholders, and, consequently, an investment in the common stock of the Company is highly risky and speculative.

Colborne Investment Update

Since its first investment in 2015, Colborne Brighton, LLC ("Colborne"), an entity formerly controlled by Corvid Peak Capital Management, has funded a total of $50,000,000 in capital, fulfilling its $50,000,000 commitment in the form of a $20,000,000 investment in the Company's Senior Non-Convertible Preferred Stock and a $30,000,000 investment in the Company's Senior Perpetual Preferred Stock (together the "Colborne Preferred Stock"). During 2021, the outstanding Senior Perpetual Preferred Stock was converted automatically to Senior Non-Convertible Preferred Stock pursuant to its terms as described more fully in the Company's April 2016 press release. As of December 31, 2022, the Company had issued a total of 32,258,811 common shares to Colborne related to the Colborne Preferred Stock, and Colborne remained entitled to another 27,622,907 common shares upon redemption of its remaining Senior Perpetual Preferred Stock.

On a pro forma basis, assuming the full amount of common stock associated with the Colborne Preferred Stock is issued to Colborne, the Company's outstanding fully diluted shares of common stock would increase from the current fully diluted amount of 71,336,558 to 96,014,007, and Colborne will own, through Company-issued stock, approximately 50% of the total shares outstanding. The Company has also approved unrelated open-market third-party purchases by Colborne from third-party shareholders, which, when combined with the aforementioned shares, will result in Colborne owning approximately 62% of the total shares outstanding.

The Company was required to begin redeeming the outstanding shares of Senior Non-Convertible Preferred Stock through cash payments to be made by the Company in equal quarterly installments over a two-year period beginning in June 2020. In June 2020, the Company informed Colborne that it did not have sufficient legally available funds to complete these redemptions and offered to discuss the remedies available to Colborne or other mutually acceptable options. In response, Colborne offered to toll the mandatory redemption for one year while reserving all the rights and remedies available to it, and to work with the Company on mutually acceptable alternatives. In June 2021, this obligation was deferred for an additional six months, was subsequently deferred through June 30, 2022, December 31, 2022 and June 30, 2023, and may be deferred further in six-month increments in the sole discretion of Colborne.

Important Reminder Regarding Transfer and Ownership Restrictions

Current and potential investors in the Company's common stock are reminded that the Company's Articles of Incorporation and Bylaws, each as amended and/or restated from time to time (collectively, the "Charter"), restrict beneficial ownership and constructive ownership and transfer of the Company's common stock for the purpose, among others, of the Company's maintenance of its ability to utilize the net operating loss carryovers, capital loss carryovers, general business credit carryovers, alternative minimum tax credit carryovers and foreign tax credit carryovers, as well as any "net unrealized built-in loss" within the meaning of section 382 of the Internal Revenue Code, of the Company or any direct or indirect subsidiary thereof ("tax benefits").

Among other restrictions, the Charter provides that no person may beneficially own or constructively own shares of the Company's common stock in excess of 4.9 percent (by value or by number of shares, whichever is more restrictive) of the outstanding shares of common stock of the Company or such other percentage determined by the board of directors unless such person is an excepted holder (in which case the excepted holder limit for such excepted holder shall be applicable). **As of the date hereof, this limitation is 3,156,275 shares.**

Any person who beneficially owns or constructively owns or attempts to beneficially own or constructively own shares of common stock which causes or will cause a person to beneficially own or constructively own shares of common stock in excess or in violation of the above limitation must immediately notify the Company, or in the case of such a proposed or attempted transaction, give at least fifteen (15) days prior written notice, and shall provide to the Company such other information as the Company may request in order to determine the effect, if any, of such transfer on the Company's ability to utilize its tax benefits.

If the restrictions on transfer or ownership are violated, the shares of common stock in excess or in violation of the above limitation (or any of the other ownership and transfer limitations set out in the Charter) will be automatically transferred to a trustee of a trust for the benefit of one or more charitable beneficiaries effective as of the close of business on the business day prior to the date of such transfer (or other event). In addition, the Company may redeem shares upon the terms and conditions specified by the board of directors in its sole discretion, refuse to give effect to such transfer on the books of the Company or institute proceedings to enjoin such transfer or other event if the board of directors determines that ownership or a transfer or other event may violate the restrictions described above. Furthermore, if the ownership restrictions above would be violated or upon the occurrence of certain events, attempted transfers in violation of the restrictions described above may be void ab initio.

As noted above, from time to time, the Company has made or approved privately-negotiated purchases of its common stock. Any shareholder wishing to sell common stock is encouraged to contact the Company.

Financial Reporting

Included in this press release are the audited consolidated balance sheets, statements of operations, and statements of cash flows of CV Holdings, Inc. and its subsidiary entities as of and for the years ended December 31, 2022 and December 31, 2021.

Update on the Business

Consolidated Update

During 2022, Centra, the Company's equipment finance business, continued to grow and significantly increased its profitability despite the steep rise in interest rates over the course of the year and large one-time expenses in connection with the insourcing of its loan servicing efforts (described more fully below). The Company continued to reduce the size of its commercial real estate loan portfolio by resolving its remaining two directly held loans. Finally, the Company has substantially completed the liquidation of its venture loan and lease business and its non-performing mortgage business.

As of December 31, 2022, the Company had investments in approximately $140,000,000 of wholly owned equipment finance contracts and commercial real estate loans held indirectly through a joint venture of CV Capital Funding, LLC ("CVCF"), the Company's commercial real estate lending business. This compares with approximately $98,000,000 as of December 31, 2021. Approximately $130,000,000 of these investments as of December 31, 2022, were equipment finance contracts originated by Centra, as opposed to approximately $87,000,000 of such contracts at the end of the prior year.

From an operating cash flow standpoint, as shown in the following table, excluding the pay-in-kind dividends on the Colborne Preferred Stock, the Company had EBITDA of $(250,988) in the year ended December 31, 2022 compared to $(859,439) in the year ended December 31, 2021. The Company's income from operations more than doubled to $3,344,112 despite increased provisions and realized losses on certain commercial real estate loans held on balance sheet and in the Company's CVCF joint venture. This increase in operating income was offset, however, by a substantial increase in the Company's cost of funds for its equipment finance business, reflected in interest on debt. Substantial one-time costs associated with Centra's insourcing of its servicing have reduced profitability in Q4 2022 and Q1 2023.

	Year Ended December 31, 2022	Year Ended December 31, 2021
Net loss	$ (11,844,043)	$ (12,399,757)
Interest expense on preferred equity	11,478,988	11,529,709
Unrealized loss on derivative instruments	-	(42,386)
Taxes	44,616	(2,252)
Depreciation	69,451	55,248
EBITDA	(250,988)	(859,439)

During 2022, the Company sold its two remaining directly held commercial real estate loans, leaving its investment in the CVCF joint venture as the only significant remaining CVCF asset other than cash. As noted, the Company continued to grow Centra and substantially completed the winddown of the VenSource venture leasing and LongVue nonperforming residential mortgage businesses. Because the Company is focused on growing Centra, it has generally allocated capital received from these asset sales and business winddowns to Centra.

While the Company is pleased with the progress made on all these fronts in 2022, the rise in interest rates and accompanying economic uncertainty have been a significant headwind to Centra's business, reducing loan originations while substantially increasing the Company's cost of funds. This has reduced Centra's profitability. The foregoing, together with the continued growth of the amount owed on the Colborne Preferred Stock, which is senior to the Company's common shares, has created a dilutive effect to common stockholders. As noted above, additional dilution is likely if Colborne ceases to forbear and this leads to a restructuring of the Company.

Centra Funding, LLC

On November 28, 2016, the Company, through a newly-formed subsidiary, Centra Funding, LLC closed on its acquisition of Centra Leasing, Inc., as more fully described in the Company's November 28, 2016 press release. Centra's business is focused on commercial "small-ticket" equipment leases or finance contracts. Originations utilize a vendor-based model, employing direct vendor- and broker-focused sales staff. Centra's business is nationwide and spans multiple industries, with typical leases or finance contracts not exceeding $250,000.

Centra's profitability increased significantly in 2022 and it ended the year with net loans receivable approximately 50% higher than at year-end 2021. Centra was also able to increase the weighted average yield that it has been achieving on new originations. Although loan losses remained muted throughout 2022, Centra increased its loan loss provision in response to modestly increasing delinquencies and indications that the economy may enter a recession in 2023. As of March 31, 2023, Centra had originated loans totaling nearly $289,000,000 since inception and had an active backlog of over $32,000,000 of approved transactions.

As of December 31, 2022, Centra had $87,196,953 of borrowings and was in compliance with all covenants of its debt facility agented by an affiliate of Wells Fargo Bank. During 2022, Centra added a participant bank to this facility, increasing the maximum revolver amount from $90,000,000 to $140,000,000. In connection with the addition of the participant bank, the facility was amended and restated and certain of its terms were changed.

As of December 31, 2022, Centra's outstanding balance of securitized debt was $18,230,303, net of deferred financing costs, and the Company was in compliance with all covenants under the indenture agreement. In connection with the servicing transition described below, certain terms of the indenture agreement were amended and Centra entered into a servicing agreement with respect to the majority of the securitized equipment finance contracts.

Since its inception, Centra had been outsourcing the servicing of its equipment finance contracts to a third party. Given the growth in its portfolio, in late 2021 Centra began preparing to bring this function in-house, through the implementation of new servicing software and the addition of dedicated collections and customer service staff. The software implementation required substantial one-time expense, but Centra successfully converted a substantial majority of its equipment finance contracts to fully internal servicing effective February 1, 2023. The Company anticipates that internal management of this servicing will be highly cost effective for Centra relative to outsourcing and will lead to additional revenue opportunities.

CV Capital Funding, LLC

On December 14, 2016, the Company established a commercial real estate bridge lending business, which operates under the name CV Capital Funding, LLC ("CVCF"). CVCF provided capital for a wide range of real estate asset classes on a nationwide basis, specializing in bridge loans secured by first mortgages on commercial real estate and other assets, Property types included: multi-unit residences, industrial, office, hospitality and other commercial properties.

Since inception, CVCF has originated 37 loans, totaling $120,948,500 in principal balance, principally through CVCF's joint venture with a real estate credit-oriented investment fund (the "CVCF-JV Partner") and on CVCF's own balance sheet. Effective January 1, 2022, all remaining CVCF personnel were transitioned to the CVCF-JV Partner, which assumed responsibility for administering the joint venture. During 2019, CVCF entered into a second joint venture with a different funding partner, but the partner proved unable to meet its fundraising objectives; CVCF acquired the partner's stake in 2020 and wound down the joint venture in 2021.

The initial joint venture is also being wound down, and its two remaining loans are in the process of being resolved. Certain obligors are in default, and CVCF is engaged in workouts and relevant legal proceedings where appropriate, coordinating closely with its bank lenders. During 2022, the two remaining loans on CVCF's balance sheet were sold to third parties. CVCF recognized losses of $765,911 in 2022, including unrealized losses of $636,439 on the loans in the joint venture.

Other Businesses

In March 2022, the last remaining venture leasing loan paid off and the business has been dissolved.

The Company terminated its last servicing contract for non-performing residential loans and real estate owned properties as of June 15, 2019 and is providing certain administrative functions on a cost-plus basis to assist its previous institutional investor. The last asset was liquidated during 2021, and the related corporate entities are in the process of being dissolved.

In 2006 and 2007, the Company issued two different series of collateralized debt obligations ("CDOs"), described more fully in previous press releases. The CDO bonds are non-recourse to the Company. As previously announced, the company does not expect to recover any of its investment in either CDO, and since virtually all assets in both CDOs have been disposed of or written off, the CDOs are not expected to generate any meaningful future income to the Company.

Additional information is available at: www.cvhldgs.com.

Annual Meeting of Stockholders

On October 24, 2022, CV Holdings held an annual meeting of its stockholders. At such meeting James Crystal was elected director by a vote of the majority of the outstanding common shares of the Company.

Dividends

The Company has suspended dividends on shares of its outstanding common stock since the fourth quarter of 2008, and dividends are expected to continue to be suspended for the foreseeable future.

Litigation

As of December 31, 2022, the Company did not have any litigation.

Financial Statements

Below are summary audited financial statements of the Company including its consolidated balance sheets, statements of operations and statements of cash flows.

CV Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2022 and 2021

	2022	2021
Assets		
Cash	$ 10,958,353	$ 11,268,565
Restricted cash	686,773	686,773
Management and servicing fees receivable from affiliates	-	6,890
Prepaid expenses and other assets	1,131,444	713,506
Loans receivable, net	129,880,749	92,354,708
Investment in real estate joint venture	3,937,969	3,937,969
Investments in Opportunity Funds	2,242,167	3,109,800
Total assets	$ 148,837,455	$ 112,078,211
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 8,835,004	$ 7,886,473
Lines of credit	87,196,953	29,314,639
Securitized debt, net of deferred financing costs	18,230,303	39,484,436
Mandatorily redeemable senior non-convertible preferred stock	102,526,928	91,500,353

Mandatorily redeemable senior perpetual preferred stock	-	-
Total liabilities	216,789,188	168,185,901
Commitments and Contingencies		
Stockholders' Deficit		
Common stock, $0.01 par value; 200,000,000 shares authorized; 64,413,784 issued and outstanding for both years December 31, 2022 and 2021	644,136	644,136
Additional paid-in capital	10,295,229	10,295,229
Accumulated deficit	(78,891,098)	(67,047,055)
CV Holdings, Inc. stockholders' deficit	(67,951,733)	(56,107,690)
Noncontrolling interests	-	-
Total stockholders' deficit	(67,951,733)	(56,107,690)
Total liabilities and stockholders' deficit	$ 148,837,455	$ 112,078,211

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations

Years Ended December 31, 2022 and 2021

	2022	2021
Revenues		
Interest income on loans receivable	$ 17,343,688	$ 11,552,461
Broker and other income	806,273	845,626
Management and servicing fees from affiliates	350,000	166,479
Loss from unconsolidated entities	(867,633)	(793,465)
Total revenues	17,632,328	11,771,101
Operating Expenses		
Salaries and related payroll	5,244,937	5,026,138
General and administrative	4,746,251	3,398,403
Provision for loan losses	4,297,028	2,004,301
Total operating expenses	14,288,216	10,428,842
Income from operations	3,344,112	1,342,259
Interest Expense and Other		
Interest on senior perpetual preferred stock	-	(3,283,579)
Interest on senior non-convertible preferred stock	(11,478,988)	(8,246,130)
Interest on lines of credit and securitized debt	(3,664,551)	(2,256,946)
Unrealized gain on derivative instruments	-	42,386
Total interest expense and other, net	(15,143,539)	(13,744,269)
Loss before income tax (provision) benefit	(11,799,427)	(12,402,010)

Income Tax (Provision) Benefit	(44,616)	2,252
Net loss	(11,844,043)	(12,399,758)
Less net loss attributable to noncontrolling interests	-	-
Net loss attributable to CV Holdings, Inc.	$ (11,844,043)	$ (12,399,758)

CV Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Net loss	$ (11,844,043)	$ (12,399,758)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	4,297,028	2,004,301
Depreciation	69,451	55,248
Amortization of debt discount and financing costs	486,270	477,873
Paid in-kind interest on mandatorily redeemable preferred stock	11,026,575	11,137,721
Unrealized gain on derivative instruments	-	(42,386)
Loss from unconsolidated entities	867,633	793,465
Changes in operating assets and liabilities:		
Management and servicing fees receivable from affiliates	6,890	47,263
Prepaid expenses and other assets	(392,480)	572,867
Accounts payable, accrued expenses and other liabilities	948,531	368
Net cash provided by operating activities	5,465,855	2,646,962
Cash Flows From Investing Activities		
Acquisition of property and equipment	(53,018)	(58,388)
Funding of loans receivable	(117,222,489)	(79,036,690)
Principal payments on loans receivable	75,399,420	53,609,443
Distributions from Opportunity Funds	-	78,475
Net cash used in investing activities	(41,876,087)	(25,407,160)
Cash Flows From Financing Activities		
Payments of deferred financing costs	(114,425)	(1,141,508)
Borrowings on securitized debt	-	58,375,000
Payments on securitized debt	(21,667,869)	(18,890,564)
Borrowings on lines of credit	101,613,157	56,532,719
Payments on lines of credit	(43,730,843)	(71,812,033)
Net cash provided by financing activities	36,100,020	23,063,614
Net (decrease) increase in cash and restricted cash	(310,212)	303,416
Cash and Restricted Cash, Beginning	11,955,338	11,651,922
Cash and Restricted Cash, Ending	$ 11,645,126	$ 11,955,338

Supplemental Disclosure of Cash Flows Information		
Cash paid during the year for:		
Interest	$ 2,771,571	$ 1,807,787
Income taxes (benefit) provision	$ 44,616	$ (2,252)
Supplemental Disclosure of Noncash Investing and Financing Activities		
Conversion of senior perpetual preferred stock to senior non-convertible preferred stock	$ -	$ 42,716,747
Issuance of common stock in connection with conversion of senior perpetual preferred stock	$ -	$ -
Deferred financing costs paid with borrowings on line of credit	$ 114,425	$ 103,653

About CV Holdings, Inc.

CV Holdings, Inc. is a specialty finance company with ownership in finance platforms across multiple businesses, including small-ticket equipment financing and commercial real estate bridge lending.

Our common stock is currently traded on the Pink® Open Market operated by OTC Markets Group, or OTC Markets. While not a requirement, OTC Markets encourages companies having their securities quoted thereon to provide adequate current information in accordance with its disclosure guidelines. We will evaluate the need to issue press releases containing information similar to the information disclosed herein. We do not undertake any obligation, nor do we give any assurance that we will provide timely periodic disclosures or any public disclosure at all.

We conduct our operations so as to not be or become regulated as an investment company under the Investment Company Act of 1940. The Company has not had federal taxable income since 2007 and does not expect any federal taxable income in the foreseeable future.

Forward-Looking Information and Other Information

This press release contains forward-looking statements based upon the Company's beliefs, assumptions and expectations of its future performance, taking into account all information currently available. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to the Company or are within its control. If a change occurs, the Company's business, financial condition, liquidity and results of operations may vary materially from those expressed in its forward-looking statements.

The factors that could cause actual results to vary from the Company's forward-looking statements include: the U.S. economy in general; the Company's liquidity and ability to continue to cover its operating cash requirements; the Company's ability to redeem or renegotiate the redemption of the outstanding shares of its preferred stock when and as its obligations to do so mature; the growth of its Centra business; the satisfactory resolution of the Company's commercial real estate loan portfolio; the Company's ability to raise and deploy capital in support of its current operations; the Company's future operating results; its business operations and prospects; availability, terms and deployment of short-term and long-term capital; availability of qualified employees; changes in interest rates; adverse development in the debt securities, credit and capital markets, adverse developments in the commercial finance and real estate markets; performance and financial condition of borrowers, lessees and corporate customers; any future litigation that may arise; the ultimate resolution of the Company's defaulted loans; the performance of the Company's joint venture investments; the effects of the COVID-19 pandemic on the Company or the markets in which it operates; and the ability of the Company to continue as a going concern. The Company undertakes no obligation to publicly update or revise any of the forward-looking statements.

In addition, this press release contains summary financial information about the Company. This summary financial information does not represent the entire audited financial statements of the Company.

FOR FURTHER INFORMATION

AT CV HOLDINGS, INC.:

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