Realty Finance Corporation Announces the Acquisition of ClearVue Management, Inc. and Change of Principal Business

Aug 05, 2013, 20:09 ET from Realty Finance Corporation

NEEDHAM, Mass., Aug. 5, 2013 /PRNewswire/ -- Realty Finance Corporation ("Company," "we," "us" or "our") (Other OTC: RTYFZ.PK) today announced that it successfully closed on a merger transaction (the "Merger") with ClearVue Management, Inc. ("CV"), a California-based private real estate investment company started in 2007 that specializes in the acquisition, stabilization and disposition of distressed/non-performing residential real estate loans across the United States. We will move our headquarters to Newport Beach, CA and will change our name to CV Holdings, Inc. The total value of the Merger was approximately $26 million, which consisted of securities and a promissory note as further described below. After the Merger, we will be primarily focused on continuing CV's business of purchasing and managing pools of residential distressed/non-performing loans (NPL). The management of the Company believes that the acquisition of CV will allow the Company to become a leading operator in the NPL business. CV has a successful track record, a strong management team with over 90 years combined experience, and has raised approximately $90 million of equity to date to purchase over 1,650 loans with an aggregate unpaid principal balance of approximately $300 million.

The Merger

As part of the Merger, we issued a total of 6,549,125 shares of our common stock, warrants to purchase up to an aggregate of 3,764,322 shares of our common stock, $2,935,000 of new 8% perpetual preferred stock and a new 4% $5,000,000 non-recourse note. For purposes of the Merger, our common stock was valued by the parties at $0.39, a 218% premium to the average trading price of the stock in 2013 and a 203% premium to the average trading price in the 30 days prior to the close of the Merger. After the Merger, we will have a fully-diluted share count, including all outstanding options and warrants, of 45,833,310 shares. Also of note, the Merger transaction did not require the payment of cash to any party.

We have re-located our headquarters to Newport Beach, CA. Messrs. Matt Regan, Dennis Regan, David Haddad and Jonny Harmer, who comprised CV's senior management, will become our Executive

Vice Presidents. Ricardo Koenigsberger and Kenneth Witkin, who have been serving as our directors, will continue to serve in such capacity and will become our Co-CEOs. Our new Board of Directors will initially include four directors: Messrs. David Haddad, Ricardo Koenigsberger, Matt Regan and Kenneth Witkin.

Our focus will be to leverage CV's experience and track record in the NPL business, together with our pro forma cash of $6,089,000 and our senior management team's experience in real estate, capital markets, banking and private equity, to not only continue the existing business, but also to implement a longer-term plan taking advantage of various synergistic opportunities, which may arise from the existing business model.

Our Board of Directors (the "Board") unanimously approved the Merger as it believed it to be in best interests of our shareholders. During the past two years, our Board considered a variety of transactions. After careful consideration of all factors including: (i) the significant premium of our common stock over the current trading price in the Merger, (ii) the potential for a business platform to provide our growth, as well as an organic way to utilize our NOL asset, and (iii) the attractiveness of the structure, which did not require us to make any cash outlay, our Board concluded that the Merger was in the best interest of our shareholders. In its analysis of alternatives, our Board further considered not only alternative transactions but also a liquidation scenario, which, given the ongoing obligations related to our CDO's, our Board determined was inferior to the Merger. We conducted significant diligence on the Merger and also obtained a fairness opinion by an independent financial advisory firm, experienced in both real estate and financial matters. After conducting their own analysis of the Merger, the independent financial advisory firm concluded that the Merger was fair to our shareholders.

Concurrent with the closing of the Merger, we gave notice to Waldron H. Rand & Company, P.C. who has been providing asset management and financial services to us, of our intent to terminate our agreement effective August 31, 2013. The work currently performed by Waldron Rand will be assumed by our employees on a going forward basis. Under our agreement with Waldron Rand, there is no termination fee due to Waldron Rand.

About ClearVue Management, Inc.

CV's strategy has consisted primarily of purchasing portfolios of NPLs. CV manages the loss mitigation process and works with qualified homeowners to restructure the loan(s) and/or monetize the asset(s). Through 12/31/2012, CV has raised capital for 25 funds to purchase 25 portfolios of NPLs and REOs totaling over 1,650 homes across 45 states, representing a total unpaid principal balance of approximately $300 million.

Management Discussion

Concurrent with the closing of the Merger, Ricardo Koenigsberger and Kenneth Witkin will become Co-CEOs. CV's founders and principals, Dennis Regan, Matt Regan and David Haddad will become Executive Vice Presidents of the Company and will continue their respective operating roles prior to the transaction. Jonny Harmer, CV's CFO will also become an Executive Vice President of the Company and will become our CFO.

About Realty Finance Corporation/CV Holdings Corporation

Prior to the Merger, we were a commercial real estate, specialty finance company primarily focused on managing a diversified portfolio of commercial real estate-related loans and securities. After the Merger, in addition to performing our obligations in connection with our legacy assets in commercial real estate, we will be primarily focused on growing our newly-acquired residential non-performing loan business.

Our common stock is currently quoted on the OTC Markets Group, or OTC Markets. While not a requirement, the 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 such information disclosed herein. There is no assurance that we will provide timely periodic disclosures or at all.

We elected to qualify as a real estate investment trust, or REIT, for U. S. federal income tax purposes commencing with the taxable year ended December 31, 2005. We intend to continue to qualify as a REIT. As a REIT, we generally will not be subject to U. S. federal income tax on that portion of our income that we distribute to our stockholders if we continue to qualify as a REIT, including distributing at least 90% of our annual "REIT taxable income" to our stockholders. We conduct our operations so as to not be or become regulated as an investment company under the Investment Company Act of 1940. We have not had any taxable income since 2007 and we do not expect to have any taxable income in the foreseeable future.

Forward-Looking 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 successful integration of the business, personnel and management of CV into the Company's business and operations, the Company's ability to continue to cover its operating cash requirements; the success of the Company's interest in the Marriott Waikiki, the risk factors included as part of the Company's Annual Report on Form 10-K for the period December 31, 2008 filed on March 16, 2009; the Company's future operating results; its business operations and prospects; whether the Company can execute a strategic alternative; general volatility of the securities market in which the Company invests and the market prices of its common stock; the effect of trading on the OTC Markets; availability, terms and deployment of short-term and long-term capital; availability of qualified personnel and directors; changes in the industry; interest rates; the debt securities, credit and capital markets, the general economy or the commercial finance and real estate markets specifically; performance and financial condition of borrowers and corporate customers; any future litigation that may arise; the ultimate resolution of the Company's numerous defaulted loans; the state of the Company's joint venture investments; the ability to continue as a going concern; availability of liquidity; and other factors, which are beyond the Company's control. The Company undertakes no obligation to publicly update or revise any of the forward-looking statements. For further information, please refer to the Company's previous periodic filings with the Securities and Exchange Commission. However, the Company is no longer a Securities and Exchange Commission reporting company as of March 16, 2009 and therefore, such information is not current and circumstances have changed significantly since the date of such filings.

Pro forma Financial Information

Below are: (i) six month year to date summary income statement and balance sheet for RFC and CV, (ii) 2012 fiscal year end summary income statements and balance sheets for RFC and CV and (iii) pro forma presentations for both. The financial statements below were not prepared in accordance with GAAP, have not been audited, and are provided herein solely for illustrative purposes. The pro forma adjustments are also not prepared in accordance with GAAP, but are merely adjustments the Company felt are reflective of pro forma results.

Pro forma Consolidated Balance Sheets
(Amounts in Thousands)
June 30, 2013
(Unaudited)

	ClearVue Mgmt.	RFC	Total	Pro forma Adjustments		Pro forma Balances
ASSETS						
Current assets						
Cash	$ 1,426	$ 4,503	$ 5,929	$ 160	<e> <f>	$ 6,089
Management fees receivable	688	-	688	-		688
Income taxes receivable	204	-	204	-		204
Prepaid expenses	22	272	294	-		294
Other receivables	-	428	428	-		428
Investments in joint ventures	-	81	81	-		81
Investments in real estate assets held for sale	1,325	-	1,325	-		1,325
Total current assets	3,665	5,284	8,949	160		9,109
Non-current assets						
Investments in Opportunity Funds	3,700	-	3,700	-		3,700
Goodwill	-	-	-	4,815	<c>	4,815
Property and equipment, net	15	-	15	-		15
Deferred tax asset	19	-	19	-		19
Total non-current assets	3,734	-	3,734	4,815		8,549
Total assets	$ 7,399	$ 5,284	$ 12,683	$ 4,975		$ 17,658
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Accounts payable and accrued expenses	$ 179	$ 152	$ 331	$ -		$ 331
Note payable	-	-	-	5,000	<d>	5,000
Deferred tax liability	36	-	36	-		36
Total current liabilities	215	152	366	5,000		5,366
Stockholders' equity						
Preferred stock	6,000	-	6,000	(3,066)	<a> <b>	2,935
Common stock	1	327	328	2,580	<b>	2,908
Additional paid-in capital	123	423,236	423,359	1,360	<a> <b>	424,719
Retained earnings (accumulated deficit)	1,060	(418,431)	(417,371)	(900)	<a> <e><f>	(418,270)
Total stockholders' equity	7,184	5,132	12,316	(25)		12,291
Total liabilities and stockholders' equity	$ 7,399	$ 5,284	$ 12,683	$ 4,975		$ 17,658

<a> To eliminate the equity of ClearVue Management, Inc.

<b> Equity of RFC issued - $2,935MM of preferred stock, $2,580MM of common stock, and warrants valued at $1,483MM

<c> Goodwill recognized based on $12MM value. The valuation and the goodwill amount is based on management's estimate of future fees, promote interests and appreciation of investment assets not yet recognized. Additionally, identifiable intangible assets and their values have yet to be determined.

<d> Debt issued in transaction - $5MM

<e> Elimination of $60K consulting fee paid to former preferred shareholder

<f> Elimination of deal costs- $100K

Realty Finance Corporation

Pro forma Consolidated Statements of Operations

(Amounts in Thousands)

For the Six Months Ended June 30, 2013

(Unaudited)

	ClearVue Mgmt.	RFC	Total	Pro forma Adjustments		F fo Bal
Revenue						
Real estate asset sales	$ 424	$ -	$ 424	$ -		$
Cost of real estate asset sales	(322)	-	(322)	-		
Realized loss on sale of real estate assets	102	-	102			
Management fees	874	1,277	2,151	-		
Realized gain (loss) on investments	32	(220)	(188)	-		
Other income	77	55	132	-		
Total revenue	1,085	1,112	2,197	-		
Operating expenses						
Salaries and related payroll costs	1,028	-	1,028	-		
General and administrative costs	187	1,080	1,267	(100)	<f>	
Management and consulting fees	60	-	60	(60)	<e>	
Property expenses	129	-	129	-		
Depreciation	7	-	7	-		
Total expenses	1,411	1,080	2,491	(160)		
Net income (loss) from operations	(326)	32	(294)	160		
Interest expense	(10)	-	(10)	-		
Net income (loss) before provision for income taxes	(336)	32	(304)	160		
Income tax benefit provision	(5)	-	(5)	-		
Net income (loss)	$ (341)	$ 32	$ (309)	$ 160		$

<e> Elimination of $60K consulting fee paid to former preferred stockholder

<f> Elimination of deal costs- $100K

Realty Finance Corporation
Pro forma Consolidated Balance Sheets
(Amounts in Thousands)
December 31, 2012
(Unaudited)

	ClearVue Mgmt.	RFC	Total	Pro forma Adjustments		Pro forma Balances
ASSETS						
Current assets						
Cash	$ 1,504	$ 4,370	$ 5,874	$ 120	<e>	$ 5,994
Management fees receivable	446	-	446	-		446
Income taxes receivable	239	-	239	-		239
Prepaid expenses	23	149	172	-		172
Other receivables	-	225	225	-		225
Investments in joint ventures	-	521	521	-		521
Investments in real estate assets held for sale	1,654	-	1,654	-		1,654
Total current assets	3,866	5,265	9,131	120		9,251
Non-current assets						
Investments in Opportunity Funds	4,725	-	4,725	-		4,725
Goodwill	-	-	-	4,475	<c>	4,475
Property and equipment, net	22	-	22	-		22
Deferred tax asset	19	-	19	-		19
Total non-current assets	4,766	-	4,766	4,475		9,241
Total assets	$ 8,632	$ 5,265	$ 13,897	$ 4,595		$ 18,492
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Accounts payable and accrued expenses	$ 322	$ 45	$ 367	$ -		$ 367
Note payable	-	220	220	5,000	<d>	5,220
Line of credit	750	-	750	-		750
Deferred tax liability	36	-	36	-		36
Total current liabilities	1,108	265	1,373	5,000		6,373
Stockholders' equity						
Preferred stock	6,000	-	6,000	(3,065)	<a> <b>	2,935
Common stock	1	318	319	2,580	<b>	2,899
Additional paid-in capital	123	423,145	423,268	1,360	<a> <b>	424,628
Retained earnings (accumulated deficit)	1,400	(418,463)	(417,063)	(1,280)	<a> <e>	(418,343)
Total stockholders' equity	7,524	5,000	12,524	(405)		12,119
Total liabilities and stockholders' equity	$ 8,632	$ 5,265	$ 13,897	$ 4,595		$ 18,492

<a> To eliminate the equity of ClearVue Management, Inc.

<b> Equity of RFC issued - $2,935MM of preferred stock, $2,580MM of common stock, and warrants valued at $1,483MM

<c> Goodwill recognized based on $12MM value. The valuation and the goodwill amount is based on management's estimate of future fees, promote interests and appreciation of investment assets not yet recognized. Additionally, identifiable intangible assets and their values have yet to be determined.

<d> Debt issued in transaction - $5MM

<e> Elimination of $120K consulting fee paid to former preferred stockholder

Realty Finance Corporation

Pro forma Consolidated Statements of Operations

(Amounts in Thousands)

For the Year Ended December 31, 2012

(Unaudited)

	ClearVue Mgmt.	RFC	Total	Pro forma Adjustments		Pro form Balan
Revenue						
Real estate asset sales	$ 222	$ -	$ 222	$ -		$ 2
Cost of real estate asset sales	(389)	-	(389)	-		(3
Realized loss on sale of real estate assets	(167)	-	(167)	-		(1
Management fees	2,392	2,110	4,502	-		4,5
Realized and unrealized loss on investments	(13)	(226)	(239)	-		(2
Other income	34	300	334	-		3
Total revenue	2,246	2,184	4,430	-		4,4
Operating expenses						
Salaries and related payroll costs	2,213	-	2,213	-		2,2
General and administrative costs	391	2,391	2,782	-		2,7
Management and consulting fees	120	-	120	(120)	<e>	
Property expenses	97	-	97	-		
Depreciation	18	-	18	-		
Total expenses	2,839	2,391	5,230	(120)		5,1
Net (loss) from operations	(593)	(207)	(800)	(120)		(6
Interest expense	(15)	-	(15)	-		(
Net (loss) before provision for income taxes	(608)	(207)	(815)	(120)		(6
Income tax benefit provision	(118)	-	(118)	-		(1
Net (loss)	$ (490)	$ (207)	$ (697)	$ (120)		$ (5

<e> Elimination of $120K consulting fee paid to former preferred stockholder

SOURCE Realty Finance Corporation