

FRANKLIN CREDIT MANAGEMENT CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

FRANKLIN CREDIT MANAGEMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Franklin Credit Management Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Franklin Credit Management Corporation (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Franklin Credit Management Corporation as of December 31, 2016 and 2015, 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.

Marcum LLP

New York, NY
March 29, 2017



FRANKLIN CREDIT MANAGEMENT CORPORATION
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
Cash and cash equivalents	\$ 5,675,879	\$ 1,492,068
Restricted cash.....	10,281,158	10,619,088
Investment in Bosco VI.....	-	73,311
Receivables.....	2,580,070	2,077,815
Building, furniture and equipment, net.....	110,095	-
Other assets.....	306,217	338,366
Total assets	<u>\$ 18,953,419</u>	<u>\$ 14,600,648</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Servicing liabilities.....	\$ 4,816,755	\$ 5,155,607
Notes payable	129,384	411,184
Accrued expenses and other current liabilities	2,698,496	2,086,740
Total liabilities.....	<u>7,644,635</u>	<u>7,653,531</u>
 STOCKHOLDERS' EQUITY:		
Common stock, \$.01 par value, 22,000,000 authorized shares; issued and outstanding 10,021,549 at December 31, 2016 and December 31, 2015.....	100,216	100,216
Additional paid in capital.....	6,294,667	6,294,667
Retained earnings	4,913,901	552,234
Total stockholders' equity.....	<u>11,308,784</u>	<u>6,947,117</u>
Total liabilities and stockholders' equity	<u>\$ 18,953,419</u>	<u>\$ 14,600,648</u>

See Notes to Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Servicing income	\$ 11,525,080	\$ 7,289,499
Other income	218,402	271,817
Interest income	<u>10,922</u>	<u>20,610</u>
Total revenues	<u>11,754,404</u>	<u>7,581,926</u>
Operating Expenses:		
Collection, general and administrative	7,144,260	7,011,943
Bad debt expense	100,000	-
Interest	8,236	15,515
Depreciation	<u>22,049</u>	<u>27,248</u>
Total expenses	<u>7,274,545</u>	<u>7,054,706</u>
Net income before provision for income taxes	4,479,859	527,220
Provision for income taxes	<u>118,192</u>	<u>3,728</u>
Net income attributable to common stockholders	<u>\$ 4,361,667</u>	<u>\$ 523,492</u>
Net income per common share		
Basic and Diluted	<u>\$ 0.44</u>	<u>\$ 0.05</u>
Weighted average number of common shares		
Outstanding, basic and diluted	<u>10,021,549</u>	<u>10,022,301</u>

See Notes to Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION
STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Common Stock</u>	<u>Common Amount</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings/ (Deficit)</u>	<u>Total</u>
BALANCE, JANUARY 1, 2015.....	10,035,993	\$ 100,360	\$ 8,403,736	\$ 28,742	\$ 8,532,838
Net income	-	-	-	523,492	523,492
Shares purchased and canceled under a reverse stock split.....	(14,444)	(144)	(7,078)	-	(7,222)
Payment of non- dividend distribution	-	-	(2,101,991)	-	(2,101,991)
BALANCE, DECEMBER 31, 2015.....	<u>10,021,549</u>	<u>100,216</u>	<u>6,294,667</u>	<u>552,234</u>	<u>6,947,117</u>
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,361,667</u>	<u>4,361,667</u>
BALANCE, DECEMBER 31, 2016.....	<u>10,021,549</u>	<u>\$ 100,216</u>	<u>\$ 6,294,667</u>	<u>\$ 4,913,901</u>	<u>\$ 11,308,784</u>

See Notes to Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$ 4,361,667	\$ 523,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,049	27,248
Bad debt	100,000	-
Changes in operating assets and liabilities:		
Restricted cash.....	337,930	1,224,961
Receivables.....	(602,255)	(252,661)
Other assets	32,149	264,887
Servicing liabilities.....	(338,852)	865,181
Accrued expenses and other current liabilities	611,756	(1,545,951)
Net cash provided by operating activities	<u>4,524,444</u>	<u>1,107,157</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Recovery of investment in Bosco VI joint venture.....	73,311	134,851
Purchase of equipment, furniture and fixtures	(132,144)	-
Net cash (used in)/ provided by investing activities	<u>(58,833)</u>	<u>134,851</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments of notes payable.....	(281,800)	(221,800)
Payment on non-dividend distribution	-	(2,101,991)
Shares purchased and canceled under a reverse stock split.....	-	(7,222)
Net cash used in financing activities.....	<u>(281,800)</u>	<u>(2,331,013)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	4,183,811	(1,089,005)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,492,068</u>	<u>2,581,073</u>
CASH AND CASH EQUIVALENTS, END OF YEAR.....	<u>\$ 5,675,879</u>	<u>\$ 1,492,068</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest.....	<u>\$ 8,236</u>	<u>\$ 15,515</u>
Cash paid for income taxes.....	<u>\$ 3,728</u>	<u>\$ 52,681</u>

See Notes to Financial Statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

1. BASIS OF PRESENTATION AND BUSINESS

As used herein, references to the “Company,” “Franklin Credit,” “we,” “our” and “us” refer to Franklin Credit Management Corporation (“FCRM”). References to “Bosco I” refers to Bosco Credit, LLC; “Bosco II” refers to Bosco Credit II, LLC; “Bosco II-2” refers to Bosco Credit II-2, LLC; “Bosco II-3” refers to Bosco Credit II-3, LLC; “Bosco III” refers to Bosco Credit III, LLC; “Bosco IV” refers to Bosco Credit IV, LLC; “Bosco V” refers to Bosco Credit V, LLC; “Bosco V-2” refers to Bosco Credit V-2, LLC; “BoscoV-3” refers to Bosco Credit V-3, LLC; and, “Bosco VI” refers to Bosco Credit VI, LLC.

Franklin Credit is a specialty consumer finance company primarily engaged in the servicing and resolution of performing, reperforming and nonperforming residential mortgage loans, including specialized loan recovery and collection servicing, and in the analysis, pricing and acquisition of residential mortgage portfolios, for third parties.

Franklin Credit is an independent publicly traded company and, at December 31, 2016, had 10,021,549 shares of common stock issued and outstanding. Thomas J. Axon, the Chairman and President of Franklin Credit, holds approximately 56% of Franklin Credit’s common stock.

Franklin Credit’s common stock is bought and sold on the Grey Sheets under the trading symbol FCRM. See Note 16. Franklin Credit’s administrative and executive office is located in Jersey City, New Jersey.

Reverse/Forward Split of the Company’s Common Stock

On January 20, 2015, the Company completed a Reverse Stock Split at a ratio of 1-for-200 and Forward Stock Split at a ratio of 200-for-1 by filing amendments to its certificate of incorporation. Shares of Common Stock held by shareholders of record owning fewer than 200 shares of pre-Reverse Stock Split shares at the close of business on January 20, 2015, which totaled approximately 14,450 shares, were cancelled, and such shareholders received a cash payment of \$0.50 per pre-split share.

After giving effect to the Reverse/Forward Split, the Company’s Common Stock began trading on or about January 22, 2015 under the new CUSIP number 353491202. It is anticipated that the Company’s Common Stock will continue to trade under the symbol “FCRM” on the Grey Sheets.

The effect of the Reverse/Forward Split was to ensure that the number of record holders of the Company’s Common Stock (427 as of October 7, 2014) would be below 300 so that the Company would be eligible to terminate the public registration of the Company’s Common Stock under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As of January 21, 2015, there were approximately 168 record holders of the Company’s common stock. Accordingly, as permitted by the Exchange Act, following determination by the Company that the number of shareholders of record of the Company’s common stock was fewer than 300, the Company on January 21, 2015 filed with the Commission a Certification and Notice of Termination of Registration under Section 12(g) of the Securities Exchange Act of 1934 on Form 15 (the “Form 15”). The Form 15 notified the Commission of the withdrawal of the Company’s Common Stock from registration under Section 12(g) of the Exchange Act in accordance with Rule 12g-4(a)(1) under the Exchange Act. The deregistration became effective 90 days after filing of the Form 15 on April 21, 2015. With suspension of its reporting obligations currently in effect, the Company intends to provide limited financial information to allow for public trading of the Company’s Common Stock on the Grey Sheets, although there can be no assurance that the Company

will undertake to provide, or continue to provide, such limited information, or that any trading market for the Company's Common Stock will exist, following the deregistration. See Note 16.

Description of the Company's Business

Franklin Credit is a specialty consumer finance company primarily engaged in the servicing and resolution of performing, reperforming and nonperforming residential mortgage loans, including specialized loan recovery and collection servicing, and in the analysis, pricing and acquisition of residential mortgage portfolios, for third parties. The Company's servicing operations, including specialized loan recovery and collection servicing, consists of a call center staffed by professionals skilled in customer service, collections, loss mitigation, foreclosure, bankruptcy, real estate property.

At December 31, 2016, the Company's specialty servicing and collection business actively managed approximately 31,359 loans and real estate properties with an unpaid principal balance ("UPB") of approximately \$1.42 billion, including a total of approximately 25,838 first and second-lien loans for the Bosco entities, which are related-party entities of the Company, as follows: approximately 1,356 home equity loans for Bosco I; approximately 19,800 subordinate-lien loans for the Bosco II entities; approximately 398 actively serviced first and subordinate-lien loans that are in principally bankruptcy, foreclosure or charge-off statuses for Bosco III, and approximately 469 actively serviced loans pledged by subsidiaries of the Company's former parent company to a consortium of lenders, including Bosco III, 2 foreclosure loans serviced for Bosco IV, a 50% participant 2,285 non-performing subordinate-lien loans serviced for the Bosco V entities; and, approximately 1,528 performing, subperforming and non-performing subordinate-lien loans serviced for Bosco VI. At December 31, 2016, approximately 96% of the portfolio of residential mortgage loans (based on UPB) serviced for other entities consisted of second-lien loans. See Notes 10 and 12.

At both December 31, 2016 and 2015, the unpaid principal balance of loans serviced for the Bosco related-party entities represented approximately 90%, of the total unpaid principal balance and 82% of the number of loans at both December 31, 2016 and 2015. Bosco II is the Company's largest servicing client. See Notes 10 and 12.

Servicing revenues during the twelve months ended December 31, 2016 and 2015 amounted to \$11.5 million and \$7.3 million, respectively. Included in the Company's revenues were servicing fees recognized from servicing the portfolios for the Bosco-related entities of \$11.3 million and \$7.0 million for the twelve months ended December 31, 2016 and 2015, respectively. The servicing revenues earned from servicing pools of loans for the Bosco-related entities represented approximately 98% and 96% of the total servicing revenues earned during the twelve months ended December 31, 2016 and 2015, respectively. See Notes 10 and 12.

Basis of Presentation

The Financial Statements include all normal and recurring adjustments that management believes necessary for a fair presentation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company’s estimates and assumptions primarily arise from uncertainties and changes associated with interest rates and credit exposure related to the loans the Company services for third parties, useful lives of fixed assets and allowance for income taxes. Although management is not currently aware of any factors that would significantly change its estimates and assumptions in the near term, future changes in market trends, market values and interest rates and other conditions may occur that could cause actual results to differ materially.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the amounts of revenues and expenses. Actual results could differ from those estimates.

Net Income or Loss Per Common Share – Basic net income per common share is calculated by dividing net income attributed to common stockholders by the weighted average number of common shares outstanding during the period. Dilutive net income per share is calculated by dividing net income attributed to common stockholders by the weighted average number of common shares outstanding and the weighted average number of dilutive stock options. There were no common stock equivalents outstanding during the year ended December 31, 2016 or December 31, 2015.

Cash and Cash Equivalents – Cash and cash equivalents includes cash and certificates of deposit with original maturities of three months or less (when purchased), with the exception of restricted cash, which is reported separately on the balance sheet. The Company maintains accounts at banks, which at times may exceed federally insured limits. The Company has not experienced any losses from such concentrations.

Restricted Cash – Restricted cash includes cash held for third parties, which includes interest, principal and other collections received from servicing portfolios for third-party clients, and pledged cash to the Huntington National Bank (the “Bank”) of \$5.5 million, under a licensing credit agreement (the “Licensing Credit Agreement”) (secured by a first-priority lien) with Franklin and a legacy credit agreement (secured by a second-priority lien) with subsidiaries of the Company’s former parent company, Franklin Holding (but not the Company or Franklin Holding), that matured on March 31, 2012. On March 16, 2015, in connection with the extension of the Licensing Credit Agreement, the Bank required \$2.1 million of the cash collateral to be applied as a payment under the legacy credit agreement. The rights and remedies of the Bank with respect to the remaining cash collateral which as of March 21, 2017 is \$5.5 million) resulting from that matured credit agreement is subject to a forbearance agreement until March 31, 2018. See Note 8 and 18.

Fair Value Measurements – Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures*, establishes a three-tier hierarchy for fair value measurements based upon the transparency of the inputs to the valuation of an asset or liability and expands the disclosures about instruments measured at fair value. A financial instrument is categorized in its entirety and its

categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. At December 31, 2016 and 2015, the Company had no instruments that required fair value measurement, with the exception of Cash and cash equivalents and Restricted cash and restricted cash equivalents.

Building, Furniture and Equipment – Building, furniture and equipment, including leasehold improvements, is recorded at cost net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Amortization of leasehold improvements is computed using the straight-line method over the lives of the related leases or useful lives of the related assets, whichever is shorter. Maintenance and repairs are expensed as incurred.

Income Taxes – Income taxes are accounted for under ASC Topic 740, *Accounting for Income Taxes* (“Topic 740”), which requires an asset and liability approach in accounting for income taxes. This method provides for deferred income tax assets or liabilities based on the temporary difference between the income tax basis of assets and liabilities and their carrying amount in the Financial Statements. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that some portion or all of the benefit of the deferred tax assets will not be realized in future years. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment of the changes. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible. The benefit of tax positions taken or expected to be taken in the Company’s income tax returns are recognized in the consolidated financial statements if such positions are more likely than not of being sustained.

Revenue Recognition – The Company applies the revenue recognition principles set forth under Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin 104 (“SAB 104”), which provides for revenue to be recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been performed, fees are fixed or determinable, and collectability is reasonably assured.

Servicing Fees – Servicing fees consist of fees for servicing loans and providing collection and recovery services for third parties, ancillary fees from servicing loans for third parties, such as, late charges, prepayment penalties, and other miscellaneous servicing-related income. Servicing fees are recognized principally on an accrual basis.

Other Income – Other income consists of various miscellaneous fees and other revenue indirectly related to the servicing of loans and real estate properties. Revenues included in Other income are recognized principally on an accrual basis.

Fair Value of Financial Instruments – ASC Topic 825, *Financial Instruments* (“Topic 825”) requires disclosure of fair value information of financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Topic 825 excludes certain financial instruments and all non-financial assets and liabilities from its disclosure requirements. Accordingly, the aggregate fair value amounts do not represent the underlying value of the Company.

The methods and assumptions used by the Company in estimating the fair value of its financial instruments at December 31, 2016 and 2015 (Cash, Restricted cash, Investments in Bosco VI, Accrued interest receivable, Other receivables, Accounts payable and Accrued expenses) were the carrying values reported in the balance sheets, which represented reasonable estimates of fair value.

Servicing Liabilities – Servicing liabilities consist of principal, interest, taxes and other payments collected from providing servicing, collection and recovery service to third-party clients.

Recent Accounting Pronouncements – In November 2016, The Financial Accounting Standards Board (“FASB”) issued ASU 2016-18 *Statement of Cash Flows* (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted. These amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The Company has not yet determined the effect of the adoption of this standard on the Company’s financial position and results of operations.

In August 2016, The FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which addresses certain issues where diversity in practice was identified and may change how an entity classifies certain receipts and cash payments on its statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. This guidance will generally be applied retrospectively and is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those years. For all other entities, it is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company has not yet determined the effect of the adoption of this standard on the Company’s financial position and results of operations.

In February 2016, The FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. The new standard creates Topic 842 *Leases*, in the FASB Accounting Standards Codification (“FASB ASC”) and supersedes FASB ASC 840, *Leases*. ASU 2016-02 requires a lessee to recognize the assets and liabilities that arise from leases (operating and finance). However, for leases with a term of 12 months or less a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The amendments are effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted for all entities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company has not yet determined the effect of the adoption of this standard on the Company’s financial position and results of operations.

In January 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-01 *Financial Instruments (Topic 825-10. Recognition and Measurement of Financial Assets and Financial Liabilities)*. The amendments in ASU 2016-01 among other things requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The standard is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. In addition, the new guidance permits early adoption. The adoption of this standard is not expected to have a material impact on the Company’s financial position and results of operations.

In November 2015, the FASB issued Accounting Standard Update (“ASU”) No. 2015-17, *Income Taxes (Topic 740:Balance Sheet Classification of Deferred Taxes)*. The amendments in ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The adoption of this standard is not expected to have a material impact on the Company’s financial position and results of operations.

In April 2015, the FASB issued ASU No. 2015-03 (“ASU 2015-03”), “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts, instead of being presented as an asset. ASU 2015-03 was effective on January 1, 2016. The adoption of this standard did not have any impact on the Company’s financial position and results of operations.

The Financial Accounting Standards Board (“FASB”) has issued Accounting Standard Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers*. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 – *Revenue Recognition* and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The adoption of this standard is not expected to have a material impact on the Company’s financial position and results of operations.

3. RESTRICTED CASH

Restricted cash includes cash held for third parties, which includes interest, principal and other collections received from servicing portfolios for third-party clients, and pledged cash to the Bank. Included in Restricted cash at December 31, 2016 and December 31, 2015 was interest, principal and other collections received from servicing portfolios for third-party clients in the amount of \$4.8 million and \$5.2 million, respectively. Included in Restricted cash at December 31, 2016 and December 31, 2015 was pledged cash to the Bank of \$5.5 million and \$5.4 million respectively, pledged under a licensing credit facility (the Licensing Credit Agreement) with the Bank and Huntington Finance, LLC, which is secured by a first-priority lien, and a legacy credit agreement, which is secured by a second-priority lien, with subsidiaries of Franklin Credit Holding Corporation (the former parent of the Company), but not the Company, that matured on March 31, 2012. On March 16, 2015, in connection with the extension of the Licensing Credit Agreement, the Bank required \$2.1 million of the cash collateral to be applied as a payment under the legacy credit agreement. The rights and remedies of the Bank with respect to the remaining cash collateral (which as of March 21, 2017 is \$5.5 million) resulting from that matured credit agreement are subject to a forbearance agreement until March 31, 2018. See Notes 8 and 18.

4. INVESTMENT IN BOSCO VI

At December 31, 2016, the Company had recovered its total investment in Bosco VI but still holds a 15% interest in future cash distributions. At December 31, 2015, the Company had a \$73,000 investment (an 8.06% investment interest) in Bosco VI, with Mr. Axon holding the remaining investment interest in Bosco VI.

In May 2012, Franklin Credit participated in a joint venture (Bosco VI) with Thomas J. Axon, the Chairman, President and majority stockholder of Franklin Credit, which purchased a pool of approximately 1,900 performing, subperforming and non-performing subordinate-lien loans with an unpaid principal balance of approximately \$100.8 million. The pool was purchased by Bosco VI for \$6,930,000. The owners of Bosco VI include Mr. Axon at an initial ownership percentage at 67.39% and the Company at 32.61%. The Company's initial capital investment in Bosco VI was \$1,500,000, which the Company contributed in cash. Bosco VI entered into a term loan (the "Loan") with a third-party lender in the amount of \$1,500,000. All net cash collected from the servicing of the loan pool, after servicing fees and other expenses, was applied to pay interest and principal on the Loan, until January 2013, when the Loan was paid off in accordance with the Loan agreement. As a result, Bosco VI did not receive any return on its investment from the cash collected from the pool of loans until after the Loan was paid off in January 2013, and, prior to then, Franklin's servicing fee was limited in accordance with the Loan agreement, with the unpaid servicing fees deferred. See Note 12.

In order to invest in Bosco VI, Mr. Axon, separately, personally borrowed from a third-party lender \$3,550,000. In order to induce the third-party lender to make the loan to Mr. Axon, the Company, with the approval of its Audit Committee, agreed to mortgage its office unit in a commercial condominium premises known as Unit 6 in a condominium building located in downtown New York City ("Unit 6"), in favor of the third-party lender in the amount of \$3,000,000, in exchange for a membership interest in Bosco VI of not less than 15%. The personal loan to Mr. Axon by the third-party lender remains outstanding. On September 12, 2014, Mr. Axon assumed the mortgage in connection with his exercise of the Preferred Stock for the Real Estate. The Company retained its interest in Bosco VI. See Note 13.

Effective December 20, 2012, Mr. Axon purchased 50% of the Company's investment interest in Bosco VI for \$750,000.

In January 2013, Bosco VI paid the Loan off in full. As a result, commencing in January 2013, the Company became entitled to its monthly servicing fees uncapped and the deferred servicing fees from future net cash collections on the loans serviced for Bosco VI. The Company also became entitled to distributions made by Bosco VI to its members commencing in January 2013 based on its investment interest of 16.09%.

Effective March 11, 2013, Mr. Axon purchased \$250,000 of the Company's investment in Bosco VI, and effective March 11, 2013, Mr. Axon continued to hold 83.91% of the membership interests of Bosco VI and the Company continued to hold a 16.09% membership interest in Bosco VI. Following the investment interest purchase, the Company's outstanding cash capital contribution was \$500,000. See Note 12.

The Company recognizes earnings on its investment using the cost recovery method of accounting due to the significantly impaired pool of loans purchased by Bosco VI. During the year ended December 31, 2016, the Company received distributions from Bosco VI totaling \$194,921 of which \$121,610 was recognized as income and \$73,311 was recognized as a reduction of the Company's investment. During the year ended December 31, 2015, the Company received distributions from Bosco VI totaling \$134,852, which was recognized as a reduction of the Company's investment.

The Company entered into a servicing agreement with a trust of Bosco VI to provide the servicing and collection services for the purchased pool. The Company's services may be terminated only for cause. See Note 12.

5. RECEIVABLES

Receivables at December 31, 2016 and 2015 consisted of:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Third-party servicing fees and expenses	\$ 27,356	\$ 41,317
Due from affiliates	-	20,790
Servicing fees and expenses due from Bosco-related entities	1,552,687	1,015,396
Other receivables	<u>1,000,027</u>	<u>1,000,312</u>
	<u>\$ 2,580,070</u>	<u>\$ 2,077,815</u>

Due from affiliates at December 31, 2016 and December 31, 2015 consisted of management fees for administrative services provided to the bankruptcy estate of the Company's former parent company and its former sister companies (collectively referred to as Franklin Holding). The liquidation manager for Franklin Holding has retained the Company as professionals to assist with the preparation of required tax returns for Franklin Holding and its subsidiary companies and for the dissolution of those entities on generally a time and materials basis. The bankruptcy estate of Franklin Holding reimburses the Company, based on time spent by the Company's employees (including wages and employee benefits), other than for the liquidation manager of Franklin Holding, who provide services for Franklin Holding, and other reasonable third-party costs and expenses incurred in connection with such services. In addition, the Company will continue to service loans for certain subsidiaries of Franklin Holding until such entities are liquidated or dissolved. See Note 7.

Other receivables at December 31, 2016 and 2015 consisted of servicing fees, expenses due from Bosco-related entities and funds, as a source of indemnification for certain officers and directors of Franklin Holding (the former parent company of the Company), held by a trustee for a trust, to provide designated individuals with indemnification protection contemplated by Franklin Holding's certificate of incorporation and bylaws, created pursuant to an indemnification trust agreement in the amount of \$1.0 million. As the trust was actually funded by the Company, the Company has asserted an interest in, and claim to, the residual funds to be disbursed upon the termination of the trust on March 31, 2019, or such other date as otherwise provided for in the indemnification trust agreement. However, since Franklin Holding was the grantor of the trust, the bankruptcy estate of Franklin Holding has a right to the return of any residual funds from the trust, and the Company's claim was treated as an allowed general unsecured claim under Franklin Holding's prepackaged bankruptcy plan. The Company has determined that the receivable for the indemnification trust is collectible; however, future events could change the Company's assessment of collectability. The liquidation manager of Franklin Holding cannot make any distributions on account of allowed general unsecured claims until after all allowed administrative claims, allowed priority claims, allowed secured claims and liquidation costs have been paid, unless the liquidation manager determines an earlier distribution is appropriate. It is management's belief that the risk of any claims being filed against Franklin Holding was greatest at the onset of when the bankruptcy proceedings were initially made known and that this risk dissipates over time. Since the time the bankruptcy proceedings were initially made known and through the current date, there have been no claims filed under the trust agreement. Regardless of any potential future events that might adversely affect the realization of the amounts held by the trustee at termination, the Company determined that the amounts recorded are appropriate and that the receivable will be collected in full. Except for the indemnification trust agreement, Franklin Holding has rejected any indemnification obligations arising under its certificate of incorporation and bylaws, pursuant to its confirmed and effective prepackaged plan of reorganization

(the “Prepackaged Plan”), and did not procure an extended directors’ and officers’ liability run-off insurance policy to cover claims occurring prior to the effective date of the Prepackaged Plan.

6. BUILDING, FURNITURE AND EQUIPMENT, NET

At December 31, 2016 and 2015, building, furniture and equipment, net consisted of the following:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 126,155	\$ -
Furniture and equipment	5,989	-
	<u>132,144</u>	<u>-</u>
Less accumulated depreciation	(22,049)	-
	<u>\$ 110,095</u>	<u>\$ -</u>

Depreciation expenses amounted to approximately \$22,000 and \$27,000 for the years ended December 31, 2016 and 2015, respectively. During 2016, the Company made capital improvements of \$126,000 to its office space and purchased \$6,000 in office equipment.

7. NOTES PAYABLE

As consideration for the distribution on August 10, 2012 of all of the common shares of the Company held by its former parent company, Franklin Holding, and as required under Franklin Holding’s Prepackaged Plan, (i) on August 2, 2012, the Company executed a promissory note in the amount of \$1,109,000 payable in monthly installments over a period of five years at an interest rate of 3.25% per annum (the “Note”), which is guaranteed by Thomas J. Axon, the Chairman and President of Franklin Credit, and (ii) on August 10, 2012, the Company made a cash payment of \$250,000 (the “Cash Payment”) to the bankruptcy estate of Franklin Holding. The Note and Cash Payment (the aggregate amount of which represents the market value as determined by an independent third-party valuation firm) are to be used to pay the expenses, allowed administrative claims, and other additional costs of winding down Franklin Holding and its bankruptcy estate under the terms of the Franklin Holding’s Prepackaged Plan.

For the term of the Note, which began September 1, 2012, on the first day of each month, the Company pays to the bankruptcy estate of Franklin Holding \$18,483 per month, plus interest of 3.25% calculated on the outstanding Note balance at the close of the prior month, based on a 360-day year multiplied by the actual number of days elapsed each month. The Company may prepay the principal due on the Note without penalty. If payments are not made on time, there is a late charge of five cents (\$0.05) for each dollar (\$1.00) of the delinquent payment. The default interest rate for the Note in an event of default (as defined in the Note) would be 8.25%. The representations, warranties and covenants of the Company, which are contained in the Note, are typical for agreements of that type.

During the twelve months ended December 31, 2016, the Company paid the bankruptcy estate of Franklin Holding approximately \$230,000, which included interest of approximately \$8,000, in accordance with the terms of the Note. During the twelve months ended December 31, 2015, the Company paid the bankruptcy estate of Franklin Holding approximately \$237,000, which included interest of approximately \$16,000 in accordance with the terms of the Note.

In August 2013, Mr. Axon advanced \$60,000 to the Company for the payment of certain legal expenses incurred by the Company for seeking judgments for its servicing clients. The Company and Mr. Axon entered into a promissory note to govern the repayment of this obligation on an interest free basis. Payment under the note became due upon Mr. Axon's exercise on September 12, 2014 of his option to exchange the Preferred Stock for the Real Estate. In December 2016, the note for the \$60,000 was paid in full to Mr. Axon.

At December 31, 2016, the Company had approximately \$129,000 outstanding under these notes payable.

8. FINANCING AGREEMENT

The Company has available credit under a credit facility with The Huntington National Bank (the Bank) and Huntington Finance, LLC (the Licensing Credit Agreement), which includes a revolving loan facility of \$1 million and a \$3.2 million letter of credit facility, both of which are secured by cash collateral in the amount of \$5.5 million.

On March 16, 2015, the Company entered into an eighth amendment to the Licensing Credit Agreement, extending the termination date of the facility and the forbearance of rights and remedies under the legacy credit agreement to March 31, 2016. The Bank, as a condition to extending the credit agreement, reduced the credit facility to \$5 million and applied \$2.1 million of the pledged cash collateral as a payment under the legacy credit agreement. This payment was recorded in the balance sheet as a reduction of stockholders equity.

On March 21, 2016, the Company entered into a ninth amendment to its Licensing Credit Agreement with the Bank. The Licensing Credit Agreement, as amended, extended the termination date to March 31, 2017 and granted a forbearance, until March 31, 2017, from the exercise of rights and remedies with respect to cash pledged as collateral (under a second-priority lien) triggered by the failure of subsidiaries of its former parent company, Franklin Holding, not including Franklin Credit, to pay in full the amounts due upon the March 31, 2012 maturity of a legacy credit agreement with the Bank for those entities and the bankruptcy filing of Franklin Holding.

On March 21, 2017, the Company entered into a tenth amendment to its Licensing Credit Agreement with the Bank. The Licensing Credit Agreement, as amended, extended the termination date to March 31, 2018 and granted a forbearance, until March 31, 2018, from the exercise of rights and remedies with respect to cash pledged as collateral (under a second-priority lien) triggered by the failure of subsidiaries of its former parent company, Franklin Holding, not including Franklin Credit, to pay in full the amounts due upon the March 31, 2012 maturity of a legacy credit agreement with the Bank for those entities and the bankruptcy filing of Franklin Holding. The Bank, as a condition to extending the credit agreement, reduced the credit facility to \$4.25 million and applied \$750,000 of the pledged cash collateral as a payment under the legacy credit agreement. See Note 18

For the years ended December 31, 2016 and 2015, the Company earned interest income of approximately \$11,000 and \$12,000, respectively, on the cash collateral of \$5.5 million.

At December 31, 2016 and 2015, the Company had no debt outstanding under the revolving line; and, at December 31, 2016, the Company had approximately \$3.2 million of letters of credit issued under the letter of credit facility.

9. INCOME TAXES

Components of the provision for income taxes for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Current provision:		
Federal	\$ 76,213	\$ 3,728
State and local	41,979	-
Total provision	<u>\$ 118,192</u>	<u>\$ 3,728</u>

Reconciliation between the expected Federal income tax expense using the federal statutory rate of 34% to the Company's actual income tax expense and resulting tax rate for 2016 and 2015 is presented in the following table.

	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Tax determined by applying				
U.S. statutory rate to income.....	\$ 1,523,152	34.0%	\$ 179,255	34.0%
Increase in taxes resulting from:				
State and local taxes, net of Federal benefit.....	268,324	5.99%	31,295	5.94%
Increase in valuation allowance ...	(1,666,886)	(37.21%)	(209,315)	(39.70)%
Basis adjustment				
Return to provision adjustment	-	-	-	-
Charitable contribution expiration.....	-	-	-	-
Other	(13,346)	(.30%)	443	0.084%
Non-deductible expenses.....	6,948	0.16%	2,050	0.389%
	<u>\$ 118,192</u>	<u>2.64%</u>	<u>\$ 3,728</u>	<u>0.71%</u>

During 2016 and 2015, the Company performed a reconciliation of its estimated income tax provision to income tax returns filed for 2015 and 2014, which resulted in the recording of the deferred tax asset and corresponding valuation allowance. The Company recorded a Federal tax provision in both the year December 31, 2016 and December 31, 2015 due to alternative minimum tax ("AMT") on income. Because the Company had net loss carryforwards from previous years, the only tax due for the year ended 2016 and 2015 was AMT of approximately \$76,000 and \$4,000 and approximately \$42,000 as of December 31, 2016 for New Jersey state tax.

The Company records interest and penalties, if applicable, in Collection, general and administrative expense; interest and penalties recorded during the years ended December 31, 2016 and 2015 were not material. As of December 31, 2016 and 2015, no liability for unrecognized tax benefits was required to be recorded.

The tax effects of temporary differences that gave rise to a deferred income tax asset at December 31, 2016 and 2015 are presented below:

	<u>2016</u>	<u>2015</u>
Investment in Bosco VI.....	\$ (3,495)	\$ (18,112)
Net operating loss carryforwards	-	1,533,545
Fixed assets	4,432	568,347
Alternative minimum tax	132,622	56,409
Accrued expenses.....	339,745	-

Valuation allowance.....	(473,304)	(2,140,189)
Net deferred tax asset.....	<u>\$ -</u>	<u>\$ -</u>

The Company is not aware of any uncertain tax positions that will significantly increase or decrease within the next twelve months. The Company's major tax jurisdictions are Federal, which remains subject to examination from and including the years 2013 to 2015 and New Jersey, which remains subject to examination from and including the years 2012 to 2015. The Company is not under examination by any taxing authorities.

As of December 31, 2016, the Company used all of its net operating loss carryforward with the state of New Jersey totaling approximately \$3.5 million and all of the Federal tax net operating loss carryforward of approximately \$3.9 million. As of December 31, 2016, the Company did not have any loss carry forwards.

10. CERTAIN CONCENTRATIONS

Third-Party Servicing Agreements – The Company is a specialty consumer finance company primarily engaged in the servicing and resolution of performing, reperforming and nonperforming residential mortgage loans, including specialized loan collection and recovery servicing, for third parties. The portfolios serviced for other entities are heavily concentrated with loans serviced for related parties. As of both December 31, 2016 and December 31, 2015, the Company had five significant servicing and recovery collection services contracts with third parties to service 1-4 family mortgage loans and owned real estate: all with related parties (Bosco I, two contracts with Bosco II, Bosco III, and Bosco VI).

At December 31, 2016 and 2015, the Company serviced and provided recovery collection services on a total population of approximately 25,838 loans and 26,830 loans, respectively (approximately 82% and 82%, respectively, of the total loans serviced), with approximately \$1.27 billion and \$1.33 billion, respectively, of unpaid principal balance for the Bosco-related entities. Bosco II is the Company's largest servicing client.

The following table summarizes percentages of total principal balances by the geographic location of the residential mortgage loans serviced for third-party entities at December 31, 2016:

<u>Location</u>	<u>December 31, 2016</u>
California.....	27.32%
Florida.....	12.47%
New York.....	7.47%
Texas.....	5.80%
Nevada.....	3.87%
Illinois.....	3.83%
Georgia.....	3.02%
Virginia.....	2.89%
Maryland.....	2.79%
Michigan.....	2.63%
All Others.....	27.91%
Total.....	<u>100.00%</u>

Financing – All of the Company's available credit facility is with one financial institution, the Huntington National Bank (the Bank).

11. COMMITMENTS AND CONTINGENCIES

Operating Leases – During 2005, the Company entered into an operating lease agreement for corporate office space: for space on the 25th floor (the “25th Floor Premises”), which contain provisions for future rent increases, rent-free periods, or periods in which rent payments are reduced (abated). The total amount of rental payments due over the lease term is charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to accrued expenses was \$0 and \$9,000 respectively for the years 2016 and 2015, which is included in Accounts payable and accrued expenses on the Company’s balance sheets. In April 2015, this lease was assigned to a related party; and the Company subleased a portion of the original assigned space, which lead principally to a substantial reduction in rent expense. The Company’s aggregate rent expenses for 2016 and 2015 amounted to approximately \$373,000 and \$596,000 respectively.

On January 2, 2015, following discussions regarding proposed modifications by the Company to its lease obligations for commercial space on the 25th floor at 101 Hudson Street, Jersey City, NJ (the 25th Floor Premises) and non-payment of the Company’s December 2014 installment of rent, 101 Hudson Leasing Associates (the Landlord) notified the Company that it was terminating the Company’s lease. The 25th Floor Premises are the executive and administrative offices of FCRM. The Company proposed and had been in discussions with the Landlord in an effort to reduce the square footage of the 25th Floor Premises, in exchange for a cash payment of \$225,000 (the “Consideration”), to reduce the square footage of the 25th Floor Premises to and compute the base rent, unchanged, off of 12,000 square feet, and have the security deposit applied to pay unpaid rent for the month of December 2014 and the remaining unpaid months of January through March 2015 to be paid based on 12,000 square feet . In addition, RMTS, LLC (RMTS), a related entity and current subtenant of the Company of approximately 3,217 square feet of office space (the RMTS Premises), was substituted as the tenant and the Company as the subtenant, through an assignment and assumption of the lease. RMTS will continue to occupy the RMTS Premises. The Company was responsible for payment of the Consideration, and will sublease the remaining space of approximately 8,974 square feet from RMTS at the price per square feet set forth in the assigned and assumed lease between RMTS and the Landlord.

On April 18, 2015, Franklin agreed to sublet from RMTS (“Sublandlord”) a portion of the New Entire Premises, consisting of approximately 8,974 rentable square feet, and more particularly (hereinafter referred to as the “Subleased Premises”) at an annual base rate of: \$366,667 for the year 2015 \$371,154 for 2016; \$375,640 for 2017; \$380,126 for 2018 and \$384,613 for 2019; and for other typical concessions over the term of the agreement and subject to certain conditions. The base rent is payable in monthly installments of \$30,556 until December 31, 2015, \$30,929 until December 31, 2016, \$31,303 until December 31, 2017, \$31,677 until December 31, 2018, and \$32,051 until December 31, 2019. See Note 12.

The combined future minimum lease payments of the lease as of December 31, 2016 are as follows:

<u>Year Ended</u>	<u>Amount</u>
2017	375,640
2018	380,126
2019	384,613
	<u>\$ 1,104,379</u>

Effective June 1, 2014, the Company, as sublessor, subleased approximately 3,217 rentable square feet of office space (the “RMTS Premises”), which the Company had used for administrative offices, to RMTS, LLC (“RMTS”), a related entity, for a term ending December 31, 2019 with a base

rent, which includes the rent for the nonexclusive use of common areas, of approximately \$128,000 annually, payable in monthly installments of \$10,704, with annual rent escalations. The sublease was approved by the Company's Audit Committee. The Company's administrative and executive offices, which consisted of approximately 31,000 square feet, remains a secure space separate and apart from RMTS, except that the reception entrance, lobby, rest rooms were shared as common areas. In April 2015, this lease was cancelled due to the termination of Franklin Credit Management Corporation lease with 101 Hudson leasing Associates.

Substantially all of the Company's office equipment is leased under multiple operating leases. The combined future minimum lease payments of the Company's office equipment as of December 31, 2016 are as follows:

<u>Year Ended</u>	<u>Amount</u>
2017	35,388
2018	14,745
	<u>\$ 50,133</u>

Note Payable – As consideration for the distribution on August 10, 2012 of all of the common shares of the Company held by its former parent company, Franklin Holding, on August 2, 2012, the Company executed a promissory note in the amount of \$1,109,000 payable in monthly installments over a period of five years at an interest rate of 3.25% per annum. Under the terms of the promissory note, the Company will make annual payments as follows:

<u>Year Ended</u>	<u>Amount</u>
2017	130,792
	<u>\$ 130,792</u>

Included in the above payments is interest of approximately \$1,408 for the term of the promissory note. See Note 7.

Legal Actions – The Company is involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation generally are not material to affect the Company's financial statements.

On or about October 26, 2015, a lawsuit was filed against the Company in Superior Court of Orange County, California. In the class action lawsuit, the Plaintiff alleges the Company was engaged in re-aging of debt in violation of California law and is suing on behalf of all California residents who had their debts re-aged.

Based upon counsel and management opinion after internal discussions about the status of this case, specifically the possibility of exposure to high damages and the recalcitrant nature of opposing counsel, it was determined that a loss contingency is reasonably possible to occur. The Company estimates its potential exposure on this matter is between \$800,000 and \$850,000. A reserve for \$850,000 was established with a charge to income during the year ended December 31, 2016.

After initial motion practice, the Company and Plaintiff engaged in the discovery process. Upon review of the exchanged discovery documents, both parties indicated an interest in participating in

mediation to resolve and settle this matter. The Company is confident that a reasonable settlement is achievable in 2017.

Deferred Payment Agreement with the Bank – In September 2010, a deferred payment agreement was entered into with the Bank (the “Deferred Payment Agreement”). Pursuant to the Deferred Payment Agreement, the Company is obligated to pay to the Bank 10% of the aggregate value of any monetizing transactions of the Company. Monetizing transactions include additional contributions to the capital of the Company, the sale of the its stock, dividends paid by the Company, and liquidating distributions of the Company (but not the Distribution by Franklin Holding of its ownership interests in Franklin Credit). The Deferred Payment Agreement is in effect until March 2019. See Note 14.

12. RELATED PARTY TRANSACTIONS

The Company has an outstanding payable of \$119,549 due to Mr. Axon, which consist of an amount he had paid on behalf of the Company relating to the transfer of Real Estate in September 2014. Payment arrangements have not been made regarding the payment of this amount.

Bosco-Related Entities – At December 31, 2016, the Company’s specialty servicing and collection business serviced, provided recovery collection services and actively managed approximately 25,838 first and second-lien loans for the Bosco entities, which are related-party entities of the Company (the Bosco entities are owned or controlled by Thomas J. Axon, the Company’s Chairman, President and majority stockholder), as follows: approximately 1,356 home equity loans for Bosco I; approximately 19,800 subordinate-lien loans for Bosco II; approximately 398 actively serviced first and subordinate-lien loans that are in principally bankruptcy, foreclosure or charge-off statuses for Bosco III, and approximately 469 actively serviced loans pledged by subsidiaries of the Company’s former parent company to a consortium of lenders, including Bosco III, a 50% participant lender; approximately two (2) real estate owned properties serviced for Bosco IV; approximately 2,285 non-performing subordinate-lien loans serviced for Bosco V; and, approximately 1,528 performing, subperforming and non-performing subordinate-lien loans serviced for Bosco VI. In general, servicing fees for first-lien and second-lien loans and certain loans based on loan level delinquency or status in bankruptcy or foreclosure are assessed on a per unit fee basis or a percentage of monthly collections for loans based on the stage of delinquency or for settlements, property dispositions and other collections; servicing fees for delinquent subordinate-lien residential mortgage loans are assessed based on a percentage of monthly collections; and the Company is entitled to reimbursement of certain third-party fees and expenses incurred in the servicing and collection of the loans.

Included in the Company’s revenues were servicing fees recognized from servicing the portfolios for the Bosco-related entities of \$11.3 million and \$7.0 million for the twelve months ended December 31, 2016 and 2015, respectively.

Bosco I Servicing Agreement – In May 2008, the Company entered into various agreements, including a servicing agreement, to service on a fee-paying basis for Bosco I approximately 2,740 residential home equity line of credit mortgage loans aggregating approximately \$245 million. Bosco I was organized by the Company, and the membership interests in Bosco I include the Company’s Chairman and President, Thomas J. Axon, and a related company of which Mr. Axon is the chairman of the board and three of the Company’s directors serve as board members. The loans that are subject to the servicing agreement were acquired by Bosco I on May 28, 2008. The Company’s servicing agreement was approved by its Audit Committee. The Bosco I lending agreement expired on May 28, 2011 without being renewed or extended. Although Bosco I is still the owner of the collateral and the Company

remains as the servicer of the mortgage loans, it is uncertain whether the lenders at some time in the future will foreclose on the collateral or continue to permit the Company to remain the servicer of the mortgage loans. The Bosco I servicing agreement also expired on May 28, 2011; however, the Company continues to service the Bosco I loans on a month-to-month basis.

Included in the Company's revenues were servicing fees recognized from servicing the Bosco I portfolio of \$5.4 million and \$1.6 million for the twelve months ended December 31, 2016 and 2015, respectively. Included in servicing fees recognized from servicing the Bosco I portfolio for the year 2016, were payments of \$2.6 million for deferred servicing fees. Included in servicing fees recognized from servicing the Bosco I portfolio for the year were payments of \$802,000 made by Mr. Axon against unpaid deferred servicing fees due to the Company pursuant to the servicing agreement dated May 28, 2008, as amended, between the Company and Bosco I.

Under the terms of the Bosco Amendment, the Company is entitled to a minimum monthly servicing fee of \$50,000. However, to the extent that the servicing fee otherwise paid for any month would be in excess of the greater of \$50,000 or 10% of the total cash collected on the loans serviced for Bosco I (such amount being the "Monthly Cap"), the excess is deferred, without the accrual of interest. The cumulative amounts deferred shall be paid (i) with the payment of the monthly servicing fee, to the maximum extent possible, for any month in which the servicing fee is less than the applicable Monthly Cap, so long as the sum paid does not exceed the Monthly Cap or (ii) to the extent not previously paid, on the date on which any of the promissory notes ("Bosco I Notes") payable by Bosco I to the lenders, which were entered into to finance the purchase of and are secured by the loans serviced by the Company, is repaid, refinanced, released, accelerated, or the amounts owing there under increased (other than by accrual or capitalization of interest). If the deferred servicing fees become payable by reason of acceleration of the Bosco I Notes, the lenders' right to payment under such Notes shall be prior in right to the Company's rights to such deferred fees.

The Bosco Amendment did not alter the Company's right to receive a certain percentage of collections in the event Bosco I's indebtedness to the Lenders is repaid in full, the Bosco I equity holders are repaid in full the equity investment in Bosco I made prior to Bosco I entering into the loan agreement with the lenders, and the lenders and Bosco I's equity holders have received a specified rate of return on their debt and equity investments.

On March 31, 2016 the lenders note was paid in full clearing the way for the remaining deferred servicing fees to be paid pursuant to the servicing agreement dated May 28, 2008, as amended, between the Company and Bosco I. As of December 31, 2016, all outstanding deferred servicing fees have been paid in full. At December 31, 2015, the unpaid deferred servicing fees under the terms of the Bosco Amendment amounted to approximately \$2.0 million.

On August 11, 2015, December 21, 2015 and December 30, 2015 Mr. Axon, as the Managing Member of Bosco I, made, on behalf of Bosco I, payments of \$400,000, \$102,000 and \$300,000 respectively against unpaid deferred servicing fees due to the Company pursuant to a servicing agreement dated May 28, 2008, as amended, between the Company and Bosco I. As of December 31, 2015, the unpaid deferred servicing fees under the terms of the Bosco Amendment amounted to approximately \$2.0 million.

Bosco II Servicing Agreement – In September 2010, the Company entered into a servicing agreement with Bosco II and a trust to service and collect loans purchased by Bosco II from an indirect trust subsidiary of the Bank. 100% of the membership interest in Bosco II is held by the Company's Chairman and President, Thomas J. Axon. The Bosco II servicing agreement governs the servicing of approximately 19,300 loans. Pursuant to the Bosco II servicing agreement, the Company services the

loans subject to customary terms, conditions and servicing practices for the mortgage servicing industry. The Bosco II servicing agreement may be terminated without cause and penalty upon thirty days prior written notice.

The Company also provided the loan analysis and certain other services for Bosco II for the loans acquired by Bosco II and the Company performs various administrative and bookkeeping services for Bosco II at the rate of \$1,500 per month. The Company's servicing agreement and administrative services agreement with Bosco II were approved by its Audit Committee.

On February 8, 2012, the Company entered into a terms agreement (the "Terms Agreement"), effective April 1, 2012, with the trust for Bosco II to service an additional pool of approximately 7,100 subordinate-lien residential mortgage loans (Bosco II-2). The servicing of these loans may be terminated without cause and without penalty upon thirty days prior written notice. The Company is servicing the pool of subordinate-lien residential mortgage loans for a monthly servicing fee principally based on a percentage of monthly net collections and is entitled to reimbursement of certain third-party fees and expenses incurred by the Company in the servicing and collection of the loans. Pursuant to the Terms Agreement, the subservicing of the mortgage loans are governed by the loan servicing agreement dated and made effective as of November 19, 2010 between the Company and the Bosco Credit II, LLC trust and a new servicing fee schedule for this pool of loans. The Company subservices these loans subject to customary terms, conditions and servicing practices for the mortgage servicing industry.

On August 24, 2012, the Company entered into another terms agreement with the trust for Bosco II to service effective September 2012 an additional pool of approximately 442 subordinate-lien residential mortgage loans for a monthly servicing fee principally based on a percentage of monthly net collections (Bosco II-3). The Company is entitled to reimbursement of certain third-party fees and expenses incurred by the Company in the servicing and collection of the loans. The servicing of these loans may be terminated without cause and without penalty upon thirty days prior written notice.

Included in the Company's revenues were servicing fees recognized from servicing the Bosco II portfolio for the twelve months ended December 31, 2016 and 2015 of approximately \$5.3 million and \$4.7 million, respectively.

Bosco III Servicing Agreement – In January 2011, effective December 2010, the Company entered into a servicing agreement with Bosco III to service and collect charge-off loans purchased by Bosco III from a trust of the Bank. Bosco III also purchased from the Bank a 50% participation interest in defaulted and matured commercial loans to subsidiaries of the Company's former parent, Franklin Holding, that are collateralized by mortgage loans for which the Company is the loan servicer. 50% of the membership interest in Bosco III is held by the Company's Chairman and President, Thomas J. Axon.

The Bosco III servicing agreement, as amended in January and April 2011, governs the servicing of approximately 4,800 first and subordinate-lien loans that are principally in bankruptcy, foreclosure or charge-off statuses, of which substantially fewer loans are actively serviced by the Company. Pursuant to the Bosco III servicing agreement, the Company services the loans subject generally to customary terms, conditions and servicing practices for the mortgage servicing industry. The Company's services may be terminated with respect to some or all of the assets without cause and without penalty on thirty days prior written notice. From time to time, reimbursement of third-party expenses advanced by the Company as servicer in the normal course of servicing the Bosco III portfolio may be deferred when collections are not sufficient to cover the full amount of such expenses. When third-party expense reimbursements are deferred, payment terms are established based on future servicing cash collections.

The Company also provided the loan analysis and certain other services for Bosco III for the loans acquired by Bosco III. The Company's servicing agreement with Bosco III was ratified by its Audit Committee.

Included in the Company's revenues for the twelve months ended December 31, 2016 and 2015 were servicing fees recognized from servicing the Bosco III portfolio of approximately \$261,000 and \$213,000, respectively.

Bosco IV Servicing Agreement – In May 2011, a trust of the Bank sold thirteen (13) of its remaining real estate owned (“REO”) properties acquired through foreclosure actions to Bosco IV, an entity controlled by Mr. Axon.

Pursuant to the Bosco IV servicing agreement, the Company services the REO properties subject to customary terms, conditions and servicing practices for the mortgage servicing industry. The Company's services may be terminated with respect to some or all of the assets without cause and without penalty on 30 days prior written notice. From time to time, reimbursement of third-party expenses advanced by the Company as servicer in the normal course of servicing the Bosco IV portfolio may be deferred when collections are not sufficient to cover the full amount of such expenses. When third-party expense reimbursements are deferred, payment terms are established based on future servicing cash collections.

Included in the Company's revenues for the twelve months ended December 31, 2016 and 2015 were servicing fees recognized from servicing the Bosco IV portfolio of approximately \$1,000 and \$2,000, respectively.

Bosco V Servicing Agreement – In April 2012, the Company entered into a servicing agreement with a trust for Bosco V to service and collect on approximately 1,900 non-performing subordinate-lien loans purchased by Bosco V. The sole member of Bosco V is Mr. Axon. The Company's services may be terminated with respect to some or all of the assets without cause and without penalty on thirty days' prior written notice.

In October 2012, the Company entered into a terms agreement with the trust for Bosco V to service an additional pool of approximately 900 subordinate-lien residential mortgage loans for a monthly servicing fee principally based on a percentage of monthly net collections (Bosco V-2). The Company's services may be terminated with respect to some or all of these assets without cause and without penalty on thirty days' prior written notice. The terms agreement was ratified by the Company's Audit Committee.

Included in the Company's revenues for the twelve months ended December 31, 2016 and 2015 were servicing fees recognized from servicing the Bosco V portfolio of approximately \$50,000 and \$147,000, respectively.

Bosco VI Servicing Agreement – In May 2012, Franklin Credit participated in a joint venture (Bosco VI) with Mr. Axon, which purchased a pool of approximately 1,850 performing, subperforming and non-performing subordinate-lien loans with an unpaid principal balance of approximately \$100.7 million. The pool was purchased by Bosco VI for \$6,930,000. The owners of Bosco VI include Mr. Axon at an initial ownership percentage at 67.39% and the Company at 32.61%. The Company's initial capital investment in Bosco VI was \$1,500,000, which the Company contributed in cash. Bosco VI entered into a term loan (the Loan) with a third-party lender in the amount of \$1,500,000. All net cash collected from the servicing of the loan pool, after servicing fees and other expenses, was applied to pay interest and principal on the Loan, until it was paid off in January 2013, in accordance with the Loan agreement. As a result, Bosco VI did not receive any return on its investment from the cash collected from the pool of loans until after the Loan was paid off in January 2013, and, prior to then, its servicing fee was limited in accordance with the Loan agreement, with the unpaid servicing fees deferred. See Note 4.

In order to invest in Bosco VI, Mr. Axon, separately, personally borrowed from a third-party lender \$3,550,000. In order to induce the third-party lender to make the loan to Mr. Axon, the Company, with the approval of its Audit Committee, agreed to mortgage (on a non-recourse basis) its office unit in a commercial condominium premises known as Unit 6 in a condominium building located in downtown New York City, in favor of the third-party lender in the amount of \$3,000,000, in exchange for a membership interest in Bosco VI of not less than 15%. On September 12, 2014, Mr. Axon assumed the mortgage in connection with his exchange of the Preferred Stock for the Real Estate. The Company retained its interest in Bosco VI. See Note 4.

Effective December 20, 2012, Mr. Axon purchased 50% of the Company's investment interest in Bosco VI for \$750,000. Effective March 11, 2013, Mr. Axon purchased \$250,000 of the Company's investment in Bosco VI, and effective March 11, 2013, Mr. Axon continued to hold 83.91% of the membership interests of Bosco VI and the Company continued to hold a 16.09% membership interest in Bosco VI. See Note 4.

In January 2013, Bosco VI paid the Loan off in full. As a result, commencing in January 2013, the Company became entitled to its monthly servicing fees uncapped and the deferred servicing fees from future net cash collections on the loans serviced for Bosco VI. The Company also became entitled to distributions made by Bosco VI to its members commencing in January 2013 based on its investment interest. See Note 4.

The Company entered into a servicing agreement with a trust of Bosco VI to provide the servicing and collection of the purchased pool. Until January 2013, while the Loan had remained outstanding, the servicing fee for any month that exceeded 10% of the net cash collected on the pool of loans was deferred. The cumulative amounts deferred were to be paid to the extent not previously paid on the date in January 2013 on which the Bosco VI loan had been repaid. However, in March 2013, the Company arranged with Bosco VI for the payment of the deferred servicing fees from net collections over a ten-month period. At December 31, 2014, the balance of deferred and unpaid servicing fees had been paid in full. The Company's services may be terminated only for cause. See Note 4.

Included in the Company's revenues for the twelve months ended December 31, 2016 and 2015 were servicing fees recognized from servicing the Bosco VI portfolio of approximately \$318,000 and \$324,000, respectively.

Sublease from a Related Entity – Effective April 17, 2015, the Company assigned all of its rights, title and interest in, under and to the Lease to RMTS, LLC and RMTS assumed the performance and observance of all the terms, covenants, agreements conditions and provisions of the Lease with the same force and effect as if RMTS had originally executed the Lease except that RMTS desired and Landlord agreed to reduce the Entire Premises to 12,191 gross rentable square feet. On April 18, 2015, Franklin agreed to sublet from RMTS ("Sublandlord") a portion of the New Entire Premises, consisting of approximately 8,974 rentable square feet, and more particularly (hereinafter referred to as the "Subleased Premises") See Note 11.

Other Related Party Transactions with the Company's Chairman – At December 31, 2016 there were no outstanding payables to the affiliates.

The Company has outstanding payables of \$119,549 due to Mr. Axon for amounts he had paid on behalf of the Company relating to the transfer of the Real Estate. Payment arrangements have not been made regarding the payment of the \$119,549. In August 2013, Mr. Axon advanced \$60,000 to the Company for the payment of certain legal expenses incurred by the Company for seeking judgments for its servicing clients. The Company and Mr. Axon entered into a promissory note to govern the repayment of this obligation on an interest free basis this note was paid in full in December 2016.

The Company entered into a collection services agreement, effective in December 2009, pursuant to which the Company agreed to serve as collection agent in the customary manner in connection with approximately 4,000 seriously delinquent and generally unsecured loans, with an unpaid principal balance of approximately \$56 million, which were acquired by two trusts set up by a fund in which the Company's Chairman and President is a member, and contributed 50% of the purchase price and agreed to pay certain fund expenses. Under the collection services agreement, the Company is entitled to collection fees consisting of a percentage of the gross amount collected. The agreement also provides for reimbursement of third-party fees and expenses advanced by the Company as servicer in the normal course of servicing the loans in compliance with the collection services agreement. The collection fees earned by the Company under this collection services agreement during both the twelve months ended December 31, 2016 and 2015 amounted to approximately \$26,000.

In February 2010, the Company entered into a collection services agreement, pursuant to which the Company agreed to serve as collection agent in the customary manner in connection with approximately 1,500 seriously delinquent and generally unsecured loans, with an unpaid principal balance of approximately \$85 million, which were acquired through a trust set up by a fund in which the Company's Chairman and President is a member, and contributed 25% of the purchase price. Under the collection services agreement, the Company is entitled to collection fees consisting of a percentage of the amount collected, net of third-party expenses. The agreement also provides for reimbursement of third-party fees and expenses incurred by the Company in compliance with the collection services agreement. The collection fees earned by the Company under this collection services agreement during the twelve months ended December 31, 2016 and 2015 were not significant.

Franklin Credit Holding Corporation – Beginning in June 2012, the Company began to provide accounting, administrative and tax services for the bankruptcy estate and liquidation manager of Franklin Holding, the Company's former parent company, on generally a time and materials basis. The bankruptcy estate of Franklin Holding reimburses the Company, based on time spent by the Company's employees (including wages and employee benefits), other than for the liquidation manager of Franklin Holding, who provide services for Franklin Holding, and other reasonable third-party costs and expenses incurred in connection with such services. For the twelve months ended December 31, 2016 and 2015, approximately \$26,000 and \$24,000, respectively, of such costs was billed to Franklin Holding for such services. It is not expected that the Company's employee time associated with the performance of such services in the future will be material.

13. LICENSES TO SERVICE LOANS

The requirements imposed by state mortgage finance licensing laws vary considerably. In addition to the requirement for a license to engage in mortgage origination activities, many mortgage licensing laws impose a licensing obligation to service residential mortgage loans. Further, certain state collection agency licensing laws require entities collecting on current, delinquent or defaulted loans for others or to acquire such loans to be licensed as well.

Once licenses are obtained by a company, state regulators impose additional ongoing obligations on licensees, such as maintaining a certain minimum net worth and percentage of liquid assets, and line of credit requirements. In limited instances, such as in Illinois, Massachusetts, Michigan and New York State (and for FHA and Ginnie Mae), the net worth calculation is generally adjusted to exclude amounts due from related companies, recourse on any contingent liabilities and assets pledged to secure obligations of a third party, such as the \$5.5 million pledged as cash collateral under a licensing credit agreement (Regulatory Net Worth). The highest state minimum net worth requirement for the Company

is in New York, which requires the Company to maintain a Regulatory Net Worth of approximately \$384,000 at December 31, 2016 and \$390,000 at December 31, 2015.

Further, the Federal Housing Administration (FHA) requires servicers of FHA loans to have a Regulatory Net Worth of not less than \$1 million, with Ginnie Mae requiring servicers of loans in Ginnie Mae securities to have not less than \$2.5 million in Regulatory Net Worth (the Company did not service loans held in Ginnie Mae securities and had serviced an insignificant number of FHA loans).

At December 31, 2016, the Company remained in compliance with all state minimum regulatory adjusted net worth requirements' and had Regulatory Net Worth of \$4.3 million.

14. DEFERRED PAYMENT AGREEMENT WITH THE BANK

In September 2010, a deferred payment agreement was entered into with the Bank (the Deferred Payment Agreement). Pursuant to the Deferred Payment Agreement, the Company paid the Bank \$4.0 million in cash and agreed to further pay to the Bank 10% of any monetizing transactions of the Company, less \$4.0 million, from the Company. Monetizing transactions include additional contributions to the capital of the Company, the sale of the Company stock, dividends paid by the Company, and liquidating distributions of the Company (but not the distribution by Franklin Holding of its ownership interests in the Company). The Deferred Payment Agreement is in effect until March 2019.

15. COLLECTION, GENERAL AND ADMINISTRATIVE EXPENSES

The following table summarizes the major Collection, general and administrative expense categories for the twelve months ended December 31, 2016 and 2015. Facility costs include the costs of occupancy and furniture and equipment, excluding depreciation; Professional fees includes outside legal fees and other professional and consulting fees. The increase in collection, general and administrative expenses was principally the result of a reserve for a loss contingency and increased litigation. All other collection, general and administrative costs decreased throughout the Company including decreased Salaries and employee benefits due to reductions in certain senior executives and various other cost-savings measures implemented in the beginning of this year. Facility costs decreased due principally to the lease termination and reduction in leased office space in April 2015. Professional fees decreased due to a decrease in outside legal and consulting fees, compared to the same period last year. Various other general and administrative expenses decreased principally due to reduced costs throughout the Company's operations and the related reductions in the workforce during the year ended December 31, 2015.

	<u>2016</u>	<u>2015</u>
Salaries and benefits expenses	\$ 3,503,674	\$ 4,099,775
Facility costs	504,892	760,253
Communication/technology costs	586,834	604,916
Professional fees	1,435,638	380,520
All other expenses	1,113,222	1,166,479
Total	<u>\$ 7,144,260</u>	<u>\$ 7,011,943</u>

16. COMMON STOCK

Authorized but Unissued Shares – The Company's authorized capital stock consists of 22,000,000 shares of common stock, par value \$.01 per share (10,021,549 shares of which were outstanding as of December 31, 2016) and 3,000,000 shares of undesignated preferred stock, par value \$.001 per share (no shares of which were issued or outstanding as of December 31, 2016 and 2015). Under the terms of the Company's certificate of incorporation, its Board of Directors has the authority,

often without further vote or action by the stockholders, to issue additional shares of common stock and shares of preferred stock in one or more series and to fix the designations, powers, preferences, rights, privileges and restrictions thereof, including the number of shares constituting such series, conversion rights, voting rights and dividend rates. At December 31, 2016, there were no current agreements or understandings for the issuance of additional shares of common.

Common Stock – Each stockholder is entitled to cast one vote for each share of the Company’s common stock held. Stockholders will not have any right to cumulate votes in the election of directors. Dividends may be declared by the Board of Directors at any regular or special meeting. Before payment of any dividend, there may be set aside out of any funds available for dividends such sum as the Board of Directors, in its absolute discretion, deems proper as a reserve to meet contingencies or for any other corporate purpose. The Company does not expect to pay dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will depend upon a complete review and analysis of all relevant factors, including the Company’s financial condition, operating results, capital requirements and any other factors the Board of Directors deems relevant. Upon the liquidation, dissolution or winding up of the Company, the holders of shares of its common stock would be entitled to share pro rata in the distribution of all of the Company’s assets remaining available for distribution after satisfaction of all of the Company’s liabilities and the payment of the liquidation preference of any outstanding preferred stock. The holders of the Company’s common stock have no preemptive or other subscription rights to purchase shares of the Company’s capital stock. All of the outstanding shares of the Company’s common stock are, and the shares issuable upon exercise of outstanding options and warrants will be, when issued, fully paid and nonassessable.

Reverse Stock Split at a Ratio of 1-for-200 and Forward Stock Split at a Ratio of 200-for-1 – On October 7, 2014, the Board of Directors (the Board) of the Company, at a meeting of the Board, and the holders of a majority of the outstanding shares of common stock of the Company, by written consent in lieu of a stockholder meeting, approved proposed amendments to the Company’s Certificate of Incorporation that would effect (1) a 1-for-200 reverse stock split (the Reverse Stock Split) of the Company’s outstanding \$0.01 par value common stock (Common Stock) immediately followed by (2) a 200-for-1 forward stock split (the Forward Stock Split) of the Company’s outstanding Common Stock. The combination of the Reverse Stock Split and the Forward Stock Split are referred to as the “Reverse/Forward Split.” Holders of record of less than one share of Common Stock after the Reverse Stock Split would be cashed out at the rate of \$0.50 per pre-split share. Holders of record of more than one share of Common Stock after the Reverse Stock Split would participate in the Forward Stock Split. Such amendments would not change the par value per share or the number of authorized shares of Common Stock.

On January 20, 2015, the Company completed the Reverse Stock Split at a ratio of 1-for-200 and Forward Stock Split at a ratio of 200-for-1 by filing amendments to its certificate of incorporation. Shares of Common Stock held by shareholders of record owning fewer than 200 shares of pre-Reverse Stock Split shares at the close of business on January 20, 2015, which totaled approximately 14,000 shares, were cancelled, and such shareholders received a cash payment of \$0.50 per pre-split share.

After giving effect to the Reverse/Forward Split, the Company’s Common Stock began trading on January 22, 2015 under the new CUSIP number 353491202. The Company’s Common Stock will continue to trade under the symbol “FCRM” on the Grey Sheets.

17. PAYMENT OF NON DIVIDEND DISTRIBUTION

Extension of Licensing Credit Agreement – On March 16, 2015, the Company entered into an eighth amendment to its credit facility with The Huntington National Bank (the Bank) and Huntington

Finance, LLC (the Licensing Credit Agreement), which, pursuant to the terms thereof, extended the termination date of the Licensing Credit Agreement to March 31, 2016 and granted a forbearance, until March 31, 2016, from the exercise of rights and remedies with respect to cash pledged as collateral triggered by the failure of subsidiaries of its former parent company, Franklin Holding, not including Franklin Credit, to pay in full the amounts due upon the March 31, 2012 maturity of a legacy credit agreement with the Bank for those entities and the bankruptcy filing of Franklin Holding. The Bank, as a condition to extending the credit agreement, reduced the credit facility to \$5.4 million and applied \$2.1 million of the pledged cash collateral as a payment under the legacy credit agreement. The distribution of \$2.1 million by the Company to the Bank, on behalf of Franklin Holding, was recorded as a reduction of Stockholders' equity and the cash collateral securing the Licensing Credit Agreement was reduced to \$5.4 million.

18. SUBSEQUENT EVENTS

Extension of Licensing Credit Agreement – On March 22, 2017, the Company entered into an tenth amendment to its credit facility with The Huntington National Bank (the Bank) and Huntington Finance, LLC (the Licensing Credit Agreement), which, pursuant to the terms thereof, extended the termination date of the Licensing Credit Agreement to March 31, 2018 and granted a forbearance, until March 31, 2018, from the exercise of rights and remedies with respect to cash pledged as collateral triggered by the failure of subsidiaries of its former parent company, Franklin Holding, not including Franklin Credit, to pay in full the amounts due upon the March 31, 2012 maturity of a legacy credit agreement with the Bank for those entities and the bankruptcy filing of Franklin Holding. The Bank, as a condition to extending the credit agreement, reduced the credit facility to \$4.25 million and applied \$750,000 of the pledged cash collateral as a payment under the legacy credit agreement. See Note 8.