

Velocity Portfolio Group, Inc. and Subsidiaries

Consolidated Financial Statements
Year Ended December 31, 2010 and 2009

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Velocity Portfolio Group, Inc, and Subsidiaries

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Independent Auditors' Report

Board of Directors
Velocity Portfolio Group, Inc. and Subsidiaries
Wall, New Jersey 07719

We have audited the accompanying consolidated balance sheets of Velocity Portfolio Group, Inc. and Subsidiaries (the "Company") as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Velocity Portfolio Group, Inc. and Subsidiaries at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

March 31, 2011

Consolidated Financial Statements

Velocity Portfolio Group, Inc. and Subsidiaries

Consolidated Balance Sheets

<i>December 31,</i>	2010	2009
Assets		
Current:		
Cash and cash equivalents	\$ 1,181,515	\$ 145,634
Restricted cash	2,257,606	-
Consumer receivables, net	17,875,615	25,533,549
Income taxes receivable	-	50,129
Property and equipment, net of accumulated depreciation	31,397	34,503
Deferred income tax asset, net of valuation allowance	-	1,083,500
Security deposits	5,224	30,224
Other assets	1,563,458	362,212
Assets of discontinued operations	20,000	2,527,168
Total assets	\$ 22,934,815	\$ 29,766,919
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	\$ 523,701	\$ 701,685
Trust account - funds held on behalf of clients	112,383	-
Estimated court and media costs	3,457,175	4,060,058
Line of credit (including lines of credit with related parties of \$547,666 and \$-)	6,447,126	4,407,968
Notes payable	455,000	625,000
Notes payable to related parties	1,566,805	1,275,000
Accrued preferred dividends	2,462,140	1,252,000
Convertible subordinated notes	2,350,000	2,350,000
Deferred tax liability	77,050	-
Income taxes payable	48,417	-
Other liabilities-warrants	-	464
Liabilities from discontinued operations (including notes to related parties of \$- and \$2,300,000, respectively)	1,498	5,491,311
Total liabilities	17,501,295	20,163,486
Stockholders' Equity:		
Series A 10% convertible preferred stock, \$0.001 par value, 2,000,000 and 10,000,000 shares authorized, 1,367,000 shares issued and outstanding, respectively	1,367	1,367
Common stock, \$0.001 par value, 4,000,000 and 40,000,000 shares authorized, 935,399 and 897,399 shares issued and outstanding, respectively	936	898
Treasury stock - preferred, 81,840 and 0 shares, respectively	(47,473)	-
Additional paid-in capital	25,682,409	25,665,347
Accumulated deficit	(20,203,719)	(16,064,179)
Total stockholders' equity	5,433,520	9,603,433
Total liabilities and stockholders' equity	\$ 22,934,815	\$ 29,766,919

See accompanying notes to consolidated financial statements.

Velocity Portfolio Group, Inc. and Subsidiaries

Consolidated Statements of Operations

<i>For the years ended December 31,</i>	2010	2009
Revenues:		
Income on consumer receivables	\$ 208,637	\$ 319,817
Third party servicing revenue	228,970	-
Total revenues	437,607	319,817
Operating expenses:		
Professional fees (including fees paid to related parties of \$456,755 and \$668,038 for the years ended December 31, 2010 and 2009, respectively)	2,719,268	3,992,427
General and administrative expenses	2,231,801	2,177,019
Impairment of consumer receivables	-	545,408
Total operating expenses	4,951,069	6,714,854
Loss from operations	(4,513,462)	(6,395,037)
Other income (expenses):		
Other income	125	75,000
Change in fair value of warrants	464	164,562
Interest expense (including interest to related parties of \$434,002 and \$376,345 for the years ended December 31, 2010 and 2009, respectively)	(1,234,760)	(973,306)
Total other expenses	(1,234,171)	(733,744)
Loss from continuing operations before provision (benefit) for income taxes	(5,747,633)	(7,128,781)
Benefit from income taxes	(1,207,311)	(668,043)
Loss from continuing operations	(4,540,322)	(6,460,738)
Gain/(Loss) from discontinued operations (including interest incurred to related parties of \$93,253 and \$233,195, respectively and net of tax expense (benefit) of \$1,226,715 and (\$845,846), respectively)	1,610,922	(3,314,341)
Net loss	(2,929,400)	(9,775,079)
Preferred stock dividends	(1,210,140)	(1,367,000)
Net loss attributable to common stockholders	\$(4,139,540)	\$(11,142,079)

See accompanying notes to consolidated financial statements.

Velocity Portfolio Group, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

	Preferred Stock		Amount		Treasury Stock Preferred	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Number of Shares	Par Value	Number of Shares	Par Value				
Balances, December 31, 2008	1,380,000	\$1,380	894,799	\$895	\$ -	\$25,943,069	\$ (5,034,806)	\$20,910,538
Cumulative effect of EITF 07-5 application	-	-	-	-	-	(277,732)	112,706	(165,026)
Dividends on Preferred stock	-	-	-	-	-	-	(1,367,000)	(1,367,000)
Conversion of preferred stock to common	(13,000)	(13)	2,600	3	-	10	-	-
Net loss	-	-	-	-	-	-	(9,775,079)	(9,775,079)
Balances, December 31, 2009	1,367,000	1,367	897,399	\$898	-	25,665,347	(16,064,179)	9,603,433
Stock based compensation - restricted stock award	-	-	38,000	38	-	17,062	-	17,100
Repurchase of preferred shares, 81,840	-	-	-	-	(47,473)	-	-	(47,473)
Dividends on Preferred stock	-	-	-	-	-	-	(1,210,140)	(1,210,140)
Net loss	-	-	-	-	-	-	(2,929,400)	(2,929,400)
Balances, December 31, 2010	1,367,000	\$1,367	935,399	\$936	\$(47,473)	\$25,682,409	\$ (20,203,719)	\$ 5,433,520

See accompanying notes to consolidated financial statements.

Velocity Portfolio Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	2010	2009
Cash Flows from operating activities:		
Net (loss)	\$(2,929,400)	\$(9,775,079)
Income (Loss) from discontinued operations	1,610,922	(3,314,341)
(Loss) from continuing operations	(4,540,322)	(6,460,738)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Stock compensation	17,100	-
Depreciation and amortization	331,019	175,344
Deferred income tax	1,160,450	318,000
Change in fair value of warrants	(464)	(164,562)
Impairment of consumer receivables	-	545,408
Increase (decrease) in:		
Income taxes receivable	50,129	127,079
Restricted cash	(2,257,606)	-
Security deposit	25,000	-
Other assets	(1,510,328)	(129,919)
Accounts payable and accrued expenses	(177,984)	(484,851)
Estimated court and media costs	(602,883)	(1,135,379)
Income taxes payable	48,417	-
Funds held on behalf of clients	112,383	-
Net cash used in operating activities	(7,345,089)	(7,209,618)
Cash flows from investing activities:		
Acquisition of property and equipment	(4,032)	-
Acquisition of consumer receivables	(2,332,714)	(1,507,200)
Collections applied to principal on consumer receivables	9,975,849	12,961,681
Net cash provided by investing activities	7,639,103	11,454,481
Cash flows from financing activities:		
New borrowings (repayments) under lines of credit, net	1,491,492	(3,992,099)
(Repayments) proceeds of note payable, net	(170,000)	225,000
(Repayments) proceeds of note payable and line of credit from a related party, net	839,471	175,000
Purchase of treasury stock	(47,473)	-
Payment of preferred dividends	-	(115,000)
Net cash provided by (used in) financing activities	2,113,490	(3,707,099)
Cash flows from discontinued operations, net		
Operating activities	(373,123)	(29,300)
Financing activities	(998,500)	(370,699)
Net cash (used) in discontinued operations	(1,371,623)	(399,999)
Net increase in cash and cash equivalents	1,035,881	137,765
Cash and cash equivalents, beginning of period	145,634	7,869
Cash and cash equivalents, end of period	\$1,181,515	\$ 145,634
Supplemental disclosure of cash flow information:		
Cash paid for interest	1,202,701	973,238
Cash paid for income taxes	\$ 27,520	\$ 28,820
Non-cash item:		
Accrual of preferred dividends	\$1,210,140	\$1,252,000

See accompanying notes to consolidated financial statements.

Velocity Portfolio Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Organization and Business

Nature of Operations

On February 3, 2004, Velocity Portfolio Group, Inc. (formerly known as Velocity Asset Management, Inc.), (the "Company"), through its wholly-owned subsidiary TLOP Acquisition Company, L.L.C. ("TLOP"), entered into a reverse acquisition (the "Reverse Merger") with STB, Inc. and its subsidiaries. On February 3, 2004, STB, Inc. became a wholly-owned subsidiary of TLOP. As a result of the Reverse Merger, the Company operates all of its current business activities through its wholly-owned subsidiary TLOP.

The Company was incorporated in the state of Delaware on December 31, 1986.

On November 14, 2008, the Company changed its name to Velocity Asset Management, Inc. to Velocity Portfolio Group, Inc. The entities that are included in these consolidated financial statements are as follows:

TLOP Acquisition Company, L.L.C. was incorporated in New Jersey as a limited liability Company. TLOP is a wholly-owned subsidiary of the Company and pursuant to the Reverse Merger owns 100% of STB, Inc.

STB, INC. ("STB") a New Jersey corporation formed to act as a holding Company for, J. Holder, Inc., VOM, LLC and Velocity Investments, LLC.

J. Holder, Inc. ("J. Holder") was formed to invest in real property being sold at sheriff's foreclosure sales and judgment execution sales, defaulted mortgages, partial interests in real property and the acquisition of real property with clouded title.

VOM, L.L.C. ("VOM") was formed to invest in New Jersey municipal tax liens. VOM focuses on maximization of profit through legal collections and owned real estate opportunities presented by the current tax lien environment.

Velocity Investments, L.L.C. ("Velocity") was established to invest in consumer debt purchased in the secondary market. Velocity purchases consumer receivable portfolios at a discount and then liquidates these portfolios through legal collection means.

Velocity Investments SPV I, LLC ("Velocity SPV") was formed on February 12, 2010 to invest in consumer debt purchased in the secondary market. On October 12, 2010, the Company acquired full interest in the Velocity SPV.

Velocity Servicing, LLC ("Velocity Servicing") was formed on August 18, 2010 to provide servicing of third party accounts receivable through the legal collection process.

After careful consideration of trends in revenues and future opportunities for growth during 2007, management made the determination that the consumer receivables business will be the sole operating focus of the Company. On December 31, 2007, the board of directors of the Company unanimously approved management's plan to discontinue the operations of the

Velocity Portfolio Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Company's J. Holder and VOM subsidiaries and to sell and dispose of the assets or membership interests/capital stock of such subsidiaries. Accordingly, these operations have been presented as discontinued operations.

The Company has one continuing industry segment, the acquisition, management, collection and servicing of consumer receivables.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America. All material intercompany transactions have been eliminated in consolidation.

Reclassification

Certain previously reported amounts have been reclassified to conform to the classifications used in the December 31, 2010 financial statements.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

Under the terms of the Loan Agreement, collection proceeds from portfolios securing loans are maintained in a separate account until disbursed ("Deposit Account"). Disbursements of these funds are generally performed monthly. In addition, under the Loan Agreement the Company maintains a restricted reserve account ("Reserve Account") from which funds are used solely to purchase consumer receivables portfolios. At December 31, 2010 restricted cash was \$573,024 in the Deposit Account and \$1,684,582 in the Reserve Account.

Concentration of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of cash and cash equivalents and consumer receivables. The Company places its cash and cash equivalents principally with one financial institution. At times, cash balances may be in excess of the amounts insured by the Federal Deposit Insurance Corporation. As of December 31, 2010 and 2009, the Company had \$2,618,053 and \$0, respectively, of cash deposits in excess of federally-insured. Management considers the risk of loss to be minimal.

Tax Certificates Held and Accrued Interest Receivable

The Company records its New Jersey municipal tax liens at cost plus accrued interest. Interest income is recognized using the effective interest method ("interest method").

Velocity Portfolio Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Revenue Recognition

Consumer Receivables

The Company purchases consumer receivable portfolios at a substantial discount from their face amount due to a deterioration of credit quality between the time of origination and the Company's acquisition of the portfolios. Income is recognized using the cost recovery method. Upon acquisition, the Company reviews each consumer receivable portfolio to determine whether each such portfolio is to be accounted for individually or whether such portfolio will be assembled into static pools of consumer receivable portfolios based on common risk characteristics.

The interest method of recognition of income under ASC 310 is dependent on the Company having the ability to develop reasonable expectations of both the timing and amount of cash flows to be collected. In the event the Company cannot develop a reasonable expectation as to both the timing and amount of cash flows expected to be collected, ASC 310 permits the use of the cost recovery method. Due to uncertainties related to the timing of the collections of the older judgments purchased as a result of the economic environment, the lack of reasonable delivery of media requests, the lack of validation of certain account components, the Company determined that it does not have the ability to develop a reasonable expectation of the timing of the cash flows to be collected and therefore, records revenue using the cost recovery method.

Under the cost recovery method, no revenue is recognized until the Company has fully collected the cost of the portfolio. There can be no assurance as to when or if the carrying value will be recovered.

The Company estimates and capitalizes certain fees paid and to be paid to third parties related to the direct acquisition and collection of a portfolio of accounts. These fees are added to the cost of the individual portfolio and amortized over the life of the portfolio. An offsetting liability is included as "Estimated court and media costs" on the balance sheet.

The Company establishes valuation allowances for all acquired loans subject to ASC 310-30 to reflect only those losses incurred after acquisition.

Third Party Servicing Revenue

During 2010, VS generated 100% of its revenue from recovery of delinquent accounts receivable on a contingency basis. The contingency fee revenue is recognized upon collection of funds by VS or its client.

Property and Equipment

Property and equipment, including improvements that significantly add to the productive capacity or extend useful life, are recorded at cost, while maintenance and repairs are

Velocity Portfolio Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

expensed currently. Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation. Software and computer equipment are depreciated over three to five years. Furniture and fixtures are depreciated over five years. Office equipment is depreciated over five to seven years. Leasehold improvements are depreciated over the lesser of the estimated useful life or the remaining life of the lease, which ranges from three to ten years. When property is sold or retired, the cost and related accumulated depreciation are removed from the balance sheet and any gain or loss is included in the consolidated statement of income.

Income Taxes

In accordance with ASC-740 "Income Taxes" The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

The Company records a valuation allowance against any portion of the deferred income tax asset when it believes, based upon the weight of available evidence, it is more likely than not that some portion of the deferred asset will not be realized.

Stock Based Compensation

The Company follows the provisions ASC-718 "Compensation-Stock Compensation" which addresses the accounting for share-based payment transactions with employees and other third parties and requires that the compensation costs relating to such transactions be recognized in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Fair Value of Financial Instruments

The Company discloses estimated fair values for its financial instruments. The fair value of consumer receivables, tax certificates held, accounts payable, accrued expenses, borrowings and other assets are considered to approximate their carrying amount because they are (i) short term in nature and/or (ii) carry interest rates which are comparable to market based rates.

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Effective January 1, 2008, the Company adopted FASB ASC 820, *"Fair Value Measurements and Disclosures"* (FASB ASC 820"). This standard establishes a framework for measuring fair value and expands disclosure about fair value measurements.

FASB ASC 820 defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC 820 describes the following three levels of inputs that may be used.

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

Level 3: Unobservable inputs when there is little or no market data available, thereby, requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs. The embedded derivative related to the Company's warrants with a value of \$- and \$464 as of December 31, 2010 and 2009 are included as a Level 3 liability.

The Company is requested to estimate Fair Value of financial instruments when it is practical to do so. Borrowings under the Company's notes payable are carried at historical cost, adjusted for additional borrowings use principal repayments, which approximates fair value. For investments in finance receivables, there is no active market or observable inputs for the fair value estimation. The Company considers it not practical to attempt to estimate the fair value of such financial instruments due to the excessive costs that would be incurred in doing so.

Derivative

The Company does not hold or issue derivative instruments for trading purposes, however, certain features within the Company's October 2005 common stock warrant require the Company to account for such features as derivative instruments. In accordance with new guidance codified in FASB ASC 815, *"Derivatives and Hedging"* ("FASB ASC 815") which the Company adopted on January 1, 2009, the Company recognizes these embedded derivatives as liabilities in its consolidated balance sheet at fair value each period and recognize any change in the fair value in its statement of operations in the period of change. The Company estimated the fair value of these embedded derivatives using available market information and valuation methodologies.

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Notes to Consolidated Financial Statements

The following tables set forth the inputs as of December 31, 2010 and December 31, 2009 and a summary of changes in the fair value of our Level 3 liabilities for the year ended December 31, 2010:

	December 31, 2010	December 31, 2009
Maturity date	April 2011	April 2011
Risk-free interest rate	.19%	.17%
Price of common stock	\$.21	\$.80
Volatility	230%	115%

	December 31, 2010	December 31, 2009
Liabilities:		
Beginning balance (January 1, 2009)	\$464	\$165,026
Total, unrealized loss in earnings	464	164,562
Ending balance	\$ -	\$ 464

Recently Issued Accounting Pronouncements

In July 2010, the FASB issued ASU No. 2010-20, "Receivables" (Topic 310) "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20"), which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of loan and lease receivables. Under this statement, allowance for credit losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired financing receivables and nonaccrual status are to be presented by class of financing receivable. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. ASU 2010-20 is effective for interim and annual reporting periods ending on or after December 15, 2010. The Company adopted ASU 2010-20 on December 15, 2010, and has included the required disclosures in the notes to its consolidated financial statements (see Note 3).

In April 2010, the FASB issued ASU No. 2010-18, "Receivables" (Topic 310): "Effect of a Loan Modification When the Loan Is Part of a Pool that is accounted for as a Single Asset" ("ASU 2010-18"), which clarifies the accounting for acquired loans that have evidence of deterioration in credit quality since origination (referred to as "Subtopic 310-30 Loans"). Under ASU 2010-18, an entity may not apply troubled debt restructuring ("TDR") accounting guidance to individual Subtopic 310-30 loans that are part of a pool, even if the modification of those loans would otherwise be considered a troubled debt restructuring. Once a pool is established, individual loans should not be removed from the pool unless the entity sells, forecloses, or writes off the

Velocity Portfolio Group, Inc. and Subsidiaries

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loan. Entities would continue to consider whether the pool of loans is impaired if expected cash flows for the pool change. Subtopic 310-30 loans that are accounted for individually would continue to be subject to TDR accounting guidance. A one-time election to terminate accounting for loans as a pool, which may be made on a pool-by-pool basis, is provided upon adoption of ASU 2010-18. ASU 2010-18 is effective for interim or annual periods ending on or after July 15, 2010. The Company adopted ASU 2010-18 during the third quarter of 2010, which had no material effect on its consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, "Fair Value Measurements and Disclosures" (Topic 820): "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which clarifies and expands disclosure requirements related to fair value measurements. Disclosures are required for significant transfers between levels in the fair value hierarchy. Activity in Level 3 fair value measurements is to be presented on a gross, rather than net, basis. The update clarifies how the appropriate level of disaggregation should be determined and emphasizes that information sufficient to permit reconciliation between fair value measurements and line items on the financial statements should be provided. The update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the expanded disclosures related to activity in Level 3 fair value measurements, which are effective one year later. The Company adopted ASU 2010-06 during the first quarter of 2010, which had no material effect on its consolidated financial statements.

3. Consumer Receivables

Consumer receivable activity for the years ended December 31, 2010 and 2009 consist of:

<i>Years ended December 31,</i>	2010	2009
Balance, beginning of period	\$ 25,533,549	\$ 37,592,634
Acquisitions and capitalized costs, net of returns	2,332,714	1,507,200
Amortization of capitalized costs	(14,799)	(59,196)
Cash collections	(10,184,486)	(13,281,498)
Impairments	-	(545,408)
Finance income recognized	208,637	319,817
Balance, end of period	\$ 17,875,615	\$ 25,533,549

In any given period, the Company may be required to record valuation allowances due to pools of receivables which are not expected to be recovered. Factors that may contribute to the recording of valuation allowances may include both internal as well as external factors. External factors which may have an impact on the collectability, and subsequently to the overall profitability of purchased pools of defaulted consumer receivables would include: overall market pricing for pools of consumer receivables (which is driven by both supply and demand), new laws or regulations relating to collections, new interpretations of existing laws or regulations, and the overall condition of the economy. Internal factors which may have an

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impact on the collectability, and subsequently the overall profitability of purchased pools of defaulted consumer receivables would include: necessary revisions to initial and post-acquisition scoring and modeling estimates, non-optimal operational activities (which relates to the collection and movement of accounts on both the collection floor of the Company and external channels), as well as decreases in productivity related to turnover and tenure of the Company's collection staff. As of December 31, 2010 and 2009 the Company recorded allowance charges of \$- and \$545,408.

4. Property and Equipment

Property and equipment consist of:

<i>December 31,</i>	2010	2009
Office equipment	\$ 117,092	\$ 113,060
Furniture and fixtures	29,833	29,833
Leasehold improvements	20,274	20,274
	167,199	163,167
Less: accumulated depreciation and amortization	(135,802)	(128,664)
	\$ 31,397	\$ 34,503

Depreciation and amortization expense of property and equipment for the years ended December 31, 2010 and 2009 was \$7,138 and \$10,477, respectively.

5. Discontinued Operations

On December 31, 2007, the Board of Directors voted to discontinue operations of its wholly-owned subsidiaries J. Holder and VOM.

The Company is currently liquidating all of VOM's tax certificates and is accepting proposals for the sale of VOM, including the sale of individual tax certificates. The Company expects the liquidation or sale to be completed within the next twelve months.

On June 2, 2005, J. Holder acquired a residential property in Melbourne, Florida. Acquisition financing of \$3,350,000 was provided by a group of investors. The terms of the notes provided that investors would receive 10% per annum and 2% of the loaned amount along with a pro rata share of 20% of the net profit realized by J. Holder upon the sale of the property (the "Melbourne Notes"). Of the \$3,350,000 in financing, \$2,300,000 was obtained from related parties. The property was auctioned for \$1,276,000 on June 17, 2010.

Net proceeds to J. Holder after paying off the Property Mortgage and expenses, related to the sale, were \$10,000. As of December 31, 2010, under FASB ASC 815 the Melbourne Notes and

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related accrued interest and Ragan Notes (Note 7- NOTES PAYABLE) were written down to \$- and \$4,732,213 was recorded as a gain in discontinued operations.

Effective January 1, 2011, VOM was dissolved and the tax certificates were transferred to the Company.

Revenues and loss for the discontinued operations were as follows:

<i>December 31,</i>	2010	2009
Revenues	\$6,018,368 ⁽¹⁾	\$ 597,447
Gain/(loss) from discontinued operations, before income tax effect	\$2,837,637 ⁽²⁾	\$(2,468,495)

(1) Revenues are substantially comprised of \$1,276,000 in proceeds from the sale of the Melbourne, Florida property and the write down of the Melbourne and Ragan Notes and related interest.

(2) Expenses for the year ended December 31, 2010 are substantially comprised of the cost basis of the Melbourne, Florida property and impairments of certain other assets.

Assets and liabilities of the discontinued businesses were as follows:

<i>December 31,</i>	2010	2009
Notes receivable	\$ -	\$ 25,400
Deposits on properties	-	10,000
Properties held for sale	-	2,230,413
Tax certificates held and accrued interest receivable, net	20,000	261,355
Total assets	\$20,000	\$ 2,527,168

<i>December 31,</i>	2010	2009
Accounts payable and accrued expenses	\$ 1,498	\$ 1,464,018
Notes payable	-	1,648,500
Term loan	-	22,375
Notes payable to related parties	-	2,356,418
Total liabilities	\$ 1,498	\$ 5,491,311

6. Line of Credit

On May 6, 2010, the Company entered into a senior credit facility with a new Lender (the "Lender"), under which the Lender provided the Company with a four-year \$10 million dollar asset based senior credit facility (the "Credit Facility"). The Lender provided the Company an initial advance of \$6 million which was used to pay off its previous senior credit facility and also

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provided the Company with approximately \$2 million of working capital and a new facility to purchase portfolios at a 70% advance rate. The Note bears interest at the rate of Libor + 8.5% but not withstanding the foregoing, at all times a minimum rate of 14%. The Company has restricted covenants related to the credit facility which revolve around tangible net worth and portfolio performance metrics. Total costs of \$745,000 related to this credit facility have been capitalized and are being amortized over the life of the credit facility. The deferred costs at December 31, 2010 were \$620,832. Amortization expense was \$299,207 for the year ended December 31, 2010. As of December 31, 2010 and 2009, the Company had \$5,899,460 and \$- outstanding on the credit facility, respectively.

On August 12, 2010, Velocity Servicing entered into an unsecured credit facility with RAJCK, LLC (the "RAJCK Line of Credit"), a related party, under which RAJCK provided the Company with a three-year \$1 million dollar credit facility to advance court costs on behalf of third-party portfolio servicing clients. The note bears interest at the rate of Prime + 10% but not withstanding the foregoing, at all times a minimum interest rate of 14%. Interest expense of \$16,909 was recorded in 2010 of which zero remains outstanding at December 31, 2010. The line expires in August 2013. As of December 31, 2010 and 2009, the Company had \$547,666 and \$- outstanding on the credit facility, respectively.

7. Notes Payable

<i>December 31,</i>	2010	2009
<u>Melbourne Notes</u>		
On June 2, 2005, J. Holder issued the Melbourne Notes. As of December 31, 2010, under FASB ASC 815 these notes were written down to \$-. See NOTE 9 – RELATED PARTY TRANSACTIONS and NOTE 5 - DISCONTINUED OPERATIONS.	\$ -	\$2,950,000 ⁽¹⁾
<u>14% Subordinated Notes</u>		
On May 30, 2008, June 10, 2008, October 29, 2008, and April 1, 2009, Velocity consummated the closings of its private placement to accredited investors totaling \$1,350,000 in 14% Subordinated Notes due the earlier of June 2015 or redemption. The Notes are subordinated in liquidation preference and in right of payment to all of the Company's existing debt. The Notes will be senior in right of payment and in liquidation preference to any future "long term" debt of the Company. Upon an event of default, Velocity will pay the Note holder a late charge computed at the rate of 18% per annum of the amount not paid. \$1,000,000 of the Notes are being held by related parties of the Company. See NOTE 9— RELATED PARTY TRANSACTIONS.	1,350,000	1,350,000
<u>Property Mortgage</u>		
On January 25, 2008, the Company issued a promissory note for \$1,000,000 with a financial institution. The note bears interest at a rate of 7% per annum. The note is collateralized by specified real property owned by the Company's subsidiary, J. Holder and is reported in net liabilities of discontinued operations. The property was auctioned for \$1,276,000 on June 17, 2010. Proceeds of the sale were used to redeem the promissory note.	-	998,500 ⁽¹⁾

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Unit Notes

On July 2, 2009, The Company sold an aggregate of 10 units comprised of \$35,000 principal amount secured promissory notes and 5 year warrants to purchase 10,000 shares of common stock at an exercise price of \$18.00 per share to accredited investors at a purchase price of \$35,000 per Unit. The notes bear interest at a rate of ten percent (10%) per annum and mature on July 2, 2015. The Notes may be redeemed by the Company at any time prior to maturity at a rate of 110% of the then outstanding principal, plus accrued but unpaid interest. Upon the occurrence of an event of the default, the Company will be charged an interest rate of eighteen percent (18%). See NOTE 9— RELATED PARTY TRANSACTIONS.

350,000 350,000

7% Unsecured Notes

On April 15, 2005, the Company issued promissory notes to accredited investors which are related parties in a private placement. The notes with interest at 7% per annum was payable in quarterly installments commencing September 30, 2005. These notes were extended through April 15, 2015. See NOTE 9— RELATED PARTY TRANSACTIONS.

200,000 200,000

Ragan Note

Note payable to a related party of \$56,418, bearing interest at 0%. As of December 31, 2010, under FASB ASC 815 this note was written down to \$0. This was reported in net liabilities of discontinued operations. See NOTE 9— RELATED PARTY TRANSACTIONS and NOTE 5- DISCONTINUED OPERATIONS.

- 56,418

SPV Note

On October 12, 2010, the Company issued a note payable of \$124,376 due June 2012 to a related party to secure the outstanding member interest in the Company's subsidiary, Velocity Investments SPV I, LLC. Payments are due monthly based on available cash collected on a specific consumer receivable portfolio. The note bears interest at 14% per annum.

121,805 -

Northern State Note

On August 4, 2009, the Company converted its existing line of credit with Northern State Bank to a term loan. The note bears interest at 6.5%. The note was repaid as of December 31, 2010.

- 22,375⁽¹⁾

\$ 2,021,805 \$ 5,927,293

(1) Notes payable included in liabilities from discontinued operations

- 4,027,293

Notes payable included in continuing operations

\$ 2,021,805 \$ 1,900,000

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Future note commitments at December 31, 2010 are summarized as follows:

2011	\$	-
2012		121,805
2013		-
2014		-
2015		1,900,000
Thereafter		-
		<hr/> 2,021,805
Notes Payable included in Discontinued Operations		-
Notes Payable included in Continuing Operations		<hr/> \$2,021,805

8. Convertible Secured Debentures and Notes

On June 29, 2007 and July 27, 2007, the Company closed on its private placement offering of 10% Convertible Subordinated Notes due June 2017 in the aggregate principal amount of \$2,350,000. The Notes may be converted, at the option of the holder, into shares of the Company's common stock at a price of \$50.00 per share, subject to certain adjustments.

Total costs of \$224,500 related to this offering have been capitalized and are being amortized over the life of the notes. The remaining deferred costs at December 31, 2010 and 2009 were \$145,925 and 168,375, respectively. Amortization expense was \$22,450 in each of the years presented.

9. Related Party Transactions

Of the Melbourne Notes, \$1,400,000 was provided by members of the Company's Board of Directors, and \$900,000 were provided by family members of the CEO and President of the Company. Accrued interest on the Melbourne Notes of \$- and \$1,111,222 was recorded as of the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, under FASB ASC 815 the Melbourne Notes and Accrued Interest were written down to zero.

As of December 31, 2010 and 2009, \$1,000,000 of the 14% Subordinated Notes are being held by the CEO and President of the Company and related parties to the CEO and President of the Company.

At December 31, 2010 and 2009, \$245,000 and \$175,000, respectively of the Unit Notes were held by the CEO and President of the Company and other family members.

As of December 31, 2010 and 2009, \$200,000 of the 7% Unsecured Notes were held by a family member of the CEO and President.

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As of December 31, 2010 and 2009, \$- and \$56,418 of the Ragan Note was held by a law firm controlled by a member of the Board of Directors. This is reported in net liabilities of discontinued operations.

As of December 31, 2010, \$121,805 of the SPV Note was held by an entity controlled by the CEO and President of the Company and other family members.

As of December 31, 2010 and 2009, \$547,666 and \$- of the RAJCK Line of Credit was held by an entity controlled by the CEO and President of the Company and other family members.

Total interest to related parties for the years ended December 31, 2010 and 2009 was \$434,002 and \$376,345, respectively. Of the total interest to related parties for the years ended December 31, 2010 and 2009, \$230,000 and \$233,195, respectively, are included in the results of discontinued operations.

The Company engages Ragan & Ragan, P.C., an entity owned by Messrs. Ragan & Ragan, to pursue legal collection of its receivable portfolios with respect to obligors and properties located in the State of New Jersey. Ragan and Ragan, P.C. routinely advances court costs associated with their servicing of consumer receivable portfolios, which are subsequently reimbursed by the Company. These costs are included in the estimated court and media costs in the consolidated balance sheets.

Legal fees paid to Ragan & Ragan, P.C., by the Company's subsidiaries were as follows:

<i>December 31,</i>	2010	2009
Velocity Investments, LLC	\$ 456,755	\$ 668,068
J. Holder	1,518	-
	\$ 458,273	\$ 668,068

10. Stock-Based Compensation

The 2004 Equity Incentive Program of the Company, (the "Employee Plan") authorizes the issuance of up to 50,000 shares of common stock in connection with the grant of options or issuance of restricted stock awards.

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During the year ended December 31, 2010, the Company issued restricted stock awards which vested immediately. The following summarizes shares of common stock under the Employee Plan:

Number of Shares Granted	Number of Shares Vested	Expenses Recorded	
		December 31, 2010	December 31, 2009
38,000	38,000	\$ 17,100	\$ -
		\$ 17,100	\$ -

11. Preferred Stock Offering

On May 18, 2006, the Company issued 1,800,000 shares of Series A 10% Convertible Preferred Stock ("Preferred Stock") at \$10 per share.

Each share of Preferred Stock is convertible into one-fifth of one share of the Company's Common Stock the Company has the right to redeem the stock after May 18, 2008 for cash, at the Company's option, at \$10 per share, plus accrued and unpaid dividends to the redemption date. The shares of Series A Convertible Preferred Stock are listed on the Pink Sheets under the symbol VPGI.P.

On February 26, 2009, the Company temporarily suspended the payment of 10% cumulative monthly dividends on its Series A Preferred Stock in order to preserve capital. As a result the Company has recorded accrued preferred dividends in the amount of \$2,462,140 and \$1,252,000 as of December 31, 2010 and 2009, respectively.

On July 15, 2009, 13,000 shares of our Series A Preferred Stock were converted into 2,600 shares of Common Stock.

The Board of Directors authorizes the Company to repurchase shares of the Company's preferred stock. The Company repurchased 81,840 shares of preferred stock at a cost of \$47,473 in 2010. No preferred shares were purchased as treasury stock in 2009. The Company may purchase shares on the open market or in private transactions from time to time, depending on market conditions.

12. Outstanding Warrants and Options

At December 31, 2010 and 2009, the Company had issued 43,056 five year warrants at an exercise price of \$18.00 per share in connection with a 10% Secured Convertible Debenture issued in October 2005 (the "October 2005 Warrants"). These warrants expire in April 2011.

In accordance with new guidance codified in FASB ASC 815, which was effective January 1, 2009, the Company determined that the October 2005 Warrants contain an embedded derivative that requires separate valuation because an anti-dilution adjustment is triggered upon the issuance of common stock below the conversion price of the October 2005 Warrants.

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The Company recognizes this embedded derivative as a liability in its consolidated balance sheet at its fair value each period and recognize any change in the fair value in their statement of operations in the period of change. The fair value of the embedded derivative is determined using the Block-Scholes simulation model.

In accordance with FASB ASC 815, the Company determined the fair value of the conversion feature and recorded applicable amounts at issuance of the October 2005 Warrants, at December 31, 2009, and at December 31, 2010.

In connection with a May 2008 common stock offering, the Company had issued 14,000 warrants at an exercise price of \$22.60 per share and 2,541 warrants at an exercise price of \$23.20 per share. These warrants expire in May 2011.

In connection with the Unit Notes, the Company had issued warrants to purchase 10,000 shares at an exercise price of \$18.00 per share. These warrants expire in June 2014.

13. Income Taxes

The provision for corporate income taxes:

<i>December 31,</i>	2010	2009
Current tax (benefit) expense		
Continuing operations		
Federal	\$ (2,118,594)	\$ -
State	(249,167)	87,527
	<u>(2,367,761)</u>	<u>87,527</u>
Discontinued operations		
Federal	949,000	-
State	277,714	1,846
	<u>1,226,714</u>	<u>1,846</u>
Total current tax(benefit) expense	<u>(1,141,047)</u>	<u>89,373</u>
Deferred tax (benefit) expense		
Continuing operations		
Federal	1,018,900	(981,070)
State	141,550	225,500
	<u>1,160,450</u>	<u>(755,570)</u>
Discontinued operations		
Federal	-	736,000
State	-	108,000
	<u>-</u>	<u>844,000</u>
Total deferred tax expense	<u>1,160,450</u>	<u>88,430</u>
Total current and deferred tax (benefit) expense	<u>\$ 19,403</u>	<u>\$ 177,803</u>

Velocity Portfolio Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

The tax effect of temporary differences that make up the significant components of the deferred tax assets and liability for financial reporting purposes for the year ended December 31, 2010 and 2009:

December 31,	2010	2009
Deferred tax asset		
Continuing operations:		
Net operating loss carryforwards	\$ 2,401,000	\$ 1,380,000
Net present value adjustment of portfolios	1,523,000	2,079,000
Stock compensation and other	63,000	
Book/Tax Difference in Revenue Recognition	2,865,000	
Impairment of assets	150,700	
	7,002,700	3,459,000
Discontinued operations		
Net operating loss carryforwards	-	427,000
Accrued interest	-	61,100
Impairment of property held for sale	-	1,234,000
Section 263(a)	-	431,000
	-	2,153,100
Total deferred tax asset	7,002,700	5,612,100
Valuation allowance	(5,184,300)	(4,503,100)
Net deferred tax asset	1,818,400	1,109,000
Deferred tax liability		
Continuing operations:		
Depreciation and amortization	(7,450)	(25,500)
Write off of notes payable	(1,888,000)	-
Total deferred tax liability	(1,895,450)	(25,500)
	\$ (77,050)	\$ 1,083,500

Velocity Portfolio Group Inc. (formerly Tele-Optics, Inc.) generated net operating losses prior to its acquisition of STB. As a result of the reverse acquisition, the ownership change of Velocity Asset Management, Inc. as of February 3, 2004 limits and reduces the future utilization of the Company's net operating loss carryforwards. These pre-reverse acquisition net operating loss carryforwards will be limited and reduced based upon the applicable Federal and New Jersey rules. Any net operating loss carryforwards for future tax years will be available to offset future taxable income of the consolidated group subject to an annual limit per the Internal Revenue Code Section 382.

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During the year ended December 31, 2010 the Company carried back certain net operating losses which were recorded as a deferred tax asset at December 31, 2009. This refund claim in the amount of \$1,083,500 was filed and received during Fiscal 2010.

Discontinued operations include a full deferred tax asset valuation allowance for federal and state purposes in the amount of \$2,153,000.

At December 31, 2010, the Company had unused net operating loss carryforwards of approximately \$5,043,000 for Federal purposes and \$11,562,000 for state purposes. These net operating losses may provide future income tax benefits of approximately \$2,401,000, substantially all of which will expire by 2030. The ability to utilize losses is dependent upon the Company's ability to generate taxable future income as well as the annual limit per the Internal Revenue Code Section 382 versus the expiration dates of the losses. Because some of the losses are due to expire prior to fully utilizing the carryforwards, a valuation reserve has been established for an amount equal to the expected expired amount.

"Adoption of "Accounting for Uncertainty in Income Taxes"

In June 2006, the FASB issued "Accounting for Uncertainty in Income Taxes-an Interpretation of "Accounting for Income Taxes". "Accounting for Uncertainty in Income Taxes" prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company adopted the provisions of "Accounting for Uncertainty in Income Taxes" effective October 1, 2009.

As of December 31, 2009, the liability for income taxes associated with uncertain tax positions was \$44,300 and is included in income taxes receivable. During the year ended December 31, 2010, this liability increased by approximately \$8,200 (including penalties and interest) for State income taxes. Therefore, the liability for income taxes associated with uncertain tax positions at December 31, 2010 is approximately \$52,500 and is included in income taxes payable. As of December 31, 2010 and 2009, the Company's books reflected accrued penalties and interest of approximately \$940 and \$1,100, respectively. The penalties and interest are recorded as part of the provision for income taxes.

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The Company files Federal and State income tax returns in jurisdictions with varying statutes of limitations. As of December 31, 2010, the 2007 through 2009 tax years remain subject to examination by Federal taxing authorities and various 2006 through 2009 tax years generally remain subject to examination by State taxing authorities. In 2007, the U.S. Internal Revenue Service (IRS) audited the 2005 U.S. Federal tax return. This audit has been closed. There was not a material effect on the Company's financial position. In 2009, the IRS audited the 2007 U.S. Federal tax return, which resulted in no change to the tax return. The 2007 tax year is closed.

14. Commitments

The Company has entered into employment agreements with several officers with terms expiring through December 31, 2012. The Company's gross commitments under these agreements amount to \$1,080,000.

On May 2, 2007, the Company signed a lease for its office space which commenced on July 1, 2007 with an initial term of five years (the "Term"). On January 10, 2011, the Company extended the Term for an additional two years.

The Company has two options to extend the Term for a period of five years each. The total annual lease payment is \$43,488, payable in equal monthly installments on or before the first of each month.

The future minimum lease payments for each of the twelve month periods ended December 31:

2011	\$ 43,488
2012	43,488
2013	21,744
Total	\$ 108,720

Rent expense, including triple-net costs was \$73,976 and \$74,925 for the years ended December 31, 2010 and 2009, respectively.

15. Subsequent Events

The Company has evaluated subsequent events through March 31, 2011, which is the date the financial statements were available to be issued.