Impac Mortgage Holdings, Inc.

Consolidated Financial Statements

For the Years Ended December 31, 2024 and 2023

CONSOLIDATED FINANCIAL STATEMENTS
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Independent Auditors' Report

To the Board of Directors of
Impac Mortgage Holdings, Inc.

Opinion

We have audited the consolidated financial statements of Impac Mortgage Holdings, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations and comprehensive (loss) earnings, changes in stockholders' deficit and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred recurring net losses and is in default of its debt obligations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

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

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

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

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

Baker Tilly US, LLP

Irvine, California
April 21, 2025

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents	$ 4,662	$ 4,240
Restricted cash	3,757	4,250
Mortgage loans held-for-sale	263	263
Employee retention credit receivable	—	6,184
Corporate-owned life insurance cash surrender value	11,898	11,280
Other assets	3,598	4,768
Total assets	$ 24,178	$ 30,985
LIABILITIES		
Line of credit	$ 15,281	$ —
Convertible notes	—	10,000
Long-term debt, at fair value	492	1,311
Corporate-owned life insurance liability	15,381	14,379
Other liabilities	5,838	8,631
Total liabilities	36,992	34,321
Commitments and contingencies (See Note 11)		
STOCKHOLDERS' DEFICIT		
Series A-1 junior participating preferred stock, $0.01 par value; 2,500,000 shares authorized; none issued or outstanding	—	—
Series B 9.375% redeemable preferred stock, $0.01 par value; 2,000,000 shares authorized, none issued or outstanding (See Note 8)	—	—
Series C 9.125% redeemable preferred stock, $0.01 par value; 5,500,000 shares authorized; none issued or outstanding (See Note 8)	—	—
Series D 8.250% redeemable preferred stock, $0.01 par value; 35,000,000 shares authorized; 34,684,686 and 34,684,686 noncumulative shares issued and outstanding as of December 31, 2024 and December 31, 2023, respectively (See Note 8)	347	347
Common stock, $0.01 par value; 165,000,000 shares authorized; 36,568,876 and 36,568,876 shares issued and outstanding as of December 31, 2024 and December 31, 2023, respectively	366	366
Additional paid-in capital	1,238,492	1,238,466
Accumulated other comprehensive earnings, net of tax	72,031	64,014
Total accumulated deficit:		
Cumulative dividends declared	(822,520)	(822,520)
Accumulated deficit	(501,530)	(484,009)
Total accumulated deficit	(1,324,050)	(1,306,529)
Total stockholders' deficit	(12,814)	(3,336)
Total liabilities and stockholders' deficit	$ 24,178	$ 30,985

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) EARNINGS
(in thousands, except per share data)

	December 31, 2024	December 31, 2023
Revenues		
Gain on sale of loans, net	$ 711	$ 2,001
Real estate service fees, net	272	1,110
Broker fee income	837	639
Loss on mortgage servicing rights, net	—	(23)
Servicing expense, net	(63)	(33)
Other	664	(176)
Total revenues, net	2,421	3,518
Expenses		
Personnel	6,998	11,432
General, administrative and other	4,581	9,094
Occupancy	360	1,603
Business promotion	222	687
Total expenses	12,161	22,816
Operating loss	(9,740)	(19,298)
Other income (expense)		
Interest income	1,050	1,041
Interest expense	(8,446)	(7,274)
Employee retention credit	(25)	7,334
Change in fair value of market component of long-term debt	(366)	1,434
Total other income (expense), net	(7,787)	2,535
Loss before income taxes	(17,527)	(16,763)
Income tax (benefit) expense	(6)	6
Net loss	$ (17,521)	$ (16,769)
Other comprehensive (loss) earnings		
Change in fair value of instrument specific credit risk of long-term debt	8,017	24,757
Total comprehensive (loss) earnings	$ (9,504)	$ 7,988

See accompanying notes to consolidated financial statements

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(in thousands, except share data)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock	Additional Paid-In Capital	Cumulative Dividends Declared	Accumulated Deficit	Accumulated Other Comprehensive Earnings, net of tax	Total Stockholders' (Deficit) Equity
Balance, December 31, 2022	34,684,686	347	36,568,876	366	1,238,187	(822,520)	(467,240)	39,257	(11,603)
Stock based compensation	—	—	—	—	279	—	—	—	279
Other comprehensive earnings	—	—	—	—	—	—	—	24,757	24,757
Net loss	—	—	—	—	—	—	(16,769)	—	(16,769)
Balance, December 31, 2023	34,684,686	347	36,568,876	366	1,238,466	(822,520)	(484,009)	64,014	(3,336)
Stock based compensation	—	—	—	—	26	—	—	—	26
Other comprehensive earnings	—	—	—	—	—	—	—	8,017	8,017
Net loss	—	—	—	—	—	—	(17,521)	—	(17,521)
Balance, December 31, 2024	34,684,686	347	36,568,876	366	1,238,492	(822,520)	(501,530)	72,031	(12,814)

See accompanying notes to consolidated financial statements

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Year Ended December 31,			
	2024		2023	
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(17,521)	$	(16,769)
Gain on sale of mortgage servicing rights		—		23
Gain on sale of mortgage loans		—		10
Change in fair value of mortgage loans held-for-sale		—		(1,090)
Change in fair value of derivatives lending, net		—		53
Amortization of debt issuance costs		41		—
Provision for repurchases		(737)		(974)
Origination of mortgage loans held-for-sale		—		(835)
Sale and principal reduction on mortgage loans held-for-sale		—		14,704
Change in fair value of long-term debt		366		(1,434)
Accretion of interest expense		(555)		(251)
Stock-based compensation		26		279
Change in employee retention credit receivable		6,184		—
Payment-in-kind (PIK) interest		1,007		—
Writeoff of accrued interest payable, long-term debt		7,387		—
Net change in other assets		1,166		(5,331)
Net change in other liabilities		(2,057)		(2,551)
Net cash used in operating activities		(4,693)		(14,166)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in corporate-owned life insurance		(618)		339
Proceeds from sale of premises and equipment		5		7
Proceeds from sale of master servicing rights		—		150
Net cash (used in) provided by investing activities		(613)		496
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of warehouse borrowings		—		(3,622)
Borrowings under line of credit		15,000		—
Capitalized debt issuance costs		(767)		—
Net change in liabilities related to corporate-owned life		1,002		778
Repayment of convertible notes		(10,000)		(5,000)
Net cash provided by (used in) financing activities		5,235		(7,844)
Net change in cash, cash equivalents and restricted cash		(71)		(21,514)
Cash, cash equivalents and restricted cash at beginning of year		8,490		30,004
Cash, cash equivalents and restricted cash at end of year	$	8,419	$	8,490
SUPPLEMENTARY INFORMATION				
Interest paid	$	1,741	$	6,461
Taxes paid, net		(14)		59
NON-CASH TRANSACTIONS				
ROU assets obtained in exchange for new operating lease		—	$	704
Payment-in-kind (PIK) interest		1,007		—
Writeoff of accrued interest payable, long-term debt		7,387		—

See accompanying notes to consolidated financial statements

Note 1.—Summary of Business and Financial Statement Presentation including Significant Accounting Policies

Business Summary

Impac Mortgage Holdings, Inc. (IMH or the Company) is a financial services company incorporated in Maryland with the following direct and indirect wholly-owned operating subsidiaries: Integrated Real Estate Service Corp. (IRES), Impac Mortgage Corp. (IMC), IMH Assets Corp. (IMH Assets), Impac Funding Corporation (IFC), Copperfield Financial, LLC (CFL) and Copperfield Capital Corporation (CCC). The Company's operations include the mortgage brokerage operations conducted by IMC. IMC's mortgage brokerage operations include the activities of its division, CashCall Mortgage.

The Company is primarily engaged in the business of originating and brokering mortgage loans secured by residential real estate throughout the United States and derives income from fees charged for services related to the brokering/origination/sale of mortgage loans. In 2020, the Company received notification from the Federal Home Loan Mortgage Corporation (Freddie Mac) that the Company's eligibility to sell whole loans to Freddie Mac was suspended, without cause. As noted in Freddie Mac's Seller/Servicer Guide, Freddie Mac may elect, in its sole discretion, to suspend a Seller from eligibility, without cause, thereby restricting the Seller from obtaining new purchase commitments during the suspension period. Given the Company's lack of conventional origination volume to the Federal National Mortgage Association (Fannie Mae) and Freddie Mac (collectively the GSEs) and servicing rights over the past several years, with no direct GSE deliveries to Fannie Mae or Freddie Mac since 2016 and 2020, respectively, in 2023 the Company voluntarily relinquished its GSE Seller/Servicer designation, which had been suspended during these periods of non-delivery, as well as its issuer/servicer designation with Ginne Mae. In December 2024, the Company informally notified the Department of Housing and Urban Development (HUD) of its intent to surrender its license with HUD. This was followed by a formal notification to HUD in March 2025. HUD approved the Company's request to surrender its license in April 2025. The Company continues to maintain its approval from the Department of Veterans Affairs.

Liquidity

The Company's liquidity reflects its ability to meet its current obligations (including its operating expenses and, when applicable, the retirement of debt). The Company has experienced recurring losses from operations dating back to 2017. During the year ended December 31, 2024, the Company incurred a net loss of $17.5 million and has a stockholders' deficit of $12.8 million as of December 31, 2024. As of December 31, 2024, the Company has unrestricted cash and cash equivalents of $4.7 million. While the Company was able to execute on its expense management plans throughout 2024 and continues to reduce its expense run rate, there is substantial doubt that the Company's existing cash and cash equivalents as of December 31, 2024 are sufficient to fund the Company's operations over the next year.

In January 2024, the Company did not make the interest payment required under the terms of the First Junior Note and First Indenture and such non-payment resulted in an event of default under the Second Junior Note (the Second Indenture) as well as a cross-default under the terms of the Convertible Note (See Note 6. – Debt). The default triggered concerns regarding the company's ability to meet its financial obligations. In January and February 2024, the Company, the collateral manager for the holders of the First Junior Note and Second Junior Note and the Convertible Note Holders, entered into forbearance agreements whereby each agreed to forbear from exercising their rights and remedies under their respective agreements through May 31, 2024.

On May 6, 2024, the Company entered into a loan agreement that provided for up to $20.0 million in a revolving credit facility and extended the forbearance agreements until December 1, 2024. The new revolving credit facility, provided for by a related party of the collateral manager for the holders of the Company's Junior Subordinated Notes, is guaranteed by the subsidiaries of the Company and secured by generally all the assets of each of the Company and its subsidiaries, including the equity of each of the subsidiaries owned by the Company. On November 26, 2024, the Company entered into forbearance agreements with the aforementioned debt holders until May 9, 2025. At December 31, 2024, there were $16.0 million, including accrued and unpaid interest, in borrowings outstanding under the revolving credit facility. On

December 19, 2024, the Company's $1.0 million warehouse line expired and was not renewed. On December 30, 2024, the Company pre-paid the remaining principal balance of $5.0 million to the Convertible Note Holders, which was contractually due in May 2025. Interest was paid through the payoff date; however, the Convertible Note Holders waived any prepayment penalties.

The Company may seek to raise secured or unsecured debt, raise equity or working capital or pursue other actions to reorganize its capital. While the Company intends to raise additional capital within the next year to support its operations, it cannot provide any assurance that its capital raise efforts will be successful. Additionally, reliance on the forbearance agreements raises substantial doubt about the Company's capacity to sustain operations without a permanent resolution to its financial challenges, as there can be no assurance that the forbearance will be extended past May 9, 2025. As a result, there is substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Financial Statement Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of IMH and its subsidiaries (as defined above) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All significant inter-company balances and transactions have been eliminated in consolidation. In addition, certain immaterial amounts in the prior periods consolidated financial statements have been reclassified to conform to the current year presentation.

Management has made several material estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. Additionally, other items affected by such estimates and assumptions include contingencies, the estimated obligation of repurchase liabilities related to sold loans, the valuation of long-term debt, and the mortgage loan held-for-sale (LHFS). Actual results could differ from those estimates and assumptions.

Principles of Consolidation

The accompanying consolidated financial statements include accounts of IMH and its wholly owned subsidiaries. The usual condition for controlling financial interest is ownership of a majority of the voting interests of an entity. However, a controlling financial interest may also exist in entities, such as variable interest entities (VIEs), through arrangements that do not involve voting interests.

The VIE framework requires a variable interest holder (counterparty to a VIE) to consolidate the VIE if that party has the power to direct activities of the VIE that most significantly impact the entity's economic performance, will absorb a majority of the expected losses of the VIE, will receive a majority of the residual returns of the VIE, or both, and directs the significant activities of the entity. This party is considered the primary beneficiary of the entity. The determination of whether the Company meets the criteria to be considered the primary beneficiary of a VIE requires an evaluation of all transactions (such as investments, liquidity commitments, derivatives and fee arrangements) with the entity. An assessment of whether the Company is the primary beneficiary of the VIE is performed on an ongoing basis.

Fair Value and the Fair Value Option

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

The fair value option permits entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value. The decision to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable unless a new election date occurs, and is applied to an entire instrument. The Company has elected the fair value option for LHFS and long-term debt. Elections were made to mitigate income statement volatility caused by differences in the measurement basis of elected instruments.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash and highly liquid investments with maturities of three months or less at the date of acquisition. The carrying amount of cash and cash equivalents approximates fair value.

Cash balances that have restrictions as to the Company's ability to withdraw funds are considered restricted cash. On December 31, 2024 and 2023, restricted cash totaled $3.8 million and $4.3 million, respectively. The restricted cash is primarily comprised of collateral against a letter of credit financing associated with corporate-owned life insurance (See Note 11.—Commitments and Contingencies) and collateral against a letter of credit financing related to state licensing surety bonds.

Mortgage Lending

Mortgage loans held-for-sale (LHFS) are measured at fair value. With the election of the fair value option for LHFS, fees and costs associated with the origination of LHFS are earned and expensed as incurred, respectively.

Mortgage LHFS are accounted for using the fair value option, with changes in fair value recorded in gain on sale of loans, net in the accompanying consolidated statements of operations and comprehensive (loss) earnings. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*, loan origination fees and expenses are recognized in earnings as incurred and not deferred.

Revenue from the Company's mortgage brokering activities includes fees collected at origination. Loan fees, which encompass income from all loan originations, are recognized as earned. These fees include amounts collected for application fees and net amounts collected or paid for credit reports.

The Company primarily sells its LHFS to investors. The Company evaluates its loan sales for sales treatment. To the extent the transfer of loans qualifies as a sale, the Company derecognizes the loans and records a realized gain or loss on the sale date. In the event the Company determines that the transfer of loans does not qualify as a sale, the transfer would be treated as a secured borrowing. Interest on loans is recorded as income when earned and deemed collectible. LHFS are placed on nonaccrual status when any portion of the principal or interest is 90 days past due or earlier if factors indicate that the ultimate collectability of the principal or interest is not probable. Interest received from loans on nonaccrual status is recorded as income when collected. Loans return to accrual status when the principal and interest become current and it is probable that the amounts are fully collectible.

Mortgage Servicing Rights

Mortgage servicing rights are recorded at fair value as prescribed by FASB ASC 860-50-35, Transfers and Servicing, and the changes in fair value are recorded in the statement of operations within loss on mortgage servicing rights, net.

Consolidated Non-recourse Securitizations

In March 2022, the Company and its subsidiaries (the Sellers), entered into a Purchase, Sale and Assignment Agreement (Sale Agreement) with an unrelated third party pursuant to which the Sellers sold certain residual interest certificates, and assigned certain optional termination and loan purchase rights, owned by the Sellers relating to 37 securitizations that closed between 2000 and 2007 (the Securitizations). As a result of the sale, in accordance with FASB ASC 810-10-25, the Company deconsolidated the securitized mortgage trust assets and liabilities as of the sale date as it was no longer the primary beneficiary of the consolidated securitization trusts.

During the year ended December 31, 2023, the Company sold the master servicing rights associated with the securitization trusts to an unrelated third party for $150 thousand and incurred a net loss of $33 thousand. For a description of the sale, see Note 7.– Securitized Mortgage Trusts.

Real Estate Owned

Real estate owned consists of residential real estate acquired in satisfaction of loans, was carried at net realizable value, which included the estimated fair value of the residential real estate less estimated selling and holding costs. Adjustments to the loan carrying value required at the time of foreclosure affect the carrying amount of REO. Subsequent write-downs in the net realizable value of REO are included as REO gains (losses) in the consolidated statements of operations and comprehensive (loss) earnings. The Company did not have any REO activity for the years ended December 31, 2024 and 2023.

Leases

Operating lease right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent obligations to make lease payments arising from the lease. The Company determines if a contract is a lease at the inception of the arrangement and reviews all options to extend, terminate, or purchase its ROU assets at the inception of the lease and accounts for these options when they are reasonably certain of being exercised. The Company's lease agreements do not provide an implicit rate. As a result, the Company used an incremental borrowing rate based on the information available as of the lease commencement dates, or as of the acquisition date, if applicable, in determining the present value of lease payments. As a practical expedient permitted under ASC 842, *Leases*, the Company elected to account for the lease and non-lease components as a single lease component for all leases of which it is the lessee. Leases with an initial term of 12 months or less are not recorded in the consolidated balance sheets and lease expense for these leases is recognized on a straight-line basis over the lease term.

ROU assets are tested for impairment whenever changes in facts or circumstances indicate that the carrying amount of an asset may not be recoverable. Modification of a lease term would result in remeasurement of the lease liability and a corresponding adjustment to the ROU asset. For additional information regarding the Company's leases see Note 11.— Commitments and Contingencies.

Long-term Debt

Long-term debt (Junior Subordinated Notes) is reported at fair value. These securities are measured based upon an analysis prepared by management, which considers the Company's own credit risk. Under FASB ASU 2016-01, the Company bifurcates the market and instrument specific credit risk components of changes in long-term debt. The market portion continues to be a component of net loss as the change in fair value of long-term debt, but the instrument specific credit risk portion is a component of accumulated other comprehensive earnings in the accompanying consolidated statements of operations and comprehensive (loss) earnings.

Repurchase Reserve

The Company brokers mortgage loans and previously sold mortgage loans in the secondary market. When the Company brokers mortgage loans or sells mortgage loans, it makes customary representations and warranties to the lenders or purchasers, respectively. In the event of a breach of its representations and warranties, the Company may be required to either repurchase the mortgage loans with the identified defects or indemnify the lender/investor or insurer for any loss. The Company's loss may be reduced by proceeds from the sale or liquidation of the repurchased loan.

In the case of early loan payoffs and early defaults on certain loans, the Company may be required to repay all or a portion of the premium initially paid by the lender/investor. The estimated obligation associated with early loan payoffs and early defaults is calculated based on historical loss experience by type of loan.

The Company records a warranty provision on brokered loans and a provision for losses on sold loans relating to such representations and warranties as part of its loan sale transactions. The method used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a combination of factors, including, but not limited to, estimated future defaults and loan repurchase rates and the potential severity of loss in the event of defaults including any loss on sale or liquidation of the repurchased loan and the probability of reimbursement. The Company establishes a liability at the time loans are brokered or sold and continually updates its estimated repurchase liability. The level of the repurchase liability for representations and warranties is difficult to estimate and requires considerable management judgment. Given that the level of mortgage loan repurchase losses is dependent on economic factors, investor demands for loan repurchases and other external conditions that may change over the lives of the underlying loans, market expectations around losses related to the Company's obligations could vary significantly from the obligations recorded as of the balance sheet date.

Revenue Recognition for Fees from Services

The Company follows FASB ASC 606, *Revenue Recognition*, which provides guidance on the application of GAAP to selected revenue recognition issues related to the Company's real estate service fees. Under FASB ASC 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation.

The Company's sources of revenue derived from financial instruments are not within the scope of FASB ASC 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of operations and comprehensive (loss) earnings, was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, the Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from contracts with customers. The revenues from these services are recognized in income in the period when services are rendered and collectability is reasonably certain.

Broker Fee Income

The Company provides a variety of mortgage lending products to consumers through its broker fulfillment model. In the broker fulfillment model, the Company sources leads and delivers loan packages to wholesale originators where the originators underwrite and fund the loans. The broker fulfillment model generates broker fee income, comprised of origination fees and broker fees, net of origination costs. As the Company's performance obligations for these services are satisfied once the mortgage loan has been originated by the lender and there is no ongoing obligation, revenue is recognized when services are rendered.

Real Estate Service Fees, net

The Company provides certain real estate services to servicers, portfolio managers and investors to assist them in maximizing loss mitigation performance in managing distressed mortgage portfolios and foreclosed real estate assets, and the disposition of such assets. In addition, the Company performs default surveillance services for residential and multifamily mortgage portfolios for servicers and investors to assist them with overall portfolio performance. As the Company's performance obligations for these services is satisfied at a point in time and there is no ongoing obligation, revenue is recognized when services are rendered.

Servicing Expense, net

The Company receives servicing fees, less subservicing costs, on the unpaid principal balance (UPB) of serviced loans. The servicing fees are collected from the interest portion of the monthly payments made by the mortgagors or when the underlying real estate is foreclosed upon and liquidated. The Company may receive other remuneration from rights to various mortgagor-contracted fees such as late charges, collateral reconveyance charges, nonsufficient fund fees and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax and insurance payments. Pursuant to FASB ASC 860, all servicing fees are recognized as income when earned, which typically occurs when cash is collected.

Additionally, to a lesser extent, the Company acted as master servicer on various mortgage and multi-family loan pools. The Company earned portfolio service fees by performing various services such as collection of interest and principal payments from servicers, remittance of those payments to investors, reconciling payment discrepancies, and handling credit issues such as borrower defaults.

Marketing and Advertising Costs

The Company advertises primarily through direct advertising channels such as radio, television, internet and direct mail. The Company expenses advertising costs as incurred. For direct advertising, these costs include radio and television ads as well as design, printing and mailing costs associated with direct mail campaigns. Advertising costs are expensed as incurred and are included in business promotion expense in the accompanying consolidated statements of operations and comprehensive (loss) earnings. For the years ended December 31, 2024 and 2023, business promotion expense was $222 thousand and $687 thousand, respectively.

Equity-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC 718 *Compensation—Stock Compensation*. The Company uses the grant-date fair value of equity awards to determine the compensation cost associated with each award. Grant-date fair value is determined using the Black-Scholes pricing model and assumptions noted in Note 12.—Share Based Payments and Employee Benefit Plans, adjusted for unique characteristics of the specific awards. Compensation cost for service-based equity awards is recognized on a straight-line basis over the requisite service period, which is generally the vesting period.

FASB ASC 718 requires forfeitures to be estimated at the time of grant and prospectively revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation expense is recorded net of estimated forfeitures for the years ended December 31, 2024 and 2023, such that the expense was recorded only for those stock-based awards that were expected to vest during such periods. The cost of equity-based compensation is recorded to personnel expense in the consolidated statements of operations and comprehensive (loss) earnings.

Income Taxes

In accordance with FASB ASC 740, *Income Taxes*, the Company records income tax expense as well as deferred tax assets and liabilities. Current income tax expense or benefit approximates taxes to be paid or refunded for the current period, respectively, and includes income tax expense related to uncertain tax positions. The Company determines deferred income taxes using the balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and recognizes enacted changes in tax rates and laws in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized subject to management's judgment that realization is "more likely than not." Uncertain tax positions that meet the more likely than not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes has a greater than 50% likelihood of realization upon settlement.

The Company is subject to federal income taxes as a regular (Subchapter C) corporation and files a consolidated U.S. federal income tax return on qualifying subsidiaries. The Company files federal and various states income tax returns in the U.S.

Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. FASB ASU 2020-06 will simplify the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract as compared with current GAAP. Convertible instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. ASU 2020-06 also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. ASU 2020-06 was effective January 1, 2024, for the Company. The Company adopted this ASU on January 1, 2024 and the adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): *Improvements to Income Tax Disclosures*. The amendments further enhance income tax disclosures, primarily through standardization and disaggregation of rate reconciliation categories and income taxes paid by jurisdiction. The amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. Early adoption is permitted and should be applied either prospectively or retrospectively. The Company does not expect the adoption of this ASU to have a material impact on the Company's financial statements.

Note 2.—Mortgage Loan Held-for-Sale

A summary of the UPB of mortgage LHFS by type is presented below:

	December 31, 2024	December 31, 2023
Jumbo & Non-qualified mortgages (NonQM)	$ 326	$ 326
Fair value adjustment (1)	(63)	(63)
Total mortgage loans held-for-sale	$ 263	$ 263

(1) Changes in fair value are included in gain on sale of loans, net on the accompanying consolidated statements of operations and comprehensive (loss) earnings.

As of December 31, 2024 and 2023, there was one mortgage LHFS with a UPB of $326 thousand that was in nonaccrual status as the loan was in foreclosure. The carrying value of this nonaccrual loan as of December 31, 2024 was $263 thousand.

Gain on sale of loans, net in the consolidated statements of operations and comprehensive (loss) earnings is comprised of the following for the years ended December 31, 2024 and 2023:

	For the Year Ended December 31,	
	2024	2023
(Loss) gain on sale of mortgage loans	$ —	$ (26)
Unrealized loss from derivative financial instruments	—	(53)
Realized gain from derivative financial instruments	—	55
Change in mark to market on LHFS	—	1,090
Direct origination expenses, net	(26)	(39)
Change in provision for repurchases	737	974
Gain on sale of loans, net	$ 711	$ 2,001

Note 3.—Mortgage Servicing Rights (MSRs)

MSRs are reported at fair value based on the expected income derived from the net projected cash flows associated with servicing contracts. The Company receives servicing fees, less subservicing costs, on the UPB of the underlying mortgage loans. The servicing fees are collected from the monthly payments made by the mortgagors, or if delinquent, when the underlying real estate is foreclosed upon and liquidated. The Company may receive other remuneration from rights to various mortgagor-contracted fees, such as late charges, collateral reconveyance charges and nonsufficient fund fees, and the Company is generally entitled to retain the interest earned on funds held pending remittance (or float) related to its collection of mortgagor principal, interest, tax and insurance payments. The Company did not hold any MSRs as of December 31, 2024 and 2023.

	For the Year Ended December 31,	
	2024	2023
Change in fair value of mortgage servicing rights	$ —	$ —
Loss on sale of mortgage servicing rights	—	(23)
Loss on mortgage servicing rights, net	$ —	$ (23)

Note 4.—Employee Retention Credit

The Employee Retention Credit (ERC), which was included as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and amended by the Consolidated Appropriations Act (CAA), the American Rescue Plan Act (ARPA), and the Infrastructure Investment and Jobs Act (IIJA), incentivizes employers severely impacted by the COVID-19 pandemic to retain their employees when they might otherwise find it difficult to do so. The fully refundable tax credit is allowed against the employer's share of employment taxes for qualified wages paid after March 12, 2020 and before October 1, 2021. Credits in excess of the tax amounts paid by an employer are treated as overpayments and are also refunded to the employer. The ERC is calculated as a percentage of qualified wages (as defined in the CARES Act, as amended) paid by an eligible employer. The Company applied for the ERC as it experienced a significant decline in gross receipts (for 2020, defined as a 50% decline in gross receipts when compared to the same calendar quarter in 2019, and for 2021, defined as a 20% decline in gross receipts when compared to the same quarter in 2019). The Company averaged more than 100 full-time employees (FTEs), but less than 500 FTEs during 2019, therefore, it was considered a large employer during 2020 and a small employer during 2021. As a large employer in 2020, only wages paid to employees not providing services were eligible for the ERC while as a small employer in 2021 all of the Company's otherwise qualified wages were eligible. For 2020, the ERC equaled 50 percent of an employee's qualified wages up to $10,000 per employee per calendar quarter with a maximum annual credit for each employee of $5,000. For 2021, the ERC equaled 70 percent of an employee's qualified wages up to $10,000 per employee per calendar quarter with a maximum annual credit of $21,000 for each employee.

The Company applied for the ERC by amending its previously filed Internal Revenue Service (IRS) forms 941, and as a result, the Company has accounted for this government grant by way of analogy to FASB ASC 410, *Asset Retirement and Environmental Obligations*. FASB ASC 410-30-35-8 indicates that a claim for recovery should be recognized only when the claim is probable of recovery as defined in FASB ASC 450-20-25-1 (i.e. Contingencies). During the year ended December 31, 2023, the Company applied for $7.3 million of ERC and received $1.3 million including accrued interest. During the year ended December 31, 2024, the Company received an additional $7.0 million for the remaining $6.2 million ERC receivable including accrued interest. On November 20, 2024, the IRS notified the Company that a remittance of $25 thousand was due for amounts paid in excess of the maximum allowed under the ERC. The Company agreed and repaid the $25 thousand to the IRS. The Company does not expect to receive additional ERC funds going forward since all claims have been received.

Note 5.—Other Assets

Other assets consisted of the following:

	December 31, 2024	December 31, 2023
Prepaid expenses	$ 2,869	$ 3,325
Servicing advances	178	703
ROU asset (See Note 11)	202	474
Accounts receivable, net	296	129
Premises and equipment, net	12	89
Other	41	48
Total other assets	$ 3,598	$ 4,768

Accounts Receivable, net

Accounts receivable are fees earned for real estate services rendered, generally collected one month in arrears. Accounts receivable are stated at their carrying value as of December 31, 2024, with no reserve for credit losses as of December 31, 2024.

Servicing Advances

The Company was required to advance certain amounts to meet its contractual loan servicing requirements. The Company advances principal and interest (P&I), property taxes, and insurance for borrowers that had insufficient escrow accounts, plus any other costs to preserve the properties. Also, the Company will advance funds to maintain, repair and market foreclosed real estate properties. The Company is entitled to recover advances from the borrowers for reinstated and performing loans or from proceeds of liquidated properties.

	December 31,	
	2024	2023
Escrow advances	$ 118	$ 153
Corporate advances	60	59
Investor P&I advances	—	491
Total servicing advances	$ 178	$ 703

Additionally, the Company may advance funds on defaulted mortgage loans. The advances represent the outstanding principal balance plus related foreclosure costs of loans in liquidation. At December 31, 2024, the Company had no default advances outstanding.

Premises and Equipment, net

Premises and equipment are stated at cost, less accumulated depreciation or amortization. Depreciation on premises and equipment is recorded using the straight-line method over the estimated useful lives of individual assets, typically three to twenty years. Premises and equipment, net consisted of the following at December 31, 2024:

	December 31,	
	2024	2023
Premises and equipment	$ 2,716	$ 2,989
Less: Accumulated depreciation	(2,704)	(2,900)
Total premises and equipment, net	$ 12	$ 89

The Company recognized $71 thousand and $106 thousand of depreciation expense within general, administrative and other expense in the accompanying consolidated statements of operations and comprehensive (loss) earnings, for the years ended December 31, 2024 and 2023, respectively.

Note 6.—Debt

The following table shows contractual future debt maturities as of December 31, 2024:

	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Line of credit	15,281	—	—	—	15,281
Long-term debt	69,387	—	—	—	69,387
Total debt obligations	$ 84,668	$ —	$ —	$ —	$ 84,668

Warehouse Borrowings

The Company, through its subsidiaries, entered into Master Repurchase Agreements with lenders providing warehouse facilities. The warehouse facilities were used to fund, and were secured by, residential mortgage loans that were held for sale. The warehouse lines of credit were repaid using proceeds from the sale of loans. As of December 31, 2023, the Company had one warehouse line of credit with a maximum borrowing capacity of $1 million and no balance outstanding. The base interest rates on the Company's warehouse line of credit included interest at 1-month Term SOFR plus a margin, an annual facility fee charged on the total line amount, commitment fees charged on the committed portion of the line of credit and non-usage fees charged when monthly usage fell below a certain utilization percentage. The one remaining warehouse line of credit expired on December 20, 2024 and was not renewed. As of December 31, 2024, the Company had no warehouse lines.

Line of Credit

On May 6, 2024, the Company entered into a loan agreement for a revolving credit facility of up to $20 million with a related party of the Company's Junior Subordinated Notes holders. The line of credit matures in May 2029 and carries an interest rate of SOFR plus a margin of 7.5%. Under the terms of the agreement, interest may be capitalized. The Company incurred $767 thousand in debt issuance costs which were capitalized as a reduction of the liability and amortized over the term of the line of credit. As of December 31, 2024, the Company borrowed $15.0 million on the line of credit and payment-in-kind (PIK) interest totaled $1.0 million.

Under the terms of the line of credit, the Company is required to maintain various financial and other covenants. At December 31, 2024, the Company was not in compliance with such covenants from its lender and obtained the necessary waiver.

Convertible Notes

In May 2015, the Company issued $25.0 million Convertible Notes (Notes) to purchasers (Convertible Note Holders), some of which are related parties. The Notes were originally due to mature on or before May 9, 2020 and accrued interest at a rate of 7.5% per annum, to be paid quarterly.

The Convertible Note Holders could convert all or a portion of the outstanding principal amount of the Notes into shares of the Company's common stock (Conversion Shares) at a rate of $21.50 per share, subject to adjustment for stock splits and dividends (Conversion Price). The Company had the right to convert the entire outstanding principal of the Notes into Conversion Shares at the Conversion Price if the market price per share of the common stock, as measured by the average volume-weighted closing stock price per share of the common stock on the NYSE AMERICAN (or any other U.S. national securities exchange then serving as the principal such exchange on which the shares of common stock are listed), reached the level of $30.10 for any twenty (20) trading days in any period of thirty (30) consecutive trading days after the Closing Date (as defined in the Notes). Upon conversion of the Notes by the Company, the entire amount of accrued and unpaid interest (and all other amounts owing) under the Notes would have been immediately due and payable. To the extent the Company paid any cash dividends on its shares of common stock prior to conversion of the Notes, upon conversion of the Notes, the Convertible Note Holders would also receive such dividends on an as-converted basis of the Notes less the amount of interest paid by the Company prior to such dividend.

On April 15, 2020, the Company and the Convertible Note Holders agreed to extend the outstanding Notes in the principal amount of $25.0 million originally issued in May 2015, at the conclusion of the original note term (First Amendment). The new Notes were issued with a six month term (November 9, 2020) and reduced the interest rate on such Notes to 7.0% per annum. In connection with the issuance of the First Amendment, the Company issued to the Convertible Note Holders, warrants to purchase up to an aggregate of 212,649 shares of the Company's common stock at a cash exercise price of $2.97 per share. The relative fair value of the warrants was $242 thousand and recorded as debt discounts, which are accreted over the term of the warrants (October 2020), using an effective interest rate of 8.9%. The warrants are exercisable commencing on October 16, 2020 and expire on October 15, 2025. The First Amendment was accounted for as an extinguishment.

On October 28, 2020, the Company and the Convertible Note Holders agreed to extend the maturity date of the Notes upon conclusion of the term on November 9, 2020. The new Notes had an 18-month term due May 9, 2022 and the Company decreased the aggregate principal amount of the Notes to $20.0 million, following the pay-down of $5.0 million in principal of the Notes on November 9, 2020 (Second Amendment). The interest rate on the Notes remained at 7.0% per annum. The Second Amendment was accounted for as an extinguishment.

On April 29, 2022, the Company and the Convertible Note Holders agreed to extend the maturity date of the Notes to May 9, 2025, upon conclusion of the term on May 9, 2022. The Company decreased the aggregate principal amount of the new Notes to $15.0 million, following a $5.0 million principal pay-down on May 9, 2022 (Third Amendment). The Notes are due in three equal installments of $5.0 million each on May 9, 2023, May 9, 2024 and the stated maturity date of May 9, 2025. After the $5.0 million principal payments on May 9, 2023 and May 9, 2024, the Company paid off the remaining $5.0 million Note balance on December 30, 2024. Interest was paid through the payoff date, and the Convertible Note Holders waived all prepayment penalties. As of December 31, 2024, the Notes were fully paid off. See discussion about forbearance agreements entered into with the Convertible Note Holders in the *Long-term Debt* section herein.

Long-term Debt, at fair value

The Company carries its Junior Subordinated Notes at estimated fair value as more fully described in Note 9.—Fair Value of Financial Instruments. The following table shows the remaining principal balance and fair value of Junior Subordinated Notes issued as of December 31, 2024 and 2023:

	December 31, 2024	December 31, 2023
Junior Subordinated Notes (1)	$ 62,000	$ 62,000
Accrued and unpaid interest (2)	7,387	—
Fair value adjustment (3)	(68,895)	(60,689)
Total Junior Subordinated Notes	$ 492	$ 1,311

(1) Stated maturity of March 2034; requires quarterly interest payments at a variable rate of 3-month LIBOR plus 3.75% per annum. In June 2023, with the cessation of LIBOR, the calculation agent will use the "Board-selected benchmark replacement" as the benchmark replacement for LIBOR, which, per the Federal LIBOR Act, will be a rate identified by the Federal Reserve Board that is (a) based on SOFR and (b) adjusted based on tenor spread adjustments. At December 31, 2024, the interest rate was 8.6%.

(2) In January 2024, the Company did not make the interest payment required under the terms of the Junior Subordinated Notes. Accrued and unpaid interest as of December 31, 2024 and was included in the estimated fair value of the Junior Subordinated Notes.

(3) For further detail on the determination of estimated fair value see Note 9.—Fair Value of Financial Instruments.

The Company is a party to Junior Subordinated Indenture, dated as of May 8, 2009 (the First Indenture), between the Company and The Bank of New York Mellon Trust Company, National Association, as trustee, pursuant to which the Company issued a Junior Subordinated Note due 2034 in the original principal amount of $31.8 million (the First Junior Note). Pursuant to the terms of the First Junior Note and First Indenture, an interest payment was due on December 29, 2023, which had a thirty (30) day grace period for payment which ended on January 29, 2024. The Company did not make the required interest payment and such non-payment resulted in an Event of Default (as defined in the First Indenture).

The First Indenture Event of Default caused a corresponding Event of Default under that certain Junior Subordinated Indenture, dated as of May 8, 2009 (the Second Indenture), between the Company and The Bank of New York Mellon Trust Company, National Association, as trustee, pursuant to which the Company issued a Junior Subordinated Note due 2034 in the original principal amount of $30.2 million (the Second Junior Note).

Similarly, the Event of Default under the First Indenture and corresponding Event of Default under the Second Indenture resulted in a cross-default under the terms of the previously discussed Notes, issued by the Company pursuant to that certain Note Purchase Agreement among the Company and the purchasers thereto Convertible Note Holders, dated as of May 8, 2015 (the Note Purchase Agreement).

The Company notified the Convertible Note Holders on January 30, 2024 of the Event of Default under the Note Purchase Agreement. On January 31, 2024, the Convertible Note Holders notified the Company that they were exercising all of their remedies under the Note Purchase Agreement and Convertible Notes, including acceleration of the indebtedness evidenced thereunder.

On February 6, 2024, the Company and the collateral manager for the holders of the First Junior Note and Second

Junior Note entered into a forbearance agreement whereby the collateral manager agreed to forbear from exercising its right and remedies under the First Indenture and Second Indenture through February 29, 2024.

On February 7, 2024, the Company and the Convertible Note Holders entered into a forbearance agreement whereby the Convertible Note Holders agreed to forbear from exercising their rights and remedies under the Convertible Notes and Note Purchase Agreement through February 29, 2024.

On February 21, 2024, the Company entered into first amendments to each of the forbearance agreements whereby the expiration date of such forbearance agreements (initially February 29, 2024) was extended to March 31, 2024.

On April 1, 2024, the Company entered into second amendments to each of the forbearance agreements whereby the expiration date of such forbearance agreements was extended to April 30, 2024. The second amendment with the collateral manager for the holders of the First Junior Note and Second Junior Note also had an automatic extension to December 1, 2024, in the event certain conditions were met.

On April 26, 2024, the Company and the collateral manager for the holders of the First Junior Note and Second Junior Note entered into a third amendment to their forbearance agreement whereby the expiration date of such forbearance agreement was extended to May 31, 2024.

On May 6, 2024, the Company entered into an amended and restated forbearance agreement with the Convertible Note Holders which resulted in the forbearance agreement being extended to December 1, 2024. Similarly, the automatic extension in the forbearance agreement with the collateral manager for the holders of the First Junior Note and Second Junior Note was triggered and thereby extended to December 1, 2024.

On November 26, 2024, the Company entered into amendments to the forbearance agreements whereby the expiration date of such forbearance agreements was extended to May 9, 2025.

Under the terms of the First and Second Indentures, the Company would need to be current on all interest payments, default interest and fees owed to cure the event of default under the First Junior Notes and the Second Junior Notes. The Company paid off the remaining principal balance and interest under the Convertible Notes and, therefore, no default currently exists under the Convertible Notes.

Note 7.—Securitized Mortgage Trusts

In March 2022, the Company and its subsidiaries (the Sellers), entered into a Purchase, Sale and Assignment Agreement (Sale Agreement) pursuant to which the Sellers sold certain residual interest certificates, and assigned certain optional termination and loan purchase rights, owned by the Sellers relating to 37 securitizations that closed between 2000 and 2007 (the Securitizations). Pursuant to the terms of the Sale Agreement, the purchaser paid the Company an aggregate cash purchase price of $37.5 million, $20.0 million of which was paid on March 16, 2022, and the remaining balance of the purchase price was paid on March 25, 2022, upon the Company's satisfaction of certain closing and payment release provisions, including delivery of certain residual interest certificates, set forth in the Sale Agreement. For the three months ending March 31, 2022, the Company recorded a $9.2 million increase in fair value, net of $277 thousand in transaction costs related to the transfer.

On December 31, 2022, the Company was also a master servicer of mortgages for others of approximately $138.3 million in UPB that were primarily collateralizing REMIC securitizations. In March 2023, the Company sold the master servicing rights relating to 54 securitizations that closed between 1998 and 2007 for $150 thousand and incurred a net loss of $33 thousand, which is included in servicing expense, net on the accompanying consolidated statements of operations and comprehensive (loss) earnings. The company had no net trust assets as of years ended December 31, 2024 and 2023.

Note 8.—Redeemable Preferred Stock

As disclosed within Note 11.—Commitments and Contingencies, on July 15, 2021, the Maryland Court of Appeals issued its decision affirming the decisions of the Maryland Circuit Court (the Circuit Court) and the Court of Special Appeals granting summary judgment in favor of the plaintiffs on the Series B Preferred voting rights language interpretation. Accordingly, the 2009 Article Amendments to the 2004 Series B Articles Supplementary were not validly adopted and the 2004 Series B Articles Supplementary remained in effect.

As a result, as of September 30, 2022, the Company had cumulative undeclared dividends in arrears of approximately $20.3 million, or approximately $30.47 per outstanding share of Series B Preferred stock, thereby increasing the liquidation value to approximately $55.47 per share. Every quarter the cumulative undeclared dividends in arrears increased by $0.5859 per Series B Preferred share, or approximately $390 thousand. The accrued and unpaid dividends on the Series B Preferred stock were payable only upon declaration by the Board of Directors, and the liquidation preference, inclusive of Series B Preferred cumulative undeclared dividends in arrears, was only payable upon voluntary or involuntary liquidation, dissolution or winding up of the Company's affairs. In addition, the Company was required to pay an amount equal to three quarters of dividends on the Series B Preferred stock under the 2004 Series B Preferred Articles Supplementary (approximately $1.2 million, which had been previously accrued for [such amount, the 2009 Dividend Amount]) to Series B Preferred shareholders as of August 15, 2022, into the registry of the Circuit Court no later than August 19, 2022, to be held pending final resolution of all issues and final determination by the Circuit Court of the appropriate distribution of those funds. The Company deposited the 2009 Dividend Amount on August 18, 2022.

At September 30, 2022, the Company had $72.0 million in outstanding liquidation preference of Series B Preferred and Series C Preferred stock (including cumulative unpaid dividends in the case of the Series B Preferred stock). The holders of each series of Preferred Stock, which carried limited voting rights and were redeemable at the option of the Company, retained the right to a $25.00 per share liquidation preference (plus cumulative unpaid dividends in the case of the Series B Preferred stock) in the event of a liquidation of the Company and the right to receive dividends on the Preferred Stock if any such dividends were declared (and, in the case of the Series B Preferred stock, before any dividends or other distributions are made to holders of junior stock, including the Company's common stock). However as further discussed below, holders of Series B Preferred stock and Series C Preferred stock in connection with the Exchange Offers and the Redemption received the applicable consideration payable therein and were not entitled to any other payment with respect to the liquidation preference of, or any accrued and unpaid dividends on, any shares of Preferred Stock, other than the rights of holders of Series B Preferred stock to receive the 2009 Dividend Amount, based upon final determinations as to entitlement to such amounts by the Circuit Court.

Common and preferred dividends were included in the reconciliation of earnings per share beginning July 15, 2021, which was the date the Maryland Court of Appeals affirmed the decision in granting summary judgment in favor of the plaintiffs on the Series B Preferred voting rights. Cumulative preferred dividends, whether or not declared, were reflected in basic and diluted earnings per share in accordance with FASB ASC 260-10-45-11, despite not being accrued for on the consolidated balance sheets.

On September 14, 2022, the Company commenced exchange offers (the Exchange Offers) and a consent solicitation for its outstanding shares of Series B Preferred stock and Series C Preferred stock. On October 20, 2022 (the Expiration Date), the Exchange Offers and consent solicitation expired with approximately 69% of the Series B Preferred stock and approximately 67% of the Series C Preferred stock tendering their shares and voting in favor of certain amendments to the Company's charter as discussed in further detail below. Holders of Series B Preferred stock were entitled to receive (the Series B Consideration), for each share of Series B Preferred stock tendered, (i) 13.33 shares of newly issued common stock and (ii) thirty (30) shares of newly issued 8.25% Series D Cumulative Redeemable Preferred Stock (Series D Preferred stock). Holders of Series C Preferred stock were entitled to receive (the Series C Consideration), for each share of Series C Preferred stock tendered, (i) 1.25 shares of newly issued common stock, (ii) 1.5 warrants to purchase an equal number of shares of common stock at an exercise price of $5.00 per share and (iii) one (1) share of Series D Preferred stock. In connection with the closing of the Exchange Offers, the Company issued on October 26, 2022, a total of 7,330,319 shares of newly issued common stock, 14,773,811 shares of Series D Preferred stock and 1,425,695 warrants to purchase an equal number of shares of common stock.

Concurrently with the Exchange Offers, the Company received consent from the requisite holders of each of its outstanding Series B Preferred stock and its outstanding Series C Preferred stock to amend its charter to (i) make all shares of Series B Preferred stock that remain outstanding after the closing of the Exchange Offers redeemable for the same consideration as the Series B Consideration and (ii) make all shares of Series C Preferred stock that remain outstanding after the closing of the Exchange Offers redeemable for the same consideration as the Series C Consideration. On October 27, 2022, the Company provided notice to holders of Series B Preferred stock and Series C Preferred stock that such shares would be redeemed (the Redemption) on November 15, 2022 upon which holders of Series B Preferred stock and Series C Preferred stock will only be entitled to receive the Series B Consideration and the Series C Consideration, as the case may be. In connection with the Redemption, the Company issued approximately 3,298,439 shares of newly issued common stock, 6,599,035 shares of Series D Preferred stock and 681,923 warrants to purchase an equal number of shares of common stock.

All holders of Series B Preferred stock and Series C Preferred stock in connection with the Exchange Offers and the Redemption only received the applicable consideration payable therein and were not entitled to any other payment with respect to the liquidation preference of, or any accrued and unpaid dividends on, any shares of Series B Preferred stock or Series C Preferred stock (whether or not such dividends have accumulated and whether or not such dividends accrued before or after completion of the Exchange Offers), other than the rights of holders of Series B Preferred stock to receive the 2009 Dividend Amount, based upon final determinations as to entitlement to such amounts by the Circuit Court.

In addition, on August 25, 2022, the Circuit Court issued an Order to Segregate Funds and/or Stock (Segregation Order), directing the Company, if the Exchange Offer for the Series B Preferred stock is completed prior to December 5, 2022, to deposit 13,311,840 shares of Series D Preferred stock, plus, in either event, 4,437,280 shares of newly issued common stock (collectively, the Series B Common Fund) in the custody of a third party custodian or escrow agent approved by class counsel. The Exchange Offer was approved and closed with respect to tendered shares on October 26, 2022, and the Company deposited the required stock with a third party pursuant to the Segregation Order. On August 29, 2022, the Circuit Court issued an order approving the form and substance of the notice by which the Company and the class notice administrator are required to give notice to the Series B Preferred stock class of the final hearing date of December 5, 2022, and the opportunity to file objections to the proposed final injunctive relief and to the applications for awards of attorney's fees, expenses and incentives. Between September 7 through September 19, the Company and the notice administrator provided the notice required by the August 29, 2022 order.

On December 5, 2022, the Circuit Court held a final hearing on all outstanding matters identified in the notice. On December 16, 2022, the Circuit Court issued its Final Judgment Order which was entered on December 19, 2022. The Final Judgment Order granted Plaintiff Camac's Motion for Attorney's Fees, Litigation Costs, and Incentive Payment, granted in part and denied in part Plaintiff Timm's Petition for Incentive Award and Payment of Costs and Expenses. In February 2023, pursuant to the Final Judgement Order, (i) the 2009 Dividend Amount was distributed to certain former Series B Preferred stockholders, with a portion going to pay attorney's fees, litigation costs and incentive payments and (ii) the Common Stock and Series D Preferred Stock that was held in escrow was distributed to certain former Series B Preferred stockholders, with a portion of the Series D Preferred Stock going to pay attorney's fees to Class Counsel.

The Series D Preferred stock (w) ranks senior to the common stock as to dividends and upon liquidation; (x) is non-participating, and bears a cumulative cash dividend from and including the original issue date at a fixed rate equal to 8.25% per annum (equivalent to a fixed annual amount of $.00825 per share of the Series D Preferred stock); (y) bears an initial liquidation preference of $0.10 per share and (z) is mandatorily redeemable by the Company for cash at a redemption price of $0.10 per share, plus any accrued and unpaid dividends (whether or not declared) on (A) the 60th day, or such earlier date as the Company may fix, after the date of any public announcement by the Company of annual or quarterly financial statements that indicate that payment of the redemption price would not cause the Company to violate the restrictions on payment of distributions to stockholders under section 2-311 of the MGCL unless, before such redemption date, the Company's Board of Directors determines in good faith that the payment by the Company of the redemption price for the Series D Preferred stock and for any stock ranking on parity with the Series D Preferred stock with respect to redemption and which have become redeemable as of the applicable redemption date would cause the Company to violate the Cash Consideration Restrictions, as defined below, or (B) any date the Company fixes not more than sixty (60) days after any determination by the Board of Directors (which the Board of Directors, or a committee thereof, is obligated to undertake after the release of annual and quarterly financial statements and upon any capital raise) in good faith that the payment by the Company of the redemption price for the Series D Preferred stock and any stock ranking on parity with the Series D Preferred stock with respect to redemption rights that have become redeemable as of such redemption date would not cause the Company to violate the Cash Consideration Restrictions. A violation of the "Cash Consideration Restrictions" will occur if the occurrence of an action would cause (i) the Company to violate the restrictions on payment of distributions to stockholders under section 2-311 of the MGCL, (ii) any material breach of or default under the terms and conditions of any obligation of the Company, including any agreement relating to its indebtedness, or (iii) the Company to violate any restriction or prohibition of any law rule or regulation applicable to the Company or of any order, judgment or decree of any court or administrative agency.

As a result of receiving the requisite stockholder consents on the Exchange Offers on October 20, 2022 and completion of the Redemption, the aggregate cumulative undeclared dividends in arrears of approximately $20.3 million, or approximately $30.47 per outstanding share of Series B Preferred stock, were exchanged and are no longer considered in the earnings per share calculation. However, as a result of the Company not being able to satisfy the new dividend payment on the 8.25% dividend on the Series D Preferred stock due to the aforementioned Cash Consideration Restrictions, the Company has approximately $625 thousand in cumulative dividends in arrears on the new Series D Preferred stock from the date of issuance through December 31, 2024 Every quarter the cumulative undeclared dividends in arrears will accumulate by approximately $0.0021 per share of Series D Preferred stock, or approximately $72 thousand, increasing the new Series D Preferred stock liquidation preference.

Note 9.—Fair Value of Financial Instruments

FASB ASC 825 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate such fair values. The Company uses exit price notion when measuring the fair values of financial instruments for disclosure purposes. The following table presents the estimated fair value of financial instruments included in the consolidated financial statements as of the dates indicated:

	December 31, 2024				December 31, 2023			
	Carrying	Estimated Fair Value			Carrying	Estimated Fair Value		
	Amount	Level 1	Level 2	Level 3	Amount	Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	$ 4,662	$ 4,662	$ —	$ —	$ 4,240	$ 4,240	$ —	$ —
Restricted cash	3,757	3,757	—	—	4,250	4,250	—	—
Mortgage loan held-for-sale	263	—	—	263	263	—	263	—
Liabilities								
Line of credit	$ 15,281	$ —	$15,281	$ —	$ —	$ —	$ —	$ —
Convertible notes	—	—	—	—	10,000	—	—	10,000
Long-term debt	492	—	—	492	1,311	—	—	1,311

The fair value amounts above have been estimated by management using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data to develop the estimates of fair value in both inactive and orderly markets. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Refer to Recurring Fair Value Measurements below for a description of the valuation methods used to determine the fair value of long-term debt and mortgage LHFS.

Fair Value Hierarchy

The application of fair value measurements may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value.

FASB ASC 820-10-35 specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices (unadjusted) in active markets for identical instruments or liabilities that an entity has the ability to assess at measurement date.

- Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable for an asset or liability, including interest rates and yield curves observable at commonly quoted intervals, prepayment speeds, loss severities, credit risks and default rates; and market-corroborated inputs.

- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As a result of the lack of observable market data resulting from inactive markets, the Company classified its LHFS and long-term debt as Level 3 fair value measurements. Level 3 assets and liabilities measured at fair value on a recurring basis were approximately 3% and 3% and 0% and 100%, respectively, of total assets and total liabilities measured at estimated fair value at December 31, 2024 and 2023.

Recurring Fair Value Measurements

The Company assesses its financial instruments to determine the appropriate classification within the fair value hierarchy, as defined by FASB ASC Topic 820. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels occur at the beginning of the reporting period. During the year ended December 31, 2024, there was one loan held for sale with estimated fair value of $263 thousand that transferred from Level 2 to Level 3 due to the use of significant unobservable inputs to establish fair value.

The following tables present the Company's assets and liabilities that are measured at estimated fair value on a recurring basis, including financial instruments for which the Company has elected the fair value option at December 31, 2024 and 2023, based on the fair value hierarchy:

	Recurring Fair Value Measurements					
	December 31, 2024			December 31, 2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Mortgage loans held-for-sale	$ —	$ —	$ 263	$ —	$ 263	$ —
Total assets at fair value	$ —	$ —	$ 263	$ —	$ 263	$ —
Liabilities						
Long-term debt	—	—	492	—	—	1,311
Total liabilities at fair value	$ —	$ —	$ 492	$ —	$ —	$ 1,311

The following tables present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2024 and 2023:

	Level 3 Recurring Fair Value Measurements For the Year Ended December 31, 2024	
	Long-term debt	Mortgage loan held for sale
Fair value, December 31, 2023	$ 1,311	$ —
Interest expense	6,832	—
Change in fair value	366	—
Change in instrument specific credit risk	(8,017)	—
Total losses included in earnings	(819)	—
Transfers in and/or out of Level 3	—	263
Purchases, issuances and settlements:		
Purchases	—	—
Issuances	—	—
Settlements	—	—
Fair value, December 31, 2024	$ 492	$ 263

	Level 3 Recurring Fair Value Measurements For the Year Ended December 31, 2023	
	Interest rate lock commitments, net	Long-term debt
Fair value, December 31, 2022	$ 5	$ 27,753
Total (losses) gains included in earnings:		
Interest income	—	—
Interest expense	—	(251)
Change in fair value	(5)	(1,434)
Change in instrument specific credit risk	—	(24,757)
Total (losses) gains included in earnings	(5)	(26,442)
Transfers in and/or out of Level 3	—	—
Purchases, issuances and settlements:		
Purchases	—	—
Issuances	—	—
Settlements	—	—
Fair value, December 31, 2023	$ —	$ 1,311

The following table presents quantitative information about the valuation techniques and unobservable inputs applied to Level 3 fair value measurements for financial instruments measured at fair value on a recurring and nonrecurring basis on December 31, 2024 and 2023:

				December 31,2024		December 31,2023	
Financial Instrument	Estimated Fair Value	Valuation Technique	Unobservable Input	Range of Inputs	Weighted Average	Range of Inputs	Weighted Average
Mortgage Loan Held for Sale	$ 263	Expected Cash Flows	Loss Severity	19%	19%	N/A	N/A
Long-term debt (1)	$ (492)	Expected cash flows (weighted 92%)	Expected liquidation proceeds	N/A	N/A	N/A	N/A
		Market Pricing (weighted 3%)	Indicative bids	N/A	N/A	N/A	N/A
		Discounted cash flows (weighted 5%)	Discount Rate	100%	100%	100%	100%

(1) For the years ended December 31, 2024 and 2023, the Company used three different techniques to determine the estimated fair value of the long-term debt. For further detail see measurement techniques used in determining the estimated fair value on a recurring basis.

The following is a description of the measurement techniques for items recorded at estimated fair value on a recurring basis.

Mortgage Loan Held-for-Sale – The Company elected to carry its mortgage LHFS at fair value. Due to the use of significant unobservable inputs, the Company classified its LHFS as a Level 3 measurement as of December 31, 2024. There was no change in fair value recorded for the year ended December 31, 2024.

Long-term debt—The Company elected to carry its remaining long-term debt (consisting of Junior Subordinated Notes) at fair value. These securities are measured based upon an analysis prepared by management, which considers the Company's own credit risk, including settlements with trust preferred debt holders, if any, and a cash flow analysis. At December 31, 2024 and 2023, the Company used three different methodologies [expected cash liquidation proceeds (weighted at 92%), market pricing (indicative bids (weighted at 3%)), and discounted cash flows (with a 100% discount rate (weighted at 5%))]. Based on the qualitative and quantitative valuation processes applied, the Company believes that the best estimate of fair value is a blended confidence weighted approach which required considerable amount of judgement to determine the probability of each outcome presented, and included qualitative factors including default, cash burn, seniority, passage of time in its assessment and assignment of performance confidence levels to each outcome. As of December 31, 2024, long-term debt had an unpaid principal balance of $62.0 million compared to an estimated fair value of $492 thousand. The aggregate unpaid principal balance exceeds the fair value by $61.5 million at December 31, 2024. The long-term debt is considered a Level 3 measurement at December 31, 2024 and 2023.

Nonrecurring Fair Value Measurements

The Company is required to measure certain assets and liabilities at estimated fair value from time to time. These fair value measurements typically result from the application of specific accounting pronouncements under GAAP. The fair value measurements are considered nonrecurring fair value measurements under FASB ASC 820-10. The Company did not have any nonfinancial assets or liabilities measured at fair value on a nonrecurring basis during the years ended December 31, 2024 and 2023.

Note 10.—Income Taxes

The Company is subject to federal income taxes as a regular (Subchapter C) corporation and files a consolidated U.S. federal income tax return.

Income taxes for the years ended December 31, 2024 and 2023 were as follows:

	For the Year Ended December 31,	
	2024	2023
Current income taxes:		
Federal	$ —	$ —
State	(6)	6
Total current income tax (benefit) expense	(6)	6
Deferred income taxes:		
Federal	—	—
State	—	—
Total deferred income tax expense	—	—
Total income tax (benefit) expense	$ (6)	$ 6

The Company recorded income tax (benefit) and expense of ($6) thousand and $6 thousand for the years ended December 31, 2024 and 2023, respectively. The income tax benefit in 2024 was primarily the result of prior year refunds received in the current period, whereas, the income tax expense in 2023 was primarily the result of state minimum taxes and franchise taxes.

Deferred tax assets are recognized subject to management's judgment that realization is "more likely than not". A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. As of each reporting date, the Company considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. Significant judgment is required in assessing future earnings trends, the availability of tax planning strategies, recent pretax losses and the timing of reversals of temporary differences. The Company's evaluation is based on current tax laws as well as management's expectation of future performance.

The Company's deferred tax assets are primarily the result of net operating losses and basis differences on mortgage securities and goodwill. The Company has recorded a full valuation allowance against its deferred tax assets at December 31, 2024 as it is more likely than not that the deferred tax assets will not be realized. The valuation allowance is based on management's assessment that it is more likely than not that certain deferred tax assets, primarily net operating loss carryforwards, may not be realized in the foreseeable future due to objective negative evidence.

Deferred tax assets are comprised of the following temporary differences between the financial statement carrying value and the tax basis of assets:

	For the Year Ended December 31,	
	2024	2023
Deferred tax assets:		
Net Operating Losses	$ 246,627	$ 254,118
Depreciation and Amortization	15,191	19,085
163(j) Interest Carryforward	3,948	2,121
Accruals	265	1,363
Reserves	989	1,305
Stock Compensation	716	—
Other	18	—
Total gross deferred tax assets	267,754	277,992
Deferred tax liabilities:		
Corporate-owned life insurance	(1,255)	(1,168)
Fair value adjustments on long-term debt	(19,386)	(17,260)
Total deferred tax liabilities	$ (20,641)	$ (18,428)
Valuation allowance	(247,113)	(259,564)
Total net deferred tax assets	$ —	$ —

The following is a reconciliation of income taxes to the expected statutory federal corporate income tax rates for the years ended December 31, 2024 and 2023:

	For the Year Ended December 31,	
	2024	2023
Expected income tax expense	$ (3,672)	$ (3,520)
State Tax, Net Of Fed Tax Benefit	(3,040)	5
State Rate Change	219	(38)
Non-Deductible Expenses	236	—
Change In Valuation Allowance	6,379	4,760
Employee Retention Tax Credit	—	(1,540)
Other	(128)	339
(Benefit)/Provision for income taxes	(6)	6

At December 31, 2024, the Company had accumulated other comprehensive earnings of $72.0 million, which was net of tax of $11.3 million.

At December 31, 2024, the Company had estimated federal and state net operating loss carryforwards of approximately $886.1 million and $732.6 million, respectively. Of the Federal net operating loss carryforwards, $557.6 million were generated prior to 2018 and are subject to a 20-year carryforward limitation, whereas $328.5 million were generated post 2017 and can be carried forward indefinitely. Additionally, the Company had state net operating losses subject to a carryforward limitation of $721.5 million, which are primarily for California. The remaining $11.0 million of state NOL's can be carried forward indefinitely.

On October 23, 2019, the Company adopted a Tax Benefits Preservation Rights Agreement (Rights Plan) to help preserve the value of certain deferred tax benefits, including those generated by net operating losses (collectively, Tax Benefits). In general, the Company may "carry forward" net operating losses in certain circumstances to offset current and future taxable income, which will reduce federal and state income tax liability, subject to certain requirements and restrictions. The Company's ability to use these Tax Benefits would be substantially limited and impaired if it were to experience an "ownership change" for purposes of Section 382 of the Internal Revenue Code of 1986, as amended (the Code) and the Treasury Regulations promulgated thereunder. Generally, the Company will experience an "ownership change" if the percentage of the shares of Common Stock owned by one or more "five-percent shareholders" increases by more than 50 percentage points over the lowest percentage of shares of Common Stock owned by such stockholder at any time during the prior three year on a rolling basis. As such, the Rights Plan has a 4.99% "trigger" threshold that is intended to act as a deterrent to any person or entity seeking to acquire 4.99% or more of the outstanding Common Stock without the prior approval of the board of directors. The Rights Plan also has certain ancillary anti-takeover effects. The rights accompany each share of common stock of the Company and are evidenced by ownership of common stock. The rights are not exercisable except upon the occurrence of certain change of control events. Once triggered, the rights would entitle the stockholders, other than a person qualifying as an "Acquiring Person" pursuant to the rights plan, to certain "flip in", "flip over" and exchange rights. The rights issued under the Rights Plan may be redeemed by the board of directors at a nominal redemption price of $0.001 per right, and the board of directors may amend the rights in any respect until the rights are triggered. The Rights Plan was approved at the Company's 2020 annual meeting of stockholders and will expire on the three-year anniversary of its adoption. On August 26, 2022, the Company entered into a First Amendment (the Amendment) to the Rights Plan, which provides for (i) a three-year extension of the Initial Rights Agreement upon expiration of the initial three-year term and (ii) a reduction to the Purchase Price. On June 15, 2023, the Amendment was approved at the Company's 2023 annual meeting of stockholders extending the expiration to October 22, 2025.

The Company files numerous tax returns in various jurisdictions. While the Company is subject to examination by various taxing authorities, the Company believes there are no unresolved issues or claims likely to be material to its financial position. The Company classifies interest and penalties on taxes as provision for income taxes. As of December 31, 2024 and 2023, the Company has no material uncertain tax positions. The Company has state alternative minimum tax (AMT) credits in the amount of $404 thousand as of December 31, 2024.

Note 11.—Commitments and Contingencies

Legal Proceedings

The Company is a defendant in or a party to a number of legal actions or proceedings that arise in the ordinary course of business. In some of these actions and proceedings, claims for monetary damages are asserted against the Company. In view of the inherent difficulty of predicting the outcome of such legal actions and proceedings, the Company generally cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss related to each pending matter may be, if any.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and estimable. In any case, there may be an exposure to losses in excess of any such amounts whether accrued or not. Any estimated loss is subject to significant judgment and is based upon currently available information, a variety of assumptions, and known and unknown uncertainties. The matters underlying the estimated loss will change from time to time, and actual results may vary significantly from the current estimate. Therefore, an estimate of possible loss represents what the Company believes to be an estimate of possible loss only for certain matters meeting these criteria. It does not represent the Company's maximum loss exposure.

Based on the Company's current understanding of these pending legal actions and proceedings, management does not believe that judgments or settlements arising from pending or threatened legal matters, individually or in the aggregate, will have a material adverse effect on the consolidated financial position, operating results or cash flows of the Company. However, in light of the inherent uncertainties involved in these matters, some of which are beyond the Company's control, and the very large or indeterminate damages sought in some of these matters, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular reporting period.

The legal matter updates summarized below are ongoing and may have an effect on the Company's business and future financial condition and results of operations:

UBS Americas Inc., et al. v. Impac Funding Corporation et al.

On December 17, 2021, a summons with notice was filed in the Supreme Court of the State of New York, County of New York (NY Court), initiating a lawsuit entitled UBS Americas Inc., et al. v. Impac Funding Corporation et al. The plaintiffs contend that the defendants are required to indemnify payments that plaintiffs made to resolve claims asserted by the Federal Home Loan Bank of San Francisco and HSH Nordbank AG related to certain residential mortgage-backed securities (RMBS). Plaintiffs contend that the RMBS included loans that the defendants allegedly sold to certain UBS entities in breach of contractual representations and warranties. Plaintiffs further contend that they settled the cases for which plaintiffs are demanding indemnification in December 2015 and March 2016. On April 18, 2022, the Company accepted service of the summons with notice on behalf of Impac Funding Corp. and Impac Mortgage Holdings, Inc. On June 2, 2022, a complaint was filed with the NY Court related to the summons with notice, however, Impac Mortgage Holdings, Inc. was no longer listed as a defendant in the matter. On July 25, 2022, Impac Funding Corporation filed a motion to dismiss the complaint. All parties submitted their briefs and oral arguments on the motion to dismiss were held on March 6, 2023. On October 13, 2024, the NY Court issued its decision on the motion to dismiss, which was granted in part and denied in part. On December 6, 2024, the plaintiffs filed an amended complaint against Impac Funding Corporation, and an answer was thereafter filed. The parties are now engaged in discovery. The Company believes the claims are without merit and intends to defend itself vigorously.

The Company is a party to other litigation and claims which are in the course of the Company's operations. While the results of such other litigation and claims cannot be predicted with certainty, the Company believes the final outcome of such matters will not have a material adverse effect on the Company's financial condition or results of operations. The Company believes that it has meritorious defenses to the claims and intends to defend these claims vigorously and as such the Company believes the final outcome of such matters will not have a material adverse effect on its financial condition or results of operations. Nevertheless, litigation is uncertain and the Company may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on the Company's financial position and results of operations.

Lease Commitments

The following table presents the operating and finance lease balances within the consolidated balance sheets, weighted average remaining lease term, and weighted average discount rates related to the Company's leases as of December 31, 2024:

Lease Assets and Liabilities	**Classification**	**December 31, 2024**
Assets		
Lease ROU assets	Other assets	$ 202
Liabilities		
Lease liabilities	Other liabilities	$ 206
Weighted average remaining lease term (in years)		0.6
Weighted average discount rate		8.2 %

The following table presents the maturities of the Company's operating and finance lease liabilities as of December 31, 2024:

2025		211
Total lease commitments	$	211
Less: imputed interest		(5)
Total lease liability	$	206

Total operating lease expense for the years ended December 31, 2024 and 2023 was $333 thousand and $1.5 million, respectively. Operating lease expense includes short-term leases and sublease income, both of which are immaterial.

In December 2022, the Company recorded an additional $970 thousand in occupancy expense related to the modification and early termination of the Company's corporate office. On December 15, 2022, IFC and Jacaranda Holdings, LLC (the Landlord), entered into a Lease Termination Agreement (the Termination Agreement) relating to the lease (the Lease) for the Company's primary executive, administrative and operations offices located at 19500 Jamboree Road, Irvine, California (the Premises). The Lease, as amended, was originally entered into in March 2005, and the Premises currently consists of approximately 120,000 square feet.

Pursuant to the Termination Agreement, IFC and Landlord agreed to terminate the Lease on January 31, 2023, in lieu of the Lease's original expiration date of September 30, 2024. In accordance with the terms of the Termination Agreement, on December 16, 2022, IFC paid to the Landlord the termination consideration of $3.0 million, among other required action items. As a result of the Termination Agreement, the Company accounted for the termination as a lease modification, recording an additional $970 thousand of occupancy expense in December 2022 related to the modification, with an additional $1.2 million in occupancy expense occurring in January 2023, when the premises were vacated.

During the year ended December 31, 2022, the Company recorded $123 thousand in ROU asset impairment charges related to the sublease of approximately 1,900 square feet of a floor within the Company's previous corporate office, reducing the carrying value of the lease asset to its estimated fair value. The impairment charges recorded in 2022 are included in general, administrative and other expense in the accompanying consolidated statements of operations and comprehensive (loss) earnings.

In January 2023, the Company entered into a new sublease agreement for approximately 18,900 per square foot of executive, administrative and operations workspace in Newport Beach, California. The term of the new lease term is through July 31, 2025 with an average rent of $1.35 per square foot over the term of the lease, which including CAM charges will total approximately $800 thousand.

Repurchase Reserve

The provision for repurchases represents an estimate of losses to be incurred on the repurchase of loans or indemnification of purchaser's losses related to brokered loans and loan sales. Certain sale contracts and GSE standards require the Company to repurchase a loan or indemnify the purchaser or insurer for losses if a borrower fails to make initial loan payments or if the accompanying mortgage loan fails to meet certain customary representations and warranties.

In the event of a breach of the representations and warranties, the Company may be required to either repurchase the loan or indemnify the purchaser for losses it sustains on the loan. In addition, an investor may request that the Company refund a portion of the premium paid on the sale of mortgage loans if a loan is prepaid within a certain amount of time from the date of sale. The Company records a reserve for estimated losses associated with loan repurchases, purchaser indemnification and premium refunds. The provision for repurchase losses is charged against gain on sale of loans, net when associated with a sold loan and broker fee income when associated with a brokered loan, in the consolidated statements of operations and comprehensive (loss) earnings. A release of repurchase reserves is recorded when the Company's assessment reveals that previously recorded reserves are no longer needed.

Loans sold to Ginnie Mae are insured by the FHA or are guaranteed by the VA. As servicer, the Company may elect to repurchase delinquent loans in accordance with Ginnie Mae guidelines; however, the loans continue to be insured. The Company may also indemnify the FHA and VA for losses related to loans not originated in accordance with their guidelines.

The Company regularly evaluates the adequacy of repurchase reserves based on trends in repurchase and indemnification requests, actual loss experience, settlement negotiation, estimated future loss exposure and other relevant factors including economic conditions. The Company sold $0 and $6.3 million of loans for the years ended December 31, 2024 and 2023, respectively, which were subject to repurchase representations and warranties. Additionally, the Company brokered $58.1 million of loans for the year ended December 31, 2024, which were subject to repurchase representations and warranties. The Company believes its reserve balances as of December 31, 2024 are sufficient to cover loss exposure associated with repurchase contingencies.

The following table summarizes the repurchase reserve activity (included in other liabilities in the accompanying consolidated balance sheets) related to previously sold loans for the years ended December 31, 2024 and 2023:

	December 31, 2024	December 31, 2023
Beginning balance	$ 4,160	$ 5,875
(Recovery) provision for repurchases (1)	(737)	(974)
Settlements	(1)	(741)
Total repurchase reserve	$ 3,422	$ 4,160

(1) (Recovery) provision for repurchases is included in gain on sale of loans, net in the accompanying consolidated statements of operations and comprehensive (loss) earnings.

Corporate-owned Life Insurance Trusts

During the first quarter of 2020, there was a triggering event that caused the Company to reevaluate the consolidation of certain corporate-owned life insurance trusts. As a result, the Company has consolidated life insurance trusts for three former executive officers. The corporate-owned life insurance contracts are recorded at cash surrender value, which is provided by a third party and held within trusts. At December 31, 2024 and 2023, the cash surrender value of the policies was $11.9 million and $11.3 million, respectively. At December 31, 2024 and 2023, the liability associated with the corporate-owned life insurance trusts was $15.4 million and $14.4 million, respectively.

	At December 31, 2024			
Corporate-owned life insurance trusts:	**Ashmore Trust**	**Morrison Trust**	**Taylor Trust**	**Total**
Corporate-owned life insurance cash surrender value	$ 5,398	$ 4,259	$ 2,241	$ 11,898
Corporate-owned life insurance liability	7,189	5,411	2,781	15,381
Corporate-owned life insurance shortfall (1)	$ (1,791)	$ (1,152)	$ (540)	$ (3,483)

(1) $1.3 million of the total shortfall was recorded as a change in retained deficit at the time of the consolidation of the trusts in 2020. The additional shortfall was recorded in the accompanying consolidated statements of operations and comprehensive (loss) earnings.

Risks and Uncertainties

As previously noted, given the Company's lack of conventional GSE origination volume and servicing rights over the past several years, with no direct GSE deliveries to Fannie Mae or Freddie Mac since 2016 and 2020, respectively, in 2023 the Company voluntarily relinquished its GSE Seller/Servicer designation, which had been suspended during these periods of non-delivery, as well as its issuer/servicer designation with Ginne Mae. The Company is a third-party originator with the GSE's to support the broker model as needed. Additionally, in line with the Company's expense management initiatives previously noted, the Company also voluntarily relinquished state lending licenses in certain states and may voluntarily relinquish additional state licenses where the Company has historically originated lower volume

In the normal course of business, companies in the mortgage banking industry encounter certain economic and regulatory risks. Economic risks include interest rate risk, credit risk, market risk and regulatory risk. The Company is subject to interest rate risk to the extent that in a rising interest rate environment, the Company will generally experience a decrease in origination loan volumes, which will negatively impact the Company's operations. Credit risk is the risk of default, primarily in the Company's loan portfolio, that results from borrowers' inability or unwillingness to make contractually required payments.

Market risk reflects changes in the liquidity of the secondary loan markets which impacts the value of loans held for sale and in commitments to originate loans. Regulatory risks include administrative enforcement actions and/or civil or criminal liability resulting from the Company's failure to comply with the laws and regulations applicable to the Company's business.

Concentration of Risk

The Company maintains all of its cash with major financial institutions. At times, cash balances may be in excess of the amounts insured by the Federal Deposit Insurance Corporation.

Substantially all of the Company's revenue is derived from fees related to residential real estate activity. Real estate activity is cyclical and is affected greatly by the cost and availability of long-term mortgage funds. Real estate activity and the Company's revenue can be adversely affected during periods of high interest rates and/or limited money supply. The reduction of real estate activity and fees generated from such activity could have a material adverse effect on the financial condition and results of operations of the Company.

As of December 31, 2024, the Company had approval to service, originate and broker loans in 13 states. For the year ended December 31, 2024, the UPB of brokered loan activity by state in excess of 5% of total brokered loans was as follows:

California	$	37,812
Arizona		4,501
Utah		2,934
All other states		12,867
Total brokered loan activity by state	$	58,114

The Company brokers mortgage loans to various third-party originators. The largest six originators accounted for 92% of the Company's brokered loans for the year ended December 31, 2024. No other originators accounted for more than 5% of brokered loans for the year ended December 31, 2024.

Note 12.—Share Based Payments and Employee Benefit Plans

The Company maintains an equity-based incentive compensation plan, the terms of which are governed by the 2020 Equity Incentive Plan (the 2020 Incentive Plan). The 2020 Incentive Plan provides for the grant of stock appreciation rights, restricted stock units (RSUs), deferred share units (DSUs), performance shares and other stock and cash-based incentive awards. Employees, directors, consultants or other persons providing services to the Company or its affiliates are eligible to receive awards pursuant to the 2020 Incentive Plan. In connection with the adoption of the 2020 Incentive Plan, the Company's 2010 Omnibus Incentive Plan (2010 Plan), which was scheduled to expire in July 2020, was frozen for new grants. The 2010 Plan will remain in place only for the issuance of shares of common stock pursuant to equity compensation awards outstanding under the 2010 Plan, which awards will continue to be governed by the terms of the 2010 Plan. As of December 31, 2024, the aggregate number of shares reserved under the 2020 Incentive Plan and 2010 Plan, was 2.0 million and 590 thousand shares, respectively, and there were 1.6 million shares available for grants as stock options, RSUs, DSUs or other stock and cash-based incentive awards under the 2020 Incentive Plan. The Company issues new shares of common stock to satisfy stock option exercises, RSU vesting, DSU issuances and other stock-based incentive awards. No options were granted in 2024 and 2023.

The following table summarizes activity, pricing and other information for the Company's stock options for the years presented below:

	For the Year Ended December 31,					
	2024			2023		
	Number of Shares		Weighted-Average Exercise Price	Number of Shares		Weighted-Average Exercise Price
Options outstanding at the beginning of the year	460,366	$	8.23	531,478	$	7.89
Options granted	—		—	—		—
Options exercised	—		—	—		—
Options forfeited/cancelled	(109,228)		8.86	(71,112)		5.44
Options outstanding at the end of the period	351,138		8.04	460,366		8.23
Options exercisable at the end of the period	351,138	$	8.04	454,225	$	8.30

The aggregate intrinsic value in the following table represents the total pre-tax intrinsic value, based on the Company's closing stock price of $0.05 and $0.03 per common share as of December 31, 2024 and 2023, respectively.

Aggregate intrinsic value represents the amount of proceeds the option holders would have received had all option holders exercised their options and sold the stock as of that date.

	As of December 31,			
	2024		2023	
	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at end of year	2.93	$ -	3.95	$ -
Options exercisable at end of year	2.93	$ -	3.91	$ -

The Company did not grant any stock options for the years ended December 31, 2024 and 2023.

For the years ended December 31, 2024 and 2023, total stock-based compensation expense was $26 thousand and $279 thousand, respectively.

Additional information regarding stock options outstanding as of December 31, 2024 is as follows:

	Stock Options Outstanding			Options Exercisable	
Exercise Price Range	Number Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 3.28 - 3.29	3,613	6.13	$ 3.29	3,613	$ 3.29
3.58 – 3.59	17,500	2.35	3.59	17,500	3.59
3.74 – 3.75	200,000	4.16	3.75	200,000	3.75
9.99 – 10.00	35,000	0.15	10.00	35,000	10.00
13.71-13.72	30,275	2.32	13.72	30,275	13.72
17.39-17.40	30,750	1.35	17.40	30,750	17.40
20.49-20.50	34,000	0.48	20.50	34,000	20.50
$ 3.28 - 20.50	351,138	2.93	$ 8.04	351,138	$ 8.04

In addition to the options granted, the Company has granted DSUs, which vest between one and three year periods. The fair value of each DSU was measured on the date of grant using the grant date price of the Company's stock. In 2024, the Company did not grant any DSUs.

The following table summarizes activity, pricing and other information for the Company's DSUs for the year ended December 31, 2024:

	Number of Shares	Weighted-Average Grant Date Fair Value
DSUs outstanding at the beginning of the year	39,500	$ 7.70
DSUs granted	—	—
DSUs issued (converted)	—	—
DSUs forfeited/cancelled	—	—
DSUs outstanding at the end of the period	39,500	$ 7.70

As of December 31, 2024, there was no total unrecognized compensation cost related to the DSU compensation arrangements granted under the plan.

The following table summarizes activity, pricing and other information for the Company's RSUs for the year ended December 31, 2024:

	Number of Shares		Weighted-Average Grant Date Fair Value
RSUs outstanding at beginning of the year	217,772	$	4.01
RSUs granted	—		—
RSUs issued (converted)	—		—
RSUs forfeited/cancelled	(4,696)		3.29
RSUs outstanding at end of the period	213,076	$	4.03

As of December 31, 2024, there were no unrecognized compensation cost related to the RSU compensation arrangements granted under the plan.

401(k) Plan

After meeting certain employment requirements, employees can participate in the Company's 401(k) plan. Under the 401(k) plan, employees may contribute up to 25% of their salaries, pursuant to certain restrictions. Effective January 1, 2020, the company matches 100% of the first 1% and 50% of the next 2-6% of employee contributions. Additional contributions may be made at the discretion of the board of directors. During the years ended December 31, 2024 and 2023, the Company recorded compensation expense of approximately $123 thousand and $325 thousand for basic matching contributions, respectively. There were no discretionary matching contributions recorded during the years ended December 31, 2024 or 2023.

Note 13.—Related Party Transactions

In May 2015, the Company issued the 2015 Convertible Notes to purchasers, some of which are related parties. The Convertible Notes were fully repaid during the year ended December 31, 2024. See Note 6.—Debt—Convertible Notes.

Note 14.—Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date as of the balance sheet date, including the estimates inherent in the process of preparing the financial statements.

The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date as of the balance sheet date but arose after the balance sheet date and before the date that the financial statements were available to be issued. The Company has evaluated subsequent events through April 21, 2025, the date that the financial statements were available to be issued.