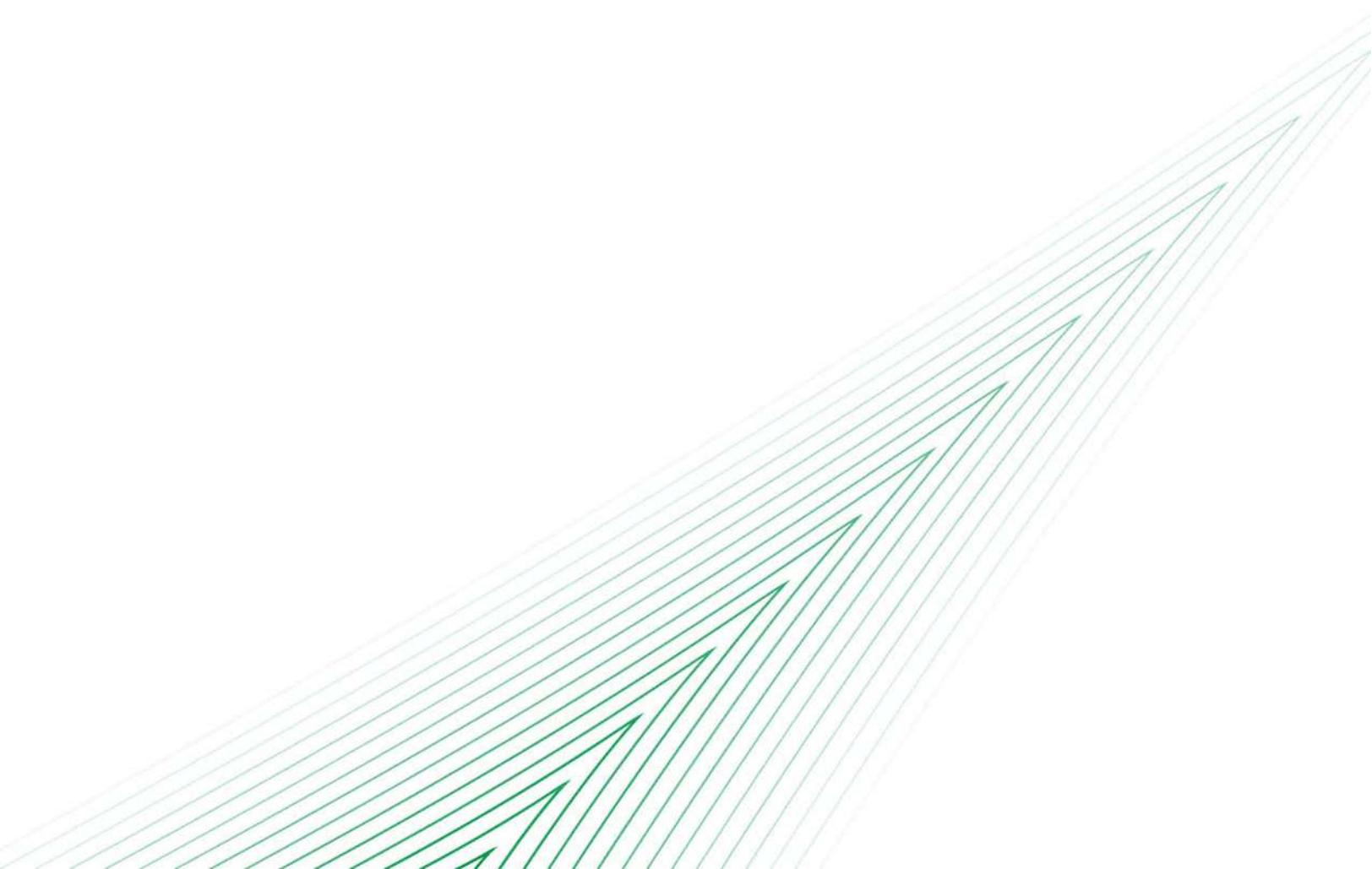




Franklin Credit Management Corporation

Financial Statements

For the Years Ended December 31, 2025 and 2024



FRANKLIN CREDIT MANAGEMENT CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1-2
Financial Statements:	
Balance Sheets at December 31, 2025 and 2024	3
Statements of Operations for the years ended December 31, 2025 and 2024.....	4
Statements of Stockholders' Equity for the years ended December 31, 2025 and 2024	5
Statements of Cash Flows for the years ended December 31, 2025 and 2024	6
Notes to Financial Statements.....	7-17

Independent Auditors' Report

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

Opinion

We have audited the financial statements of Franklin Credit Management Corporation (the "Company"), which comprise the balance sheets as of December 31, 2025 and 2024, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, 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 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 for one year after the date that the financial statements are issued.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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.

CBIZ CPAs P.C.

New York, New York
March 30, 2026

FRANKLIN CREDIT MANAGEMENT CORPORATION
BALANCE SHEETS
DECEMBER 31, 2025 AND 2024

ASSETS	2025	2024
Cash	\$ 2,572,648	\$ 5,173,760
Restricted cash	3,439,528	4,486,897
Receivables	2,428,021	2,164,330
CARES Act employee retention credit receivable	-	294,832
Right-of-use (ROU) asset	2,934,582	3,384,956
Deferred tax assets, net	23,457	95,354
Other assets	1,078,324	1,010,873
Total assets	\$ 12,476,560	\$ 16,611,002
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Servicing liabilities	\$ 3,439,528	\$ 4,486,897
Accrued expenses and other current liabilities	610,284	568,591
Due to affiliate	164,790	-
Lease liability	3,313,626	3,763,263
Total liabilities	7,528,228	8,818,751
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.001 par value, 3,000,000 authorized shares; none issued or outstanding at December 31, 2025 and December 31, 2024	-	-
Common stock, \$.01 par value, 22,000,000 authorized shares; issued and outstanding 10,021,549 at December 31, 2025 and December 31, 2024	100,216	100,216
Additional paid-in capital	6,294,667	6,294,667
(Accumulated deficit) Retained earnings	(1,446,551)	1,397,368
Total stockholders' equity	4,948,332	7,792,251
 Total liabilities and stockholders' equity	 \$ 12,476,560	 \$ 16,611,002

The accompanying notes are an integral part of these financial statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
Revenues:		
Servicing income.....	\$ 5,908,429	\$ 6,922,813
Interest income.....	143,391	198,750
Rental income.....	221,407	91,422
Other income.....	27,606	123,887
Total revenues.....	<u>6,300,833</u>	<u>7,336,872</u>
Operating Expenses:		
Collection, general and administrative.....	9,064,168	8,948,509
Depreciation.....	-	35,471
Total expenses.....	<u>9,064,168</u>	<u>8,983,980</u>
Loss before income taxes.....	(2,763,335)	(1,647,108)
Provision for income taxes.....	(80,584)	(16,917)
Net loss.....	<u>\$ (2,843,919)</u>	<u>\$ (1,664,025)</u>

The accompanying notes are an integral part of these financial statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION
STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>Common Stock</u>		Additional Paid-in Capital	(Accumulated deficit) Retained earnings	Total
	Shares	Amount			
BALANCE, JANUARY 1, 2024	10,021,549	\$ 100,216	\$ 6,294,667	\$ 3,061,393	\$ 9,456,276
Net loss	-	-	-	(1,664,025)	(1,664,025)
BALANCE, DECEMBER 31, 2024	10,021,549	100,216	6,294,667	1,397,368	7,792,251
Net loss	-	-	-	(2,843,919)	(2,843,919)
BALANCE, DECEMBER 31, 2025	<u>10,021,549</u>	<u>\$ 100,216</u>	<u>\$ 6,294,667</u>	<u>\$ (1,446,551)</u>	<u>\$ 4,948,332</u>

The accompanying notes are an integral part of these financial statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$ (2,843,919)	\$ (1,664,025)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation.....	-	35,471
Noncash lease expense.....	450,374	446,989
Deferred tax provision	71,897	14,379
Changes in operating assets and liabilities:		
Receivables	(263,691)	(288,819)
Consumer loans originated.....	(734,958)	-
Sale of consumer loans	734,958	-
CARES Act employee retention credit receivable	294,832	-
Other assets	(67,451)	271,521
Servicing liabilities	(1,047,369)	(2,340,029)
Accrued expenses and other current liabilities.....	41,693	(405,395)
Due to affiliate	164,790	-
Lease liability.....	(449,637)	(118,425)
Net cash used in operating activities	<u>(3,648,481)</u>	<u>(4,048,333)</u>
NET CHANGE IN TOTAL CASH AND RESTRICTED CASH.....	(3,648,481)	(4,048,333)
TOTAL CASH AND RESTRICTED CASH, BEGINNING OF YEAR.....	<u>9,660,657</u>	<u>13,708,990</u>
TOTAL CASH AND RESTRICTED CASH, END OF YEAR.....	<u>\$ 6,012,176</u>	<u>\$ 9,660,657</u>
SUPPLEMENTAL DISCLOSURES		
Cash and restricted cash reconciliation:		
Cash	\$ 2,572,648	\$ 5,173,760
Restricted cash.....	<u>3,439,528</u>	<u>4,486,897</u>
Total cash and restricted cash.....	<u>\$ 6,012,176</u>	<u>\$ 9,660,657</u>
Accounting Standards Codification Topic 842, <i>Leases</i>		
Right-of-use (ROU) asset	\$ -	\$ 397,194
Lease liability.....	\$ -	\$ 397,194

The accompanying notes are an integral part of these financial statements.

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

1. BASIS OF PRESENTATION AND BUSINESS

As used herein, references to the “Company”, “Franklin Credit”, “Franklin”, “we”, “our” and “us” refer to Franklin Credit Management Corporation (“FCMC”). References to “Bosco I” refer to Bosco Credit, LLC, a Delaware Limited Liability Company; “Bosco II” refers collectively to Bosco Credit II, LLC, a Delaware Limited Liability Company and Bosco Credit II Trust Series 2010-1; “Bosco II-2” refers to a specific pool of loans owned by Bosco II; “Bosco II-3” refers to a specific pool of loans owned by Bosco II; “Bosco III” refers to Bosco Credit III, LLC, a Delaware Limited Liability Company; “Bosco IV” refers to Bosco Credit IV, LLC, a Delaware Limited Liability Company; “Bosco V” refers collectively to Bosco Credit V, LLC, a Delaware Limited Liability Company and Bosco Credit VI Trust Series 2012-2; “Bosco V-2” and “Bosco V-3” both refer to specific pools of loans owned by Bosco V; “Bosco VI” refers collectively to Bosco Credit VI, LLC, a Delaware Limited Liability Company and Bosco Credit II Trust Series 2012-1, “Bosco VIII” refers to Bosco Credit VIII, LLC, a Delaware Limited Liability Company and Bosco Credit II Trust Series 2017-1; “Bosco IX” refers to Bosco IX Overseas, LLC, a Delaware Limited Liability Company; “Bosco X” refers to Bosco Credit X, LLC, a Puerto Rico Limited Liability Company; “Bosco XII” refers to Bosco XII, LLC, a Puerto Rico Limited Liability Company; and “Bosco XIV” refers to Bosco Credit XIV, LLC, a Puerto Rico Limited Liability Company. Also, “Bosco entities” refers collectively to Bosco I, Bosco II, Bosco II-2, Bosco II-3, Bosco III, Bosco IV, Bosco V, Bosco VI, Bosco VIII, Bosco IX, Bosco X, Bosco XII, and Bosco XIV. The Bosco entities are owned or controlled by Thomas J. Axon, the Company’s Chairman, President and majority stockholder.

Description of the Company’s Business

Franklin Credit is a specialty consumer finance company primarily engaged in the servicing and resolution of performing, reperforming and nonperforming residential mortgage loans, including specialized loan recovery and collection servicing, and in the analysis, pricing and acquisition of residential mortgage portfolios, for third parties. The Company’s administrative and executive office is located in Jersey City, New Jersey, with an office in San Juan, Puerto Rico.

The Company’s servicing operations, including specialized loan recovery and collection servicing, consists of a call center staffed by professionals skilled in customer service, collections, loss mitigation, foreclosure, bankruptcy, real estate property management/disposition, deficiency recovery and judgment processing.

From time to time, the Company will originate certain unsecured consumer loans that are subsequently sold to a related party on a servicing retained basis. See Note 10.

At December 31, 2025 and 2024, the Company had 10,021,549 shares of common stock issued and outstanding. Thomas J. Axon, the Chairman and President of Franklin Credit, holds approximately 56% of Franklin Credit’s common stock.

Basis of Presentation

The financial statements include all normal and recurring adjustments that management believes necessary for a fair presentation. The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America (“US-GAAP”) and industry practices.

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates – The preparation of financial statements in conformity with US-GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of revenues and expenses. The Company’s estimates and assumptions primarily arise from uncertainties and changes associated with interest rates and credit exposure related to the loans the Company services for third parties, useful lives of fixed assets and allowance for income taxes. Although management is not currently aware of any factors that would significantly change its estimates and assumptions in the near term, future changes in market trends, market values and interest rates and other conditions may occur that could cause actual results to differ materially. Actual results could differ from those estimates.

Cash – The Company considers all highly liquid debt instruments acquired with an original maturity of three months or less to be cash equivalents, except for restricted cash, which is reported separately on the balance sheets. There are no cash equivalents as of December 31, 2025 or 2024.

Restricted Cash – Restricted cash includes cash held for third parties, which includes interest, principal and other collections received from servicing portfolios for third-party clients.

Accounts Receivable – The Company applies the current expected credit loss ("CECL") model to estimate expected credit losses on accounts receivable in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses*. Under this policy, an allowance for credit losses is established based on management’s estimate of expected losses over the life of the receivables. At December 31, 2025 and 2024, management determined that no allowance for credit losses was necessary.

Building, Furniture and Equipment – Building, furniture and equipment, including leasehold improvements, are recorded at cost net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 5 years. Amortization of leasehold improvements is computed using the straight-line method over the lives of the related leases or useful lives of the related assets, whichever is shorter. Maintenance and repairs are expensed as incurred.

Leases – Lease agreements generally contain lease and non-lease components. Payments under the Company’s lease arrangements are primarily fixed. Non-lease components primarily include payments for maintenance, real estate tax, insurance and utilities. If non-lease components are not separable from the lease components, the Company combines fixed payments for non-lease components with lease payments and accounts for them together as a single lease component which increases the amount of lease assets and liabilities. Lease agreements that contain variable payments not based on an index or rate are expensed as incurred and not included in the lease assets and liabilities. For short term leases, the Company recognizes lease payments as an expense on a straight-line basis over the lease term and variable lease payments in the period in which they are incurred.

Lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The interest rate used to determine the present value of the future lease payments is the incremental borrowing rate, because the interest rate implicit in the leases is not readily determinable. The Company’s incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

The lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company uses the base, non-cancelable, lease term when determining the lease asset and liability. Lease asset also includes any prepaid lease payments and lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term.

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

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. ASU 2023-09 enhances income tax disclosures to provide more detailed information regarding the income tax rate reconciliation and income taxes paid by jurisdiction. The new standard is effective for annual periods beginning after December 15, 2025. The Company is currently evaluating the impact of this standard on its disclosures.

Revenue Recognition – The Company’s revenues are generated principally from servicing residential mortgage loans for third-party investors (mortgage loans not owned by the Company). Servicing fees are comprised of fees earned from the collection of payments from the loans owned by third-party investors. The Company recognizes its servicing fee in the amount that reflects the consideration it expects to receive in exchange for the services provided and when the control of the promised products and services is transferred to the Company’s customers and its performance obligations under the contract have been satisfied. The performance obligation is satisfied when the Company receives payment on the loan.

Servicing Fees – Servicing fees consist of fees for servicing loans and providing collection and recovery services for third parties, ancillary fees from servicing loans for third parties, such as late charges, prepayment penalties, and other miscellaneous servicing-related income. The Company bills on a monthly basis based on collections during the month with payment due on the 10th day of the following month.

Other Income – Other income consists of various miscellaneous fees and other revenue indirectly related to the servicing of loans and real estate properties. These fees are invoiced at the same time as the servicing fees with similar payment terms.

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

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

Employee Retention Credits – The Company elected to account for the employee retention credit described in Note 5 to the financial statements under the International Accounting Standards (“IAS”) 20, *Accounting for Government Grants and Disclosures of Government Assistance*. Under the IAS 20 model, government assistance is not recognized until there is reasonable assurance (similar to the “probable threshold in U.S. GAAP) that (1) any conditions attached to the assistance that will be met and (2) the assistance will be received. Once there is reasonable assurance that the conditions will be met, the earnings impact of the government grants is recorded on a systematic basis over the periods in which the entity recognizes as expenses the related cost for which the grants are intended to compensate. Therefore, an entity will need to estimate the amount of employee retention credit it expects to retain.

3. RESTRICTED CASH

Restricted cash at December 31, 2025 and December 31, 2024 was interest, principal and other collections received from servicing portfolios for third-party clients in the amount of \$3.4 million and \$4.5 million, respectively.

4. RECEIVABLES

Receivables at December 31, 2025 and 2024 consisted of:

	<u>2025</u>	<u>2024</u>
Third-party servicing fees and expenses	\$ 14,379	\$ 76,695
Due from affiliates	1,217,929	659,836
Servicing fees and expenses due from Bosco-related entities	<u>1,195,713</u>	<u>1,427,799</u>
	<u>\$ 2,428,021</u>	<u>\$ 2,164,330</u>

Due from affiliates at December 31, 2025 and December 31, 2024 consisted of management fees for administrative services and direct costs of related entities. See Note 10 for servicing fees and expenses due from Bosco related entities.

5. CARES ACT EMPLOYEE RETENTION CREDIT

The Company has claimed refundable credits under the Employee Retention Credit (“ERC”) program of approximately \$1,122,200 for the year ended December 31, 2022, as provided under the Federal Coronavirus Aid, Relief and Economic Security Act and subsequently amended by the Consolidated Appropriations Act, 2021. Under the terms of the program, the Company must incur qualifying wage or health care costs and have either suspended operations under governmental order or experienced a specified decline in gross receipts. If conditions are not met, any amount of credit received is refundable to the government and the Company may be subject to fines and penalties.

The Company has elected to present the amount recognized as grant income systematically as qualifying expenses are incurred. Through December 31, 2022, the Company recognized \$1,122,200 as income. As of December 31, 2024, a grant receivable of \$294,832 was reported on the balance sheet, representing the refundable credit due to the Company. During the year ended December 31, 2025, the Company received payment in full for the previously recorded ERC receivable. Additionally, the Company received approximately \$45,000 in interest from the Internal Revenue Service related to the timing of the ERC payment.

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

The Company believes it has appropriately calculated and claimed the Employee Retention Credit based on the qualifying criteria as per the relevant tax regulations, however, there is inherent uncertainty regarding the interpretation and application of tax laws, and tax authorities may conduct audits to assess the accuracy and compliance.

6. BUILDING, FURNITURE AND EQUIPMENT, NET

At December 31, 2025 and 2024, building, furniture and equipment, net consisted of the following:

	<u>2025</u>	<u>2024</u>
Building and improvements	\$ 429,016	\$ 429,016
Furniture and equipment.....	488,968	488,968
	<u>917,984</u>	<u>917,984</u>
Less accumulated depreciation	(917,984)	(917,984)
	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was \$0 and \$35,471 for the years ended December 31, 2025 and 2024, respectively.

7. INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) became effective, resulting in significant changes to the Internal Revenue Code of 1986, as amended. These changes included a Federal statutory rate reduction from 35% to 21%, the elimination of the corporate alternative minimum tax, as well as several other tax reduction changes.

The Company has incorporated the impact of the Tax Act in the financial condition and results of operations for the effects of the Tax Act that can be reasonably estimated for the years ended December 31, 2025 and 2024.

Components of the (provision) or benefit for income taxes for the years ended December 31, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Current provision:		
Federal	\$ -	\$ -
State and local	(8,687)	(2,538)
Total current provision	<u>(8,687)</u>	<u>(2,538)</u>
Deferred benefit (provision):		
Federal.....	8,248	(7,691)
State and local	(80,145)	(6,688)
Total deferred provision	<u>(71,897)</u>	<u>(14,379)</u>
Total provision	<u>\$ (80,584)</u>	<u>\$ (16,917)</u>

The Company records interest and penalties, if applicable, in collection, general and administrative expense. Interest and penalties recorded during the years ended December 31, 2025 and 2024 were not material. As of December 31, 2025 and 2024, no liability for unrecognized tax benefits was required to be recorded.

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

Based on management’s evaluation, a full allowance has been established for the net operating loss carryforwards. The tax effects of temporary differences that gave rise to a deferred income tax asset at December 31, 2025 and 2024 are presented below:

	<u>2025</u>	<u>2024</u>
Fixed assets	\$ 103,056	\$ 106,328
ROU Asset (Lease Liability)	(79,599)	(79,444)
Net operating loss carryforward	2,755,751	1,896,100
Accrued expenses	-	68,470
Total deferred tax asset	<u>2,779,208</u>	<u>1,991,454</u>
Less: Valuation allowance	<u>(2,755,751)</u>	<u>(1,896,100)</u>
Net deferred tax asset	<u>\$ 23,457</u>	<u>\$ 95,354</u>

The Company is not aware of any uncertain tax positions that will significantly increase or decrease within the next year. During 2025 and 2024, no examinations were conducted by any state regarding franchise taxes.

8. CERTAIN CONCENTRATIONS

Concentration of Credit Risk – The Company maintains its cash deposits with financial institutions, which at times may exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2025 and 2024, cash deposited in excess of the amount covered by the insurance of the FDIC was approximately \$5,033,000 and \$9,701,000, respectively. The Company monitors the credibility and performance of those institutions through review of their quarterly and annual reports. During the years ended December 31, 2025 and 2024, the Company did not incur any losses related to uninsured amount

Third-Party Servicing Agreements – The Company is a specialty consumer finance company primarily engaged in the servicing and resolution of performing, re-performing and non-performing residential mortgage loans, including specialized loan collection and recovery servicing, for third parties. The portfolios serviced for other entities are heavily concentrated with loans serviced for related parties. As of both December 31, 2025 and 2024, the Company had eight significant servicing and recovery collection services contracts with third parties to service 1-4 family mortgage loans and owned real estate, all with related parties (Bosco I, Bosco II, Bosco III, Bosco V, Bosco VI, Bosco VIII, Bosco IX, Bosco X). See Note 10.

Servicing fees during the years ended December 31, 2025 and 2024 amounted to approximately \$5.91 million and \$6.92 million, respectively. The servicing fees earned from servicing pools of loans for the Bosco-related entities represented approximately 97% and 98% of the total servicing fees earned during the years ended December 31, 2025 and 2024, respectively. 50% and 66% of the receivables are from servicing fees and expenses due from Bosco-related entities at December 31, 2025 and 2024, respectively.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases – During December 2023, the Company renewed and extended the operating lease agreement originally entered into during 2019 and that expired in November 2023, for corporate office space on the 24th floor at 101 Hudson St. in New Jersey. It contains provisions for future rent increases, rent-free periods or periods in which rent payments are reduced (abated).

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

The lease term of the newly executed lease agreement is from December 2023 until July 2031, for an office space of 14,494 square feet at the same location of the previous lease, and with a free rent period from December 2023 until July 2024.

On November 1, 2019, Franklin entered into a lease agreement for its office in San Juan, Puerto Rico. The office space is owned by 33 Bolivia, LLC, and consists of 6,090 square feet for a lease term of five (5) years. The annual base rate is \$91,350 per year; \$7,612 monthly. There are additional charges for their proportionate share of operating expenses which are adjusted annually. The lease was renewed for an additional five years under the same terms. This facility is used to support the servicing of the Bosco VIII, Bosco IX and Bosco X portfolios, which were acquired in 2017, 2018 and 2019, respectively.

The operating leases for office space costs by their components for the years ended December 31, 2025 and 2024 are:

	<u>2025</u>	<u>2024</u>
Operating lease cost.....	\$ 655,179	\$ 652,422
Variable lease cost.....	60,900	60,900
Total operating lease cost	<u>\$ 716,079</u>	<u>\$ 713,322</u>

As of December 31, 2025, operating leases had a weighted average discount rate, based on the Company's incremental borrowing rate, of approximately 6.0%. The combined future lease payments, without considering variable costs, under operating leases as of December 31, 2025 are as follows:

<u>Year Ending December 31:</u>	<u>Amount</u>
2026	\$ 666,738
2027	679,263
2028	713,130
2029	740,518
2030	677,703
2031	<u>399,914</u>
Total future lease payments	3,877,266
Less imputed interest	<u>(563,640)</u>
Total lease liability balance	<u>\$ 3,313,626</u>

During December 2023, RMTS, LLC, a related party, renewed and extended a portion of the 24th floor premises, sublet from the Company, and consisting of approximately 5,699 of rentable square feet. For the years ended December 31, 2025 and 2024, the rental income amounted to \$221,407 and \$91,422, respectively. The future annual sublet collections and monthly average for such years is as follows:

<u>Year Ending December 31:</u>	<u>Future sublet Collections</u>	<u>Monthly Average</u>
2026	\$ 225,828	\$ 18,819
2027	230,743	19,229
2028	244,068	20,339
2029	260,818	21,735
2030	266,035	22,170
2031	<u>179,705</u>	22,463
Total future sublet collections and monthly average	<u>\$ 1,407,197</u>	

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

Legal Actions – The Company is involved in various lawsuits and claims arising in the normal course of business. The Company is vigorously defending these matters. While the outcome of these proceedings cannot be predicted with certainty, management does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company’s financial position, results of operations, or cash flows.

10. RELATED-PARTY TRANSACTIONS

Bosco-Related Entities – At December 31, 2025, the Company’s specialty servicing and collection business serviced, provided recovery collection services, and actively managed first and second-lien loans for the Bosco entities, which are related-party entities of the Company.

Included in the Company’s revenues were servicing fees recognized from servicing the portfolios for the Bosco-related entities of approximately \$5.74 million and \$6.79 million for the years ended December 31, 2025 and 2024, respectively.

In general, servicing fees for first-lien and second-lien loans and certain loans based on loan level delinquency or status in bankruptcy or foreclosure are assessed on a per unit fee basis or a percentage of monthly collections for loans based on the stage of delinquency or for settlements, property dispositions and other collections. Servicing fees for delinquent subordinate-lien residential mortgage loans are assessed based on a percentage of monthly collections. The Company is entitled to reimbursement of certain third-party fees and expenses incurred in the servicing and collection of the loans. Included in the Company’s revenues were approximate service fees related to the following entities:

	<u>2025</u>	<u>2024</u>
Bosco I.....	\$ 550,000	\$ 474,000
Bosco II.....	4,218,000	5,100,000
Bosco III.....	57,000	102,000
Bosco V.....	77,000	102,000
Bosco VI.....	172,000	194,000
Bosco VIII.....	261,000	301,000
Bosco IX.....	350,000	375,000
Bosco X.....	55,000	143,000
Bosco Solutions.....	5,000	4,000
Total Bosco related Service	<u>\$ 5,745,000</u>	<u>\$ 6,795,000</u>

Bosco XIV – During 2025, the Company entered into a Consumer Flow Sale Agreement whereby the Company sells unsecured consumer loans to Bosco XIV on a servicing-retained basis, with the sale occurring immediately after closing and funding of each. The purchase price is equal to the outstanding amount of the loan as of the origination date. The loans are sold on a servicing-retained basis which Bosco XIV shall be responsible for payment of all expenses incurred by the Company. The servicing fees in connection with the consumers loans purchased were waived during 2025 through March 2026.

During the year ended December 31, 2025, the Company originated approximately \$735,000 in consumer loans that were subsequently sold to Bosco XIV and incurred approximately \$100,000 of expenses. There remains approximately \$165,000 due to Bosco XIV for overpayment of the loans, which is included in due to affiliate on the accompanying balance sheet.

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

Sublease to a Related Entity – Effective November 8, 2023, the Company entered in a sublease agreement with RMTS to sublet the Company a portion of the 24th Floor premises, consisting of approximately 5,699 of rentable square feet. See Note 9.

Effective November 1, 2019, the Company entered in an operating lease for office space in Puerto Rico with 33 Bolivia, LLC, a related entity controlled by Mr. Axon. The new space consists of 6,090 square feet for a lease term of five (5) years. See Note 9.

Employee Loans – The Company advances loans to employees which are included in other assets on the accompanying balance sheet. These amounts are due between three to seven years and bear interest at a rate of 7-10%. The amount due from employees as of December 31, 2025 and 2024 was \$108,947 and \$91,353, respectively.

Other Related-Party Transactions with the Company's Chairman – The Company entered into a collection services agreement, effective in December 2009, pursuant to which the Company agreed to serve as collection agent in the customary manner in connection with seriously delinquent and generally unsecured loans, which were acquired by two trusts set up by a fund in which the Company's Chairman and President is a member, and contributed 50% of the purchase price and agreed to pay certain fund expenses. Under the collection services agreement, the Company is entitled to collection fees consisting of a percentage of the gross amount collected. The agreement also provides for reimbursement of third-party fees and expenses advanced by the Company as servicer in the normal course of servicing the loans in compliance with the collection services agreement. The collection fees earned by the Company under this collection services agreement during the years ended December 31, 2025 and 2024 amounted to approximately \$14,000 and \$11,000, respectively.

Other Related-Party Transactions with Management – During the year ended December 31, 2025, the Company incurred and paid expenses of approximately \$156,000 for consulting services provided by an entity owned by a member of management. These amounts are included in collection, general and administrative expenses in the accompanying statement of operations.

Franklin Credit Holding Corporation – Beginning in June 2012, the Company began to provide accounting, administrative and tax services for the bankruptcy estate and liquidation manager of Franklin Holding, the Company's former parent company, on generally a time and materials basis. The bankruptcy estate of Franklin Holding reimburses the Company, based on time spent by the Company's employees (including wages and employee benefits), other than for the liquidation manager of Franklin Holding, who provides services for Franklin Holding, and other reasonable third-party costs and expenses incurred in connection with such services. The 2025 and 2024 allocation costs were immaterial. It is not expected that the Company's employees' time associated with the performance of such services in the future will be material.

11. LICENSES TO SERVICE LOANS

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

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

Once licenses are obtained by a company, state regulators impose additional ongoing obligations on licensees, such as maintaining a certain minimum net worth and percentage of liquid assets, and line of credit requirements. In limited instances, such as in Illinois, Massachusetts, Michigan and New York State, the Federal Housing Administration (FHA), and Government National Mortgage Association (Ginnie Mae), the net worth calculation is generally adjusted to exclude amounts due from related companies, recourse on any contingent liabilities and assets pledged to secure obligations of a third party (Regulatory Net Worth). The highest state minimum net worth requirement for the Company is in New York, which requires the Company to maintain a Regulatory Net Worth of approximately \$298,000 at December 31, 2025 and \$303,000 at December 31, 2024.

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

At December 31, 2025 and 2024, the Company remained in compliance with all state minimum regulatory adjusted net worth requirements and had Regulatory Net Worth of approximately \$2.2 million and \$5.4 million, respectively.

12. COLLECTION, GENERAL AND ADMINISTRATIVE EXPENSES

The following table summarizes the major collection, general and administrative expense categories for the years ended December 31, 2025 and 2024.

	<u>2025</u>	<u>2024</u>
Salaries and benefits expenses	\$ 5,380,775	\$ 5,168,070
Facility costs	807,271	801,610
Communication/technology costs	1,298,312	1,242,223
Professional, consulting and legal fees.....	403,375	527,048
Insurance.....	389,291	389,237
All other expenses.....	785,144	820,321
Total	<u>\$ 9,064,168</u>	<u>\$ 8,948,509</u>

13. COMMON AND PREFERRED STOCKS

Authorized but Unissued Shares – The Company’s authorized common stock consists of 22,000,000 shares of common stock, par value \$.01 per share (10,021,549 shares of which were outstanding as of both December 31, 2025 and 2024) and 3,000,000 shares of undesignated preferred stock, par value \$.001 per share (no shares of which were issued or outstanding as of December 31, 2025 and 2024). Under the terms of the Company’s certificate of incorporation, its Board of Directors has the authority, often without further vote or action by the stockholders, to issue additional shares of common stock and shares of preferred stock in one or more series and to fix the designations, powers, preferences, rights, privileges and restrictions thereof, including the number of shares constituting such series, conversion rights, voting rights and dividend rates. At December 31, 2025, there were no current agreements or understandings for the issuance of additional shares of common stock.

FRANKLIN CREDIT MANAGEMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

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

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events to determine if events or transactions occurring through March 30, 2026, the date the financial statements were available to be issued, require potential adjustment to or disclosure in the financial statements and determined that no subsequent event or transaction requires adjustment or disclosure in the accompanying financial statements.