

## **OTC Pink Basic Disclosure**

### **1) Name of the issuer and its predecessors (if any)**

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

Vestin Realty Mortgage II, Inc.

### **2) Address of the issuer's principal executive offices**

#### Company Headquarters

Address 1: 8945 W. Post Road

Address 2: Suite 110

Address 3: Las Vegas, NV 89148

Phone: 702-227-0965

Email: mike@vestinmortgage.com

Website(s): [www.vestinrealtymortgage2.com](http://www.vestinrealtymortgage2.com)

#### IR Contact

Address 1: 8945 W. Post Road

Address 2: Suite 110

Address 3: Las Vegas, NV 89148

Phone: 702-227-0965

Email: deana@mvpmortgage.com

Website(s): [www.vestinrealtymortgage2.com](http://www.vestinrealtymortgage2.com)

### **3) Security Information**

Trading Symbol: VRTB

Exact title and class of securities outstanding: Common Stock

CUSIP: 92549X409

Par or Stated Value: 0.0001

Total shares authorized: 100,000,000 as of: September 30, 2019

Total shares outstanding: 1,489 as of: September 30, 2019

#### Transfer Agent

Name: Broadridge

Address 1: 51 Mercedes Way

Address 2: Edgewood, NY 11717

Address 3: \_\_\_\_\_

Phone: 631-392-5794

Is the Transfer Agent registered under the Exchange Act?\*      Yes: ☒ No: ☐

\*To be included in the OTC Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

List any restrictions on the transfer of security:

None

Describe any trading suspension orders issued by the SEC in the past 12 months.

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

**4) Issuance History**

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of equity securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

- A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);

N/A

- B. Any jurisdictions where the offering was registered or qualified;

N/A

- C. The number of shares offered;

N/A

- D. The number of shares sold;

N/A

- E. The price at which the shares were offered, and the amount actually paid to the issuer;

N/A

- F. The trading status of the shares; and

N/A

- G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

N/A

**5) Financial Statements**

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**VESTIN REALTY MORTGAGE II, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**  
**ASSETS**

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,315,000	\$ 3,177,000
Accounts Receivable	462,000	141,000
Accounts Receivable – related party	--	642,000
Prepaid expenses	177,000	238,000
Internalization receivable	24,800,000	
Investment in marketable securities - related party	198,000	299,000
Interest and other receivables	--	124,000
Investment in The Parking REIT, Inc.	13,604,000	9,404,000
Investment in Vestin Mortgage	3,124,000	1,908,000
Investments in Delaware Statutory Trusts	--	109,000
Notes receivable, net of allowance of \$1,086,000 at September 30, 2019 and December 31, 2018	--	--
Investment in real estate loans, net of allowance for loan losses of \$2,755,000 at September 30, 2019 and December 31, 2018	6,000	6,000
Investment in real estate, net of accumulated depreciation of \$22,000 at September 30, 2019 and December 31, 2018	11,512,000	11,512,000
Due from related parties	459,000	868,000
Total assets	<u>\$ 55,657,000</u>	<u>\$ 28,428,000</u>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 172,000	\$ 575,000
Note payable	6,008,000	5,966,000
Due to related parties	5,119,000	7,982,000
Deposits	76,000	76,000
Total liabilities	11,375,000	14,599,000
<b>Equity</b>		
Vestin Realty Mortgage II, Inc. stockholders' equity:		
Treasury stock, at cost, no shares at September 30, 2019 and December 31, 2018	--	--
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 1,489 shares issued and outstanding at September 30, 2019 and December 31, 2018	--	--
Additional paid-in capital	263,995,000	263,995,000
Accumulated deficit	(235,897,000)	(253,859,000)
Accumulated other comprehensive income	58,000	158,000
Total Vestin Realty Mortgage II, Inc. stockholders' equity	28,156,000	10,294,000
Non-controlling interest	16,126,000	3,535,000
Total equity	44,282,000	13,829,000
Total liabilities and equity	<u>\$ 55,657,000</u>	<u>\$ 28,428,000</u>

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

**VESTIN REALTY MORTGAGE II, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Interest income from investment in real estate loans	\$ --	\$ 9,000	\$ 21,000	\$ 47,000
Rental income parking MT	175,000	175,000	559,000	525,000
Advisor fee income	--	1,096,000	854,000	2,000,000
Other income	--	--	--	(111,000)
Total revenues	<u>175,000</u>	<u>1,280,000</u>	<u>1,434,000</u>	<u>2,461,000</u>
<b>Operating expenses</b>				
Management fees – related party	\$ 274,000	\$ 274,000	\$ 823,000	\$ 809,000
Wages and benefits	(2,000)	--	57,000	341,000
Interest expense	1,000	--	2,000	51,000
Depreciation	2,000	2,000	7,000	7,000
Professional fees	(63,000)	50,000	597,000	230,000
Seminars	--	--	33,000	24,000
Consulting fees	--	161,000	219,000	627,000
Insurance	33,000	41,000	121,000	163,000
Travel	--	2,000	18,000	11,000
Rent	48,000	56,000	144,000	141,000
Other	101,000	198,000	364,000	772,000
Total operating expenses	<u>394,000</u>	<u>784,000</u>	<u>2,385,000</u>	<u>3,176,000</u>
Income (loss) from operations	(219,000)	496,000	(951,000)	(715,000)
<b>Non-operating income</b>				
Gain related to recovery of allowance on notes payable – related party	--	--	31,800,000	--
Other income	--	--	--	2,000
Settlement expense	--	--	--	223,000
Total other non-operating income	<u>--</u>	<u>--</u>	<u>31,800,000</u>	<u>225,000</u>
Provision for income taxes	--	--	--	--
Income (loss) from continuing operations	(219,000)	496,000	30,849,000	(490,000)
<b>Discontinued operations, net of income taxes</b>				
Expenses related to real estate owned held for sale	--	(1,000)	--	(20,000)
Total loss from discontinued operations	<u>--</u>	<u>(1,000)</u>	<u>--</u>	<u>(20,000)</u>
Net income (loss)	(219,000)	495,000	30,849,000	(510,000)
Net income attributable to non-controlling interest – related party	<u>--</u>	<u>66,000</u>	<u>12,887,000</u>	<u>119,000</u>
<b>Net income (loss) attributable to Vestin Realty Mortgage II, Inc. common stockholders</b>				
	<u>\$ (219,000)</u>	<u>\$ 429,000</u>	<u>\$ 17,962,000</u>	<u>\$ (629,000)</u>
<b>Basic and diluted income (loss) per weighted average common share</b>				
Income (loss) from continuing operations attributable to Vestin Realty Mortgage II, Inc. common stockholders	\$ (147.08)	\$ 323.13	\$ 11,701.63	\$ (305.30)
Loss from discontinued operations	(0.00)	(0.65)	0.00	(12.46)
Net Income (loss) attributable to Vestin Realty Mortgage II, Inc. common stockholders - basic and diluted loss per weighted average common share	<u>\$ (147.08)</u>	<u>\$ 322.48</u>	<u>\$ 11,701.63</u>	<u>\$ (317.76)</u>
Weighted average common shares outstanding, basic and diluted	<u>1,489</u>	<u>1,535</u>	<u>1,535</u>	<u>1,605</u>

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

**VESTIN REALTY MORTGAGE II, INC.**  
**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**

	<b>For The Three Months Ended September 30,</b>		<b>For The Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income (loss)	\$ (219,000)	\$ 495,000	\$ 30,849,000	\$ (510,000)
Unrealized holding gain (loss) on available-for-sale securities	58,000	(229,000)	101,000	34,000
Comprehensive income (loss)	(161,000)	266,000	30,950,000	(476,000)
Less: net income (loss) attributable to non-controlling interest	--	457,000	12,887,000	(601,000)
Comprehensive income (loss) attributable to Vestin Realty Mortgage II, Inc. common stockholders	\$ <u>(161,000)</u>	\$ <u>723,000</u>	\$ <u>18,063,000</u>	\$ <u>(1,077,000)</u>

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

**VESTIN REALTY MORTGAGE II, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Net income (loss)	\$ 30,849,000	\$ (510,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of loan fees	2,000	--
Distribution from MVP REIT	--	(223,000)
Internalization income	(31,800,000)	--
Distribution The Parking REIT shares received through internalization – NCI	2,800,000	--
Change in operating assets and liabilities:		
Accounts receivable	321,000	--
Interest and other receivables	124,000	(43,000)
Prepaid expenses	61,000	5,000
Due to/from related parties, net	(2,454,000)	(1,745,000)
Prepaid expenses – related party	--	535,000
Deposits	--	(850,000)
Accounts payable and accrued liabilities	(402,000)	(235,000)
Net cash used in operating activities	(499,000)	(3,066,000)
Cash flows from investing activities:		
Investment in Vestin Mortgage	(1,216,000)	(1,908,000)
Payment on Delaware Statutory Trust	109,000	681,000
Construction in Progress	--	(97,000)
Net cash used in investing activities	(1,107,000)	(1,324,000)
Cash flows from financing activities:		
Purchase of treasury stock	--	(457,000)
Distribution to DST investors	(296,000)	(303,000)
Proceeds from note payable	110,000	561,000
Payments on note payable	(70,000)	(81,000)
Net cash used in financing activities	\$ (256,000)	\$ (280,000)
NET CHANGE IN CASH	(1,862,000)	(4,670,000)
Cash, beginning of period	3,177,000	8,258,000
Cash, end of period	\$ 1,315,000	\$ 3,588,000
Supplemental disclosures of cash flows information:		
Interest paid	\$ 2,000	\$ 51,000
Non-cash investing and financing activities:		
Receipt of The Parking REIT shares through internalization	\$ 4,200,000	\$ --
Note payable related to prepaid D & O insurance	\$ 110,000	\$ 136,000
Note payable related to investment in real estate	\$ 6,000,000	\$ 6,000,000
Unrealized gain on marketable securities - related party	\$ 101,000	\$ --

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

**VESTIN REALTY MORTGAGE II, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**  
**(UNAUDITED)**

**NOTE A — ORGANIZATION**

Vestin Realty Mortgage II, Inc. (“VRM II”, the “Company”, “we”, “us” or “our”), formerly Vestin Fund II, LLC (“Fund II”), invests in loans secured by real estate through deeds of trust or mortgages; hereafter referred to collectively as “deeds of trust” and as defined in our management agreement (“Management Agreement”) as mortgage assets (“Mortgage Assets”). In addition, we invest in, acquire, manage or sell real property and invest in entities involved in the ownership or management of real property. We commenced operations in June 2001. References in this report to the “Company,” “we,” “us,” or “our” refer to Fund II with respect to the period prior to April 1, 2006 and to VRM II with respect to the period commencing on April 1, 2006.

We operated as a real estate investment trust (“REIT”) through December 31, 2011. We are not a mutual fund or an investment company within the meaning of the Investment Company Act of 1940, nor are we subject to any regulation thereunder. We announced on March 28, 2012 that we have terminated our election to be treated as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), effective for the tax year ending December 31, 2012. Under the Code, we will not be able to make a new election to be taxed as a REIT during the four years following December 31, 2012. Pursuant to our charter, upon the determination by the Board of Directors that we should no longer qualify as a REIT, the restrictions on transfer and ownership of shares set forth in Article VII of our charter ceased to be in effect and, accordingly, shares of the Company’s stock are no longer be subject to such restrictions. In connection with the termination of our REIT status, we also amended our stockholders’ rights plan to provide that a stockholder, other than Michael Shustek, may own up to 20% of outstanding shares of common stock, and that Michael Shustek may own up to 35% of outstanding shares of common stock.

Vestin Mortgage, LLC, a Nevada limited liability company, is our manager (the “manager” or “Vestin Mortgage”). On January 6, 2018, the Company and Vestin Realty Mortgage I, Inc. (“VRM I”) entered into a Membership Interest Purchase Agreement with Michael Shustek. Pursuant to the Membership Interest Purchase Agreement, Mr. Shustek agreed to sell his interest in Vestin Mortgage, LLC to the Company and VRM I. Pursuant to a management agreement, our manager is responsible for managing our operations and implementing our business strategies on a day-to-day basis. Consequently, our operating results are dependent to a significant extent upon our manager’s ability and performance in managing our operations and servicing our assets. Vestin Mortgage is also the manager of VRM I, as the successor by merger to Vestin Fund I, LLC (“Fund I”). VRM II has investment objectives similar to ours.

The business of brokerage and placement of real estate loans have been performed by affiliated or non-affiliated mortgage brokers, including Advant Mortgage, LLC (“MVP Mortgage”), a licensed Nevada mortgage broker, which is indirectly wholly owned by Mr. Shustek.

In December 2013, we entered into a membership interest transfer agreement with MVP Capital Partners, LLC (“MVP Capital”) pursuant to which we increased our ownership interest from 40% to 60% in MVP Realty Advisors, LLC (“MVP Advisors”), the advisor of MVP REIT. At the same time, VRM I acquired from MVP Capital the remaining 40% interest in MVP Advisors. We and VRM I agreed to fund certain costs and expenses of MVP REIT through MVP Advisors in proportion to our respective ownership interest.

During May 2015, our Board of Directors and the Board of Directors of VRM I agreed to form MVP CP II. We own 60% and VRM I owns 40%. The purpose of MVP CP II is to act as the sponsor of MVP REIT II, a Maryland corporation (now known as The Parking REIT, Inc.), which was formed as a publicly registered non traded REIT (“MVP REIT II”). MVP REIT II’s registration statement for its initial public offering was declared effective by the Securities and Exchange Commission on October 22, 2015. The offering closed on March 31, 2017.

We and VRM I agreed to fund certain costs and expenses of MVP REIT II through MVP CP II in proportion to our respective ownership interest. As consideration for the initial investment of \$0.2 million MVP CP II received 8,000 shares of common stock in MVP REIT II.

On December 15, 2017, MVP REIT Inc. and MVP REIT II, Inc. merged. Upon the consummation of the merger, MVP REIT II changed its name to The Parking REIT, Inc. (“TPR”). As part of the merger, the merger agreement provided for a change in fees to MVP Realty Advisors, LLC, which is owned 60% by the Company.

During July 2017, the Company appointed an independent director Daryl Idler Jr whom will have sole voting power on any matters requiring a vote of independent directors.



On March 29, 2019, TPR and its external manager, MVP Advisors, entered into definitive agreements to internalize TPR's management function (the "Internalization") effective April 1, 2019. Please see Note R below for more information regarding the Internalization.

### **Reverse Stock Split**

On September 15, 2016, the Company filed a Schedule 13E-3 and related preliminary proxy statement with the Securities and Exchange Commission (the "SEC") in connection with a proposed transaction that was intended to result in the voluntary delisting of the Company's common stock from NASDAQ and the voluntary deregistration from the Company's public reporting obligations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The proposed transaction was approved by the stockholders on March 9, 2017. The foregoing is expected to permit the Company to forego many of the expenses associated with operating as a public reporting company, including the costs of preparing and filing periodic reports with the SEC, related accounting and legal fees and costs, and the ongoing expenses for compliance with the Sarbanes-Oxley Act of 2002 and other SEC requirements.

The suspension of reporting obligations was accomplished by a reverse 1:1,000 stock split of the Company's common stock. All stockholders owning fewer than 1,000 shares prior to the reverse stock split were cashed out by the Company and are no longer stockholders of the Company. The cash out price was \$2.70 per share, which was the average per-share closing price of the Company's common stock on NASDAQ for the ten consecutive trading days ending on the last trading day prior to September 15, 2016, or the date of the first public disclosure of the reverse stock split proposal in the form of the initial filing of the preliminary proxy statement with the SEC (the "Cash-Out Price"). With the reverse split, the Company has fewer than 300 stockholders of record and as such on March 30, 2017 the Company delisted from NASDAQ by filing a Form 25 and suspended its reporting obligations under the Exchange Act by filing a Form 15 with the SEC. The Company's common stock is no longer listed on NASDAQ and the Company has been relieved of its requirements to file periodic reports with the SEC, including annual reports on Form 10-K and quarterly reports on Form 10-Q. The Company's common stock is quoted on the Pink Sheets, a centralized electronic quotation service for over-the-counter securities.

## **NOTE B — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Accounting**

The accompanying unaudited condensed consolidated financial statements of the Company are prepared on the accrual basis of accounting and in accordance with principles generally accepted in the United States of America ("GAAP") for interim financial information as contained in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The unaudited condensed consolidated financial statements include accounts and related adjustments, which are, in the opinion of management, of a normal recurring nature and necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim period.

Operating results for the nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2018.

The condensed consolidated balance sheet as of December 31, 2018 contained herein has been derived from the audited financial statements as of December 31, 2018 but does not include all disclosures required by GAAP.

### **Consolidation**

The Company's unaudited consolidated financial statements include its accounts and the accounts of its subsidiaries, Operating Partnership and all of the following subsidiaries. All intercompany profits and losses, balances and transactions are eliminated in consolidation.

MVP Realty Advisors, LLC  
MVP Capital Partners II, LLC  
MVP St Louis Cardinal Lot Master Tenant, LLC  
MVP St Louis Cardinal Lot DST  
Corporate Center Sunset Holdings, LLC

Under GAAP, the Company's consolidated financial statements will also include the accounts of its consolidated subsidiaries and joint ventures in which the Company is the primary beneficiary, or in which the Company has a controlling interest. In determining whether the Company has a controlling interest in a joint venture and the requirement to consolidate the accounts of that entity, the Company's management considers factors such as an entity's purpose and design and the Company's ability to direct the activities of the entity that

most significantly impacts the entity's economic performance, ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members as well as whether the entity is a variable interest entity in which it will absorb the majority of the entity's expected losses, if they occur, or receive the majority of the expected residual returns, if they occur, or both.

Equity investments in which the Company exercises significant influence but does not control and is not the primary beneficiary are accounted for using the equity method. The Company's share of its equity method investees' earnings or losses is included in other income in the accompanying unaudited condensed consolidated statements of operations. Investments in which the Company is not able to exercise significant influence over the investee are accounted for under the cost method.

### **Management Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Investments in Real Estate Loans**

We may, from time to time, acquire or sell investments in real estate loans from or to our manager or other related parties pursuant to the terms of our Management Agreement without a premium. The primary purpose is to either free up capital to provide liquidity for various reasons, such as loan diversification, or place excess capital in investments to maximize the use of our capital. Selling or buying loans allows us to diversify our loan portfolio within these parameters. Due to the short-term nature of the loans we make and the similarity of interest rates in loans we normally would invest in, the fair value of a loan typically approximates its carrying value. Accordingly, discounts or premiums typically do not apply upon sales of loans and therefore, generally no gain or loss is recorded on these transactions, regardless of whether to a related or unrelated party.

Investments in real estate loans are secured by deeds of trust or mortgages. Generally, our real estate loans require interest only payments with a balloon payment of the principal at maturity. We have both the intent and ability to hold real estate loans until maturity and therefore, real estate loans are classified and accounted for as held for investment and are carried at amortized cost. Loans sold to or purchased from affiliates are accounted for at the principal balance and no gain or loss is recognized by us or any affiliate. Loan-to-value ratios are initially based on appraisals obtained at the time of loan origination and are updated, when new appraisals are received or when management's assessment of the value has changed, to reflect subsequent changes in value estimates. Such appraisals are generally dated within 12 months of the date of loan origination and may be commissioned by the borrower.

The Company considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Company's impaired loans include troubled debt restructuring, and performing and non-performing loans in which full payment of principal or interest is not expected. The Company calculates an allowance required for impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or the fair value of its collateral.

Loans that have been modified from their original terms are evaluated to determine if the loan meets the definition of a Troubled Debt Restructuring ("TDR") as defined by ASC 310-40. When the Company modifies the terms of an existing loan that is considered a TDR, it is considered performing as long as it is in compliance with the modified terms of the loan agreement. If the modification calls for deferred interest, it is recorded as interest income as cash is collected.

### **Allowance for Loan Losses**

We maintain an allowance for loan losses on our investments in real estate loans for estimated credit impairment. Our manager's estimate of losses is based on a number of factors including the types and dollar amounts of loans in the portfolio, adverse situations that may affect the borrower's ability to repay, prevailing economic conditions and the underlying collateral securing the loan. Additions to the allowance are provided through a charge to earnings and are based on an assessment of certain factors, which may indicate estimated losses on the loans. Actual losses on loans are recorded first as a reduction to the allowance for loan losses. Generally, subsequent recoveries of amounts previously charged off are recognized as income.

Estimating allowances for loan losses requires significant judgment about the underlying collateral, including liquidation value, condition of the collateral, competency and cooperation of the related borrower and specific legal issues that affect loan collections or taking possession of the property. As a commercial real estate lender willing to invest in loans to borrowers who may not meet the credit standards of other financial institutional lenders, the default rate on our loans could be higher than those generally experienced in the real estate lending industry. We and our manager generally approve loans more quickly than other real estate lenders and, due to

our expedited underwriting process; there is a risk that the credit inquiry we perform will not reveal all material facts pertaining to a borrower and the security.

Additional facts and circumstances may be discovered as we continue our efforts in the collection and foreclosure processes. This additional information often causes management to reassess its estimates. In recent years, we have revised estimates of our allowance for loan losses. Circumstances that have and may continue to cause significant changes in our estimated allowance include, but are not limited to:

- Declines in real estate market conditions, which can cause a decrease in expected market value;
- Discovery of undisclosed liens for community improvement bonds, easements and delinquent property taxes;
- Lack of progress on real estate developments after we advance funds. We customarily utilize disbursement agents to monitor the progress of real estate developments and approve loan advances. After further inspection of the related property, progress on construction occasionally does not substantiate an increase in value to support the related loan advances;
- Unanticipated legal or business issues that may arise subsequent to loan origination or upon the sale of foreclosed property; and
- Appraisals, which are only opinions of value at the time of the appraisal, may not accurately reflect the value of the property.

### **Discontinued Operations**

We have reclassified for all periods presented in the accompanying consolidated statements of operations, the amounts related to discontinued operations and real estate held for sale, in accordance with the applicable accounting criteria. In addition, the assets and liabilities related to the discontinued operations are reported separately in the accompanying consolidated balance sheets as real estate held for sale, assets held for sale, and liabilities related to assets held for sale.

Generally, operating results and cash flows from long-lived assets held for sale are to be classified as discontinued operations as a separately stated component of net income. Our operations related to REO are separately identified in the accompanying consolidated statements of operations.

### **Real Estate Owned Held for Sale**

Real estate owned held for sale ("REO") includes real estate acquired through foreclosure and will be carried at the lower of the recorded amount, inclusive of any senior indebtedness, or the property's estimated fair value, less estimated costs to sell, with fair value based on appraisals and knowledge of local market conditions. While pursuing foreclosure actions, we seek to identify potential purchasers of such property. We generally seek to sell properties acquired through foreclosure as quickly as circumstances permit, taking into account current economic conditions. The carrying values of REO are assessed on a regular basis from updated appraisals, comparable sales values or purchase offers.

Management classifies real estate as REO when the following criteria are met:

- Management commits to a plan to sell the properties;
- The property is available for immediate sale in its present condition subject only to terms that are usual and customary;
- An active program to locate a buyer and other actions required to complete a sale have been initiated;
- The sale of the property is probable;
- The property is being actively marketed for sale at a reasonable price; and
- Withdrawal or significant modification of the sale is not likely.

### **Acquisitions**

The Company records the acquired tangible and intangible assets and assumed liabilities of acquisitions of all operating properties and those development and redevelopment opportunities that meet the accounting criteria to be accounted for as business combinations at fair value at the acquisition date. The Company assesses and considers fair value based on estimated cash flow projections that utilize available market information and discount and/or capitalization rates that the Company deems appropriate. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The acquired assets and assumed liabilities for an operating property acquisition generally include but are not limited to: land, buildings and improvements, construction in progress and identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, leasing costs, value of above-market and below-market operating leases and ground leases, acquired in-place lease values and tenant relationships, if any.

The fair value of land is derived from comparable sales of land within the same submarket and/or region. The fair value of buildings and improvements, tenant improvements, and leasing costs are based upon current market replacement costs and other relevant market rate information.

The fair value of the above-market or below-market component of an acquired in-place operating lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining non-cancellable lease term and (ii) management's estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition measured over the remaining non-cancellable term of the lease for above-market operating leases and the initial non-cancellable term plus the term of any below-market fixed rate renewal options, if applicable, for below-market operating leases. The amounts recorded for above-market operating leases are included in deferred leasing costs and acquisition-related intangibles, net on the balance sheet and are amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable leases.

The amounts recorded for below-market operating leases are included in deferred revenue and acquisition-related liabilities, net on the balance sheet and are amortized on a straight-line basis as an increase to rental income over the remaining term of the applicable leases plus the term of any below-market fixed rate renewal options, if applicable. Our below-market operating leases generally do not include fixed rate or below-market renewal options.

The fair value of acquired in-place leases is derived based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. This fair value is based on a variety of considerations including, but not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases; (2) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period; and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. Factors considered by us in performing these analyses include an estimate of the carrying costs during the expected lease-up periods, current market conditions, and costs to execute similar leases. In estimating carrying costs, the Company includes real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand at market rates. In estimating costs to execute similar leases, the Company considers leasing commissions, legal and other related expenses. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangibles, net on the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases. If a lease were to be terminated or if termination were determined to be likely prior to its contractual expiration (for example resulting from bankruptcy), amortization of the related unamortized in-place lease intangible would be accelerated.

The determination of the fair value of any debt assumed in connection with a property acquisition is estimated by discounting the future cash flows using interest rates available for the issuance of debt with similar terms and remaining maturities.

The determination of the fair value of the acquired tangible and intangible assets and assumed liabilities of operating property acquisitions requires us to make significant judgments and assumptions about the numerous inputs discussed above. The use of different assumptions in these fair value calculations could significantly affect the reported amounts of the allocation of our acquisition related assets and liabilities and the related amortization and depreciation expense recorded for such assets and liabilities. In addition, because the value of above and below market leases are amortized as either a reduction or increase to rental income, respectively, our judgments for these intangibles could have a significant impact on our reported rental revenues and results of operations.

Costs directly associated with all operating property acquisitions and those development and redevelopment acquisitions that meet the accounting criteria to be accounted for as business combinations are expensed as incurred. Our acquisition expenses are directly related to our acquisition activity and if our acquisition activity was to increase or decrease, so would our acquisition costs. Costs directly associated with development acquisitions accounted for as asset acquisitions are capitalized as part of the cost of the acquisition. During the three and nine months ended September 30, 2019 and 2018, the Company did not capitalize any such acquisition costs.

### **Impairment of Long-Lived Assets**

When circumstances indicate the carrying value of a property may not be recoverable, the Company reviews the asset for impairment. This review is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. These estimates consider factors such as expected future operating income, market and other applicable trends and residual value, as well as the effects of leasing demand, competition and other factors. If impairment exists, due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property for properties to be held and used. For properties held for sale, the impairment loss is the adjustment to fair value less estimated cost to dispose of the asset. These assessments have a direct impact on net income because recording an impairment loss results in an immediate negative adjustment to net income.

### **Cash and Cash Equivalents**

Cash and cash equivalents include interest-bearing and non-interest-bearing bank deposits, money market accounts, short-term certificates of deposit with original maturities of three months or less, and short-term instruments with a liquidation provision of one month or less.

### **Revenue Recognition**

The Company recognizes interest income from loans on an accrual basis over the expected terms of the loans using the effective interest method. The Company may recognize fees, discounts, premiums, anticipated exit fees and direct cost over the terms of the loans as an adjustment to the yield. The Company may recognize fees on commitments that expire unused at expiration. The Company may recognize interest income from available-for-sale securities on an accrual basis over the life of the investment on a yield-to-maturity basis. Interest is fully allowed for on impaired loans and is recognized on a cash basis method. The receipt of previous loan or note receivable allowances or impairments are recognized as revenue.

All leases are accounted for as non-cancelable operating leases. We recognize rental revenue on a straight-line basis over the term of the lease. Rental income related to the leases is recognized on an accrual basis in accordance with the terms of the leases. Advanced receipts of rental income are deferred and classified as liabilities until earned.

### **Advertising Costs**

Advertising costs incurred in the normal course of operations are expensed as incurred. The Company had no advertising expense for the three and nine months ended September 30, 2019 and 2018.

### **Investments in Real Estate and Fixed Assets**

Investments in real estate and fixed assets are stated at cost less accumulated depreciation. Depreciation is provided principally on the straight-line method over the estimated useful lives of the assets, which are primarily 3 to 40 years. The cost of repairs and maintenance is charged to expense as incurred. Expenditures for property betterments and renewals are capitalized. Upon sale or other disposition of a depreciable asset, cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in other income (expense).

The Company periodically evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful lives of fixed assets or whether the remaining balance of fixed assets should be evaluated for possible impairment. The Company uses an estimate of the related undiscounted cash flows over the remaining life of the fixed assets in measuring their recoverability.

### **Investment in Marketable Securities**

Investment in marketable securities consists of stock in VRM I and The Parking REIT, related parties. The securities are stated at fair value as determined by the closing market prices as of September 30, 2019 and December 31, 2018. All securities are classified as available-for-sale.

We are required to evaluate our available-for-sale investment for other-than-temporary impairment charges. We will determine when an investment is considered impaired (i.e., decline in fair value below its amortized cost), and evaluate whether the impairment is other than temporary (i.e., investment value will not be recovered over its remaining life). If the impairment is considered other than temporary, we will recognize an impairment loss equal to the difference between the investment's cost and its fair value.

### **Basic and Diluted Earnings Per Common Share**

Basic earnings per share ("EPS") is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been exercised. We had no outstanding common share equivalents during the periods ended September 30, 2019 and December 31, 2018.

### **Common Stock Dividends**

During June 2008, our Board of Directors decided to suspend the payment of dividends. Our Board of Directors closely monitors our operating results in order to determine when dividends should be reinstated; however, we do not expect our Board of Directors to reinstate dividends in the foreseeable future.

## **Treasury Stock**

On March 21, 2007, our Board of Directors authorized the repurchase of up to \$10 million worth of our common stock. On November 17, 2014, our Board of Directors authorized the repurchase of an additional \$500,000 in common stock. Depending upon market conditions, shares may be repurchased from time to time at prevailing market prices through open market or privately negotiated transactions. We are not obligated to purchase any shares. Subject to applicable securities laws, including SEC rule 10b-18, repurchases may be made at such times and in such amounts, as our management deems appropriate. The share repurchase program may be discontinued or terminated at any time and we have not established a date for completion of the share repurchase program. The repurchases will be funded from our available cash.

We record our treasury stock using the cost method. Under the Maryland General Corporation Law, shares of its own stock acquired by a corporation constitute authorized but unissued shares.

## **Segments**

We currently are authorized to operate three reportable segments, investments in real estate loans, investments in real property and investment in a real estate management company. During the three and nine months ended September 30, 2019 and 2018, the Company operated in all segments.

Our objective is to invest approximately 97% of our assets in real estate loans and real estate related investments, while maintaining approximately 3% as a working capital cash reserve.

## **Business Combinations**

In December 2007, the Financial Accounting Standards Board (FASB) revised the authoritative guidance for business combinations, establishing principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired (including goodwill), the liabilities assumed, and any non-controlling interest in the acquiree. Subsequently, on April 1, 2009, the FASB amended and clarified certain aspects of its authoritative guidance on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. We apply the FASB authoritative guidance to all business combinations for which the acquisition date is on or after January 1, 2009, and to certain future income tax effects related to our prior business combinations, should they arise.

## **Non-controlling Interests**

The FASB issued authoritative guidance for non-controlling interests in December 2007, which establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as an unconsolidated investment, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, the guidance requires consolidated net income (loss) to be reported at amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income (loss) attributable to the parent and to the non-controlling interest.

## **Income Taxes**

The Company accounts for its income taxes under the assets and liabilities method, which requires recognition of deferred tax assets and liabilities for future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent the Company believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. A valuation allowance is established against deferred tax assets that do not meet the criteria for recognition. In the event the Company was to determine that it would be able to realize deferred income tax assets in the future in excess of their net recorded amount, they would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

The Company follows the accounting guidance which provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective

date to be recognized initially and in subsequent periods. Also, included is guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

## NOTE C — FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

Financial instruments consist of cash, interest and other receivables, notes receivable, accounts payable and accrued liabilities, due to/from related parties and notes payable. The carrying values of these instruments approximate their fair values due to their short-term nature. Marketable securities – related party and investment in real estate loans are further described in Note K – *Fair Value*.

Financial instruments with concentration of credit and market risk include cash, interest and other receivables, marketable securities - related party, notes receivable, accounts payable and accrued liabilities, due to/from related parties, notes payable, and loans secured by deeds of trust.

We maintain cash deposit accounts and certificates of deposit that, at times, may exceed federally-insured limits. To date, we have not experienced any losses. As of September 30, 2019 and December 31, 2018, we had approximately \$0.7 and \$2.2 million of funds in excess of the federally insured limits, respectively.

As of September 30, 2019 and December 31, 2018, 100% of our loans were loans in which we participated with other lenders, most of whom are our affiliates.

As of September 30, 2019 and December 31, 2018, 89% and 11% of our loans were in Nevada and Ohio, respectively.

As of September 30, 2019 and December 31, 2018, the loan to our largest borrower represented approximately 89% of our total investment in real estate loans. As of September 30, 2019, the real estate loan is a commercial loan secured by property located in Nevada, with a first lien position. The interest rate is 15.0% per annum, the outstanding balance is approximately \$2.5 million with an allowance for loan loss of approximately \$2.5 million as the loan is considered a non-performing loan.

The success of a borrower's ability to repay its real estate loan obligation in a large lump-sum payment may be dependent upon the borrower's ability to refinance the obligation or otherwise raise a substantial amount of cash. With a weakening economy, credit continues to be difficult to obtain and as such, many of our borrowers who develop and sell commercial real estate projects have been unable to complete their projects, obtain takeout financing or have been otherwise adversely impacted. In addition, an increase in interest rates over the loan rate applicable at origination of the loan may have an adverse effect on our borrower's ability to refinance.

## NOTE D — INVESTMENTS IN REAL ESTATE LOANS

As of September 30, 2019 and December 31, 2018, most of our loans provided for interest only payments with a "balloon" payment of principal payable and any accrued interest payable in full at the end of the term. As of September 30, 2019 and December 31, 2018, three loans had variable interest rates adjusted quarterly at a rate of prime plus 3.30% (8.80% as of September 30, 2019 and December 31, 2018). The balance on these loans was approximately \$0.3 million as of September 30, 2019 and December 31, 2018.

In addition, we may invest in real estate loans that require borrowers to maintain interest reserves funded from the principal amount of the loan for a period of time. As of September 30, 2019 and December 31, 2018 we had no loans with an interest reserve.

### Loan Portfolio

As of September 30, 2019 and December 31, 2018, we had five available real estate loan products consisting of commercial, construction, acquisition and development, land and residential. The effective interest rates on all product categories range from 8% to 15% which includes performing and nonperforming loans that are being fully or partially accrued and will be payable at maturity. Revenue by product will fluctuate based upon relative balances during the period.

Investments in real estate loans as of September 30, 2019 and December 31, 2018, were as follows:

Loan Type	Number of Loans	Balance *	Weighted Average Interest Rate	Portfolio Percentage	Current Weighted Average Loan-To-Value, Net of Allowance for Loan Losses
Commercial	5	\$ 2,758,000	13.32%	99.93%	13.41%
Construction	1	2,000	0.01%	0.07%	10.24%

<b>Total</b>	<u>6</u>	<u>\$ 2,760,000</u>	13.33%	<u>100.00%</u>	23.65%
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\* Please see *Balance Sheet Reconciliation* below.

The “Weighted Average Interest Rate” as shown above is based on the contractual terms of the loans for the entire portfolio including non-performing loans. The weighted average interest rate on performing loans only, as of September 30, 2019 and December 31, 2018, was 13.33%. Please see “Non-Performing Loans” and “Asset Quality and Loan Reserves” below for further information regarding performing and non-performing loans.

Loan-to-value ratios are generally based on the most recent appraisals and may not reflect subsequent changes in value and include allowances for loan losses. Recognition of allowance for loan losses will result in a maximum loan-to-value ratio of 100% per loan.

The following is a schedule of priority of real estate loans:

<b>Loan Type</b>	<b>Number of Loans</b>	<b>September 30, 2019 Balance*</b>	<b>Portfolio Percentage</b>	<b>Number of Loans</b>	<b>December 31, 2018 Balance*</b>	<b>Portfolio Percentage</b>
First deeds of trust	6	\$ 2,760,000	100.00%	6	\$ 2,761,000	100.00%
Second deeds of trust	--	--	--	--	--	0.0%
<b>Total</b>	<u>6</u>	<u>\$ 2,760,000</u>	<u>100.00%</u>	<u>6</u>	<u>\$ 2,761,000</u>	<u>100.00%</u>

\* Please see *Balance Sheet Reconciliation* below.

The following is a schedule of contractual maturities of investments in real estate loans as of September 30, 2019:

Non-performing and past due loans	\$ 2,450,000
July 2019 – September 2019	2,000
October 2019 – December 2019	--
January 2020 – March 2020	3,000
Thereafter	305,000
<b>Total</b>	<u>\$ 2,760,000</u>

The following is a schedule by geographic location of investments in real estate loans as of September 30, 2019 and December 31, 2018:

	<b>Balance *</b>	<b>Portfolio Percentage</b>
Nevada	\$ 2,455,000	88.95%
Ohio	305,000	11.05%
<b>Total</b>	<u>\$ 2,760,000</u>	<u>100.00%</u>

\* Please see *Balance Sheet Reconciliation* below.

### Balance Sheet Reconciliation

The following table reconciles the balance of the loan portfolio to the amount shown on the accompanying Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018:

Balance per loan portfolio	\$ 2,760,000
Less:	--
Allowance for loan losses (a)	(2,754,000)
Balance per consolidated balance sheets	<u>\$ 6,000</u>

(a) Please refer to *Specific Reserve Allowance* below.

### Non-Performing Loans

As of September 30, 2019 and December 31, 2018, we had four loans considered non-performing (i.e., based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement or



when the payment of interest is 90 days past due). One loan has been placed on non-accrual of interest status and is currently carried on our books at a value of \$0, net of allowance for loan losses of approximately \$2.5 million. The other three loans considered non-performing that had variable interest rates adjusted quarterly at a rate of prime plus 3.30%. The fully allowed for balance on these loans was approximately \$0.3 million as of September 30, 2019 and December 31, 2018.

At September 30, 2019 and December 31, 2018, the following loan types were non-performing:

<b>Loan Type</b>	<b>Number of Non-Performing Loans</b>	<b>Balance</b>	<b>Allowance for Loan Losses</b>	<b>Net Balance</b>
Commercial	4	\$ 2,754,000	\$ (2,754,000)	\$ --
<b>Total</b>	<b>4</b>	<b>\$ 2,754,000</b>	<b>\$ (2,754,000)</b>	<b>\$ --</b>

#### Asset Quality and Loan Reserves

Losses may occur from investing in real estate loans. The amount of losses will vary as the loan portfolio is affected by changing economic conditions and the financial condition of borrowers.

The conclusion that a real estate loan is uncollectible or that collectability is doubtful is a matter of judgment. On a quarterly basis, our manager evaluates our real estate loan portfolio for impairment. The fact that a loan is temporarily past due does not necessarily mean that the loan is non-performing. Rather, all relevant circumstances are considered by our manager to determine impairment and the need for specific reserves. Such evaluation, which includes a review of all loans on which full collectability may not be reasonably assured, considers among other matters:

- Prevailing economic conditions;
- Historical experience;
- The nature and volume of the loan portfolio
- The borrowers' financial condition and adverse situations that may affect the borrowers' ability to pay;
- Evaluation of industry trends; and
- Estimated net realizable value of any underlying collateral in relation to the loan amount.

Based upon this evaluation, a determination is made as to whether the allowance for loan losses is adequate to cover any potential losses on an individual loan basis; we do not have a general allowance for loan losses. Additions to the allowance for loan losses are made by charges to the provision for loan loss. As of September 30, 2019 and December 31, 2018, our ratio of total allowance for loan losses to total loans with an allowance for loan loss was 100%.

The following is a breakdown of allowance for loan losses related to performing loans and non-performing loans:

	<b>September 30, 2019 and December 31, 2018</b>		
	<b>Balance</b>	<b>Allowance for loan losses **</b>	<b>Balance, net of allowance</b>
Non-performing loans – no related allowance	\$ --	\$ --	\$ --
Non-performing loans – related allowance	2,754,000	(2,754,000)	--
Subtotal non-performing loans	2,754,000	(2,754,000)	--
Performing loans – no related allowance	6,000	--	6,000
Performing loans – related allowance	--	--	--
Subtotal performing loans	6,000	--	6,000
<b>Total</b>	<b>\$ 2,760,000</b>	<b>\$ (2,754,000)</b>	<b>\$ 6,000</b>

\*\* Please refer to *Specific Reserve Allowances* below.

Our manager evaluated our loans and, based on current estimates with respect to the value of the underlying collateral, believes that such collateral is sufficient to protect us against further losses of principal. However, such estimates could change or the value of the underlying real estate could decline. Our manager will continue to evaluate our loans in order to determine if any other allowance for

loan losses should be recorded.

### **Specific Reserve Allowances**

As of September 30, 2019 and December 31, 2018, we have provided a specific reserve allowance for four non-performing loans in the amount of approximately \$2.8 million based on updated appraisals of the underlying collateral and/or our evaluation of the borrower. We will continue to evaluate our position in these loans.

### **Extensions**

As of September 30, 2019 and December 31, 2018, our manager granted three extensions on outstanding loans totaling approximately \$2.5 million, pursuant to the terms of the original loan agreements, which permit extensions by mutual consent, or as part of a TDR. Such extensions are generally provided on loans where the original term was 12 months or less and where a borrower requires additional time to complete a construction project or negotiate take-out financing. Our manager generally grants extensions when a borrower is in compliance with the material terms of the loan, including, but not limited to the borrower's obligation to make interest payments on the loan. In addition, if circumstances warrant, our manager may extend a loan that is in default as part of a work out plan to collect interest and/or principal.

### **NOTE E — INVESTMENTS IN DELAWARE STATUTORY TRUST**

On August 30, 2017, the Company and VRM I filed suit against Sandlapper Capital, NNN Industrial Portfolio Holdings, Trevor Gordon and Jack Bixler regarding the investments held in the Delaware Statutory Trusts ("DST") of approximately \$0.2 million which holds commercial properties located in Florida which we consider to be the collateral on the loan. A Repurchase Agreement was made in January 2016 for the repurchase of DST Units from the Company and VRM I on or before January 31, 2017. This repurchase agreement was extended until May 31, 2017 and then again until July 31, 2017. As of the filing of the lawsuit on August 30, 2017, the DST units had not been repurchased. On January 31, 2018 the parties entered into a Confidential Settlement Agreement and Release which was amended by the First & Second Amendments to Confidential Settlement Agreement and Release (collectively, the "Settlement"). Pursuant to the Settlement, the Sandlapper Parties were to make certain payments and as of date of filing, the Sandlapper Parties have paid in full.

### **NOTE F — INVESTMENT IN MARKETABLE SECURITIES – RELATED PARTY**

As of September 30, 2019 and December 31, 2018, we owned 134,543 shares of VRM I's common stock, representing approximately 12.4% of the total outstanding shares. VRM I's common stock is listed on the OTC Pink Marketplace. The closing price of VRM I's common stock on September 30, 2019, was \$1.95 per share.

### **NOTE G — INVESTMENT IN THE PARKING REIT, INC.**

During May 2015, our Board of Directors and the Board of Directors of VRM I agreed to form MVP CP II. We own 60% and VRM I owns 40%. The purpose of MVP CP II is to act as the sponsor of MVP REIT II, a Maryland corporation, which was formed as a publicly registered non traded REIT ("MVP REIT II"). MVP REIT II's registration statement has been declared effective by the SEC on October 22, 2015. MVP REIT II had a \$550,000,000 offering, which closed March 31, 2017, with the proceeds raised from the offering being used primarily to acquire parking assets in the United States and Canada. MVP REIT II engaged MVP Advisors as its advisor.

We and VRM I agreed to fund certain costs and expenses of MVP REIT II through MVP CP II in proportion to our respective ownership interest. As consideration for the initial investment of \$0.2 million MVP CP II received 8,000 shares of common stock in MVP REIT II.

On December 15, 2017, MVP REIT Inc. merged with a wholly-owned subsidiary of MVP REIT II, Inc. Upon the consummation of the merger, MVP REIT II changed its name to The Parking REIT, Inc. ("TPR"). As part of the merger, the merger agreement provided for a change in fees to MVP Advisors, which is owned 60% by the Company.

At the effective time of the Merger, the Second Amended and Restated Advisory Agreement amended the Company's existing advisory agreement, dated October 5, 2015 (the "Original Agreement"), to provide for, among other amendments, (i) elimination of acquisition fees, disposition fees and subordinated performance fees and (ii) the payment of an asset management fee by MVP REIT II to the Advisor calculated and paid monthly in an amount equal to one-twelfth of 1.1% of the (a) cost of each asset then held by MVP REIT II, without deduction for depreciation, bad debts or other non-cash reserves, or (b) MVP REIT II's proportionate share thereof in the case of an investment made through a joint venture or other co-ownership arrangement excluding (only for clause (b)) debt financing on the investment. Pursuant to the Second Amended and Restated Advisory Agreement, the asset management fee may not exceed \$2,000,000 per annum (the "Asset Management Fee Cap") until the earlier of such time, if ever, that (i) MVP REIT II holds assets with an Appraised

Value (as defined Second Amended and Restated Advisory Agreement) equal to or in excess of \$500,000,000 or (ii) MVP REIT II reports AFFO (as defined in the Second Amended and Restated Advisory Agreement) equal to or greater than \$0.3125 per share of MVP REIT II's Common Stock (an amount intended to reflect a 5% or greater annualized return on \$25.00 per share of the MVP REIT II Common Stock) (the "Per Share Amount") for two consecutive quarters, on a fully diluted basis. All amounts of the asset management fee in excess of the Asset Management Fee Cap, plus interest thereon at a rate of 3.5% per annum, will be due and payable by MVP REIT II no later than ninety (90) days after the earlier of the date that (i) MVP REIT II holds assets with an Appraised Value equal to or in excess of \$500,000,000 or (ii) MVP REIT II reports AFFO per share of MVP REIT II Common Stock equal to or greater than the Per Share Amount for two consecutive quarters, on a fully diluted basis.

On September 21, 2018, TPR entered into a Third Amended and Restated Advisory Agreement with MVP Advisors. The Amended Advisory Agreement would have taken effect upon the listing of TPR's common stock on the Nasdaq Global Market had it not been terminated in connection with the Internalization as further disclosed in Note R below. The agreement addresses a variety of issues, including (i) extending the term of the agreement, (ii) clarifying ownership and access to employees and documents, and (iii) establishing a path for future internalization of management whereby TPR might acquire the Advisor's equipment, software, information and other assets (or all outstanding equity interests in the Advisor) and might hire some or all of the Advisor's employees.

As of September 30, 2019, we owned 604,960 shares of TPR's outstanding common stock. During the three and nine months ended September 30, 2019 and 2018 the company received no DRIP shares. The voting power of these shares can only be voted by the independent director of the Company.

On March 29, 2019, TPR and MVP Advisors entered into definitive agreements to internalize TPR's management function effective April 1, 2019. Please see Note R for additional information regarding the Internalization.

## **NOTE H — RELATED PARTY TRANSACTIONS**

### **Transactions with the Manager**

Our manager is entitled to receive from us an annual management fee of up to 0.25% of our aggregate capital contributions received by us and Fund II from the sale of shares or membership units, paid monthly. The amount of management fees earned by our manager for the three months ended September 30, 2019 and 2018 were approximately \$0.3 million during each period. The amount of management fees earned by our manager for the nine months ended September 30, 2019 and 2018 were approximately \$0.5 million during each period.

In July 2017, Michael Shustek, the Manager of MVP Realty Advisors, entered into a consulting arrangement whereby Mr. Shustek is paid \$60,000 per month by MVP Realty Advisors for services he is performing on behalf of MVP Realty Advisors. During the nine months ended September 30, 2019, Mr. Shustek has received approximately \$0.2 million. This arrangement is no longer effective due to TPR internalizing the Advisor.

In January and July 2018, we paid approximately \$1.1 and \$0.9 million, respectively, to Michael V. Shustek per agreement for the internalization of the Manager. In January and July 2019, we paid approximately \$0.9 and \$0.4 million, respectively, to Michael V. Shustek per agreement for the internalization of the Manager.

### **Transactions with Other Related Parties**

During the three months ended September 30, 2019, the trading price for VRM I's common stock ranged from \$1.45 to \$1.95 per share. For the three and nine months ended September 30, 2019 and 2018, we recognized no dividend income from VRM I.

As of September 30, 2019 and December 31, 2018, VRM I owned 134 of our common shares, representing approximately 9.0% of our total outstanding common stock for both periods.

As of September 30, 2019 and December 31, 2018, MVP Advisors owed VRM I approximately \$1.1 and \$3.9 million, respectively.

As of September 30, 2019 and December 31, 2018, we owned a 60% interest in MVP Advisors, the advisor of TPR.

As of September 30, 2019, we have made loans of approximately \$5.3 million to MVP Advisors, the manager of TPR and MVP CP II, the sponsor of The Parking REIT.

As consideration for the initial investment of \$0.2 million MVP CP II received 8,000 shares of common stock in TPR. As of September 30, 2019, we have made loans of approximately \$6.1 million to MVP CP II.

As of September 30, 2019 and December 31, 2018, MVP CP II owed VRM I approximately \$4.0 million.

From time to time, we may also jointly invest in real property or real estate loans with our affiliates, including VRM I, and TPR. These investments are described elsewhere in this report and incorporated herein by reference.

Prior to the Internalization, MVP Advisor had the option to request reimbursement of certain payroll expenses for salaries and benefits paid to non-executive officers from The Parking REIT. As of September 30, 2019, MVP Advisor was due approximately \$0.5 million in reimbursable expenses, which has been paid as of the date of this filing.

From time to time, we may also acquire or sell investments in real estate or in real estate loans from/to our manager or other related parties. Pursuant to the terms of our Management Agreement, such acquisitions and sales are made without any mark up or mark down. No gain or loss is recorded on these transactions, as it is not our intent to make a profit on the purchase or sale of such investments. The purpose is generally to diversify our portfolio by syndicating loans and real estate investments, thereby providing us with additional capital to make additional loans and investments in real estate.

### *Internalization*

On March 29, 2019, TPR and its external manager, MVP Advisor, entered into definitive agreements to internalize TPR's management function (the "Internalization") effective April 1, 2019 (the "Effective Date"). As part of the Internalization, among other things, TPR agreed with MVP Advisor to (i) terminate the Second Amended and Restated Advisory Agreement, dated as of May 26, 2017 and, for the avoidance of doubt, the Third Amended and Restated Advisory Agreement, dated as of September 21, 2018, which by its terms would have become effective only upon a listing of the TPR's common stock on a national securities exchange (collectively, the "Management Agreements"), each entered into among TPR, MVP Advisor and MVP REIT II Operating Partnership, LP (the "Operating Partnership"); (ii) extend employment to the executives and other employees of MVP Advisor; (iii) arrange for MVP Advisor to continue to provide certain services with respect to outstanding indebtedness of TPR and its subsidiaries; and (iv) lease the employees of MVP Advisor for a limited period of time prior to the time that such employees become employed by TPR.

On March 29, 2019, TPR entered into a Contribution Agreement (the "Contribution Agreement") with MVP Advisor, the Company (solely for purposes of Section 1.01(c) thereof), VRM I (solely for purposes of Section 1.01(c) thereof) and Michael V. Shustek (solely for purposes of Section 4.03 thereof). Pursuant to the Contribution Agreement, effective as of the Effective Date, MVP Advisor sold and contributed all of its assets to TPR, except for certain excluded assets as specified in the Contribution Agreement, and TPR accepted the transferred assets and agreed to assume and discharge when due all of the liabilities of MVP Advisor, except for certain retained liabilities as specified in the Contribution Agreement (the "Contribution"). In exchange for the Contribution, TPR agreed to issue to MVP Advisor 1,600,000 shares of its common stock (the "Common Stock") issuable in four equal installments (the "Consideration"). The first installment of 400,000 shares of Common Stock was issued on the Effective Date. The remaining installments will be issued on December 31, 2019, December 31, 2020 and December 31, 2021 (or if December 31<sup>st</sup> is not a business day, the day that is the last business day of such year). If requested by TPR in connection with any contemplated capital raise by TPR, MVP Advisor has agreed not to sell, pledge or otherwise transfer or dispose of any of the Consideration for a period not to exceed the lock-up period that otherwise would apply to other stockholders of TPR in connection with such capital raise. MVP Advisors also agreed to waive its rights to receive subordinated compensation (including accrued interest thereon) that has been accrued under the Management Agreements and any accrued but unpaid management fees at the Effective Date.

At any time on or prior to December 31, 2022, TPR may elect to repurchase up to 1,100,000 shares of Common Stock then held by MVP Advisor, the Company and/or VRM I (collectively, the "Call Parties") at a price equal to \$17.50 per share of Common Stock. Any repurchases shall be made in proportion to each Call Party's relative interest, which is determined by dividing the number of shares of Common Stock then held by such Call Party by the total number of shares of Common Stock then held by all of the Call Parties.

In connection with the Internalization, TPR entered into employment agreements with Michael V. Shustek, Chief Executive Officer, Daniel Huberty, President and Chief Operating Officer, and James Kevin Bland, Chief Financial Officer, copies of which were filed with the Form 8-K. In addition, TPR has agreed to make offers of employment, on an at-will basis, to all of the other employees of MVP Advisor. In connection with the Internalization, TPR also entered into an Employee Leasing Agreement, dated as of March 29, 2019 and effective as of the Effective Date, with MVP Advisor pursuant to which MVP Advisor will lease its employees to TPR to continue to provide services to TPR as performed by such employees immediately before the Effective Date. The term of the Employee Leasing Agreement commenced on the Effective Date and will continue until the earlier of (i) the first date on which all leased employees ceased to be employed by the Manager or (ii) June 30, 2019. For each payroll period during the term, TPR will make leased employee payments to MVP Advisor equal to the aggregate amount of all salaries, wages, benefits, and other compensation paid by MVP Advisor to the leased employees, together with all costs and expenses incurred by MVP Advisor with respect to the leased employees during the applicable payroll period.

In connection with the Internalization, TPR entered into a Services Agreement, dated as of March 29, 2019 (the "Services Agreement"), with MVP Advisor, the Company, VRM I and Michael V. Shustek (collectively, the "Manager Entities"). Pursuant to the Services Agreement, each of MVP Advisor Entities will perform any and all services requested by TPR in connection with any agreement pursuant to which TPR, the Operating Partnership or any of TPR's subsidiaries borrows funds or is a guarantor with regard to any borrowed funds (such documents, collectively, the "Loan Documents"), including (i) maintaining the ownership and management structure of each Manager Entity in a manner that complies with any requirement set forth in the Loan Documents, (ii) complying with any representations, warranties and covenants in the Loan Documents and (iii) cooperating and taking all actions to comply with any request made by a lender relating to any Loan Document (collectively, the "Services"). The Agreement became effective on March 29, 2019 and will remain in effect until the date on which TPR no longer needs any of the Services. In consideration for the Services, MVP Advisor will be entitled to receive, beginning on the date upon which TPR completes its first capital raise after the Effective Date, \$200,000 per year for four years (the "Consulting Fee"). The Consulting Fee will be payable monthly in arrears, either in cash or, at TPR's election, shares of Common Stock.

In connection with the Internalization, TPR entered into a Registration Rights Agreement, dated as of March 29, 2019 and effective as of the Effective Date (the "Registration Rights Agreement"), with MVP Advisor, the Company and VRM I (collectively, the "Holders"). Pursuant to the Registration Rights Agreement, each Holder, in respect of any shares of Common Stock that they may receive as part of the Consideration ("Registrable Shares"), may require TPR from time to time to register, under the Securities Act of 1933, as amended (the "Securities Act"), the resale of such shares of Common Stock on a registration statement filed with the SEC. The Registration Rights Agreement grants each Holder certain rights to demand a registration of some or all of their Registrable Shares (a "Demand Registration") or to request the inclusion of some or all of their Registrable Shares in a registration being effected by TPR for itself or on behalf of another person (a "Piggyback Registration"), in each case subject to certain customary restrictions, limitations, registration procedures and indemnity provisions. TPR is obligated to use reasonable best efforts to prepare and file a registration statement within specified time periods and to cause that registration statement to be declared effective by the SEC as soon as reasonably practicable thereafter.

In connection with the Internalization, TPR, the Operating Partnership and MVP Advisor entered into a Termination Agreement, dated as of March 29, 2019 (the "Termination Agreement"), terminating each of the Management Agreements effective as of the Effective Date. Pursuant to the Termination Agreement, except as provided in the Contribution Agreement, effective as of the Effective Date, each of the Management Agreements shall be void and shall have no effect, and no party thereto shall have any liability to the other party or parties thereto or their respective affiliates, or their respective directors, officers or employees; provided that the Termination Agreement does not relieve any party from liability for any fees or expenses accrued through the Effective Date or for any breach of the Management Agreements that arose prior to the Effective Date.

The foregoing description of the agreements entered into in connection with the Internalization and the transactions contemplated thereby, including the Internalization, does not purport to be complete and is qualified in its entirety by reference to each of the applicable agreements, which has been filed as exhibits to the Form 8-K.

The Internalization transaction closed on April 1, 2019, and the following table shows the Internalization Consideration to be paid in aggregate to the Manager. The first installment of 400,000 shares of Common Stock was issued to the Manager on April 1, 2019.

	<b>Number of shares</b>		<b>Internalization Contribution</b>	
Internalization consideration in common stock at \$17.50	\$	1,100,000 (1)	\$	19,250,000
Internalization consideration in common stock at \$25.10		500,000 (2)		12,550,000
Total internalization consideration	\$	<u>1,600,000</u>	\$	<u>31,800,000</u>
Internalization consideration issued April 1, 2019 at \$17.50		(400,000) (3)		(7,000,000)
Internalization receivable at September 30, 2019	\$	<u>1,200,000</u>	\$	<u>24,800,000</u>

1) TPR has the right to purchase 1,100,000 of these shares at \$17.50 per.

2) \$25.10 is TPR's stated NAV as of May 28, 2019.

3) On April 8, 2019, MVP Advisor distributed the 400,000 shares of Common Stock received as the first installment of the Consideration to the Company and VRM I in proportion to their ownership of MVP Advisor. The Company and VRM I own 60% and 40% of MVP Advisor' interests, respectively. As a result of the distribution, as of April 8, 2019, the Company beneficially owned 604,959 shares of Common Stock.

The following table reflects the impact of the first installment of the Internalization Consideration issued on April 1, 2019:

	<b>Shares outstanding</b> <b>March 31, 2019</b>	<b>Internalization</b> <b>Consideration in</b> <b>shares</b>	<b>Post Internalization</b> <b>shares outstanding</b> <b>April 1, 2019</b>
Common Stock	6,540,364	400,000	6,940,364

#### **NOTE I — INVESTMENT IN REAL ESTATE**

On May 31, 2017, the Company invested approximately \$2.7 million for a 49% interest in MVP St. Louis Cardinal Lot, DST, a Delaware statutory trust (“MVP St. Louis”). It is expected that the investment will be held short-term and that the investment will be sold to investors desiring to invest in MVP St. Louis. MVP REIT II, Inc., a Maryland corporation, which is managed by MVP Realty Advisors purchased a 51% interest in MVP St. Louis. MVP St. Louis is the owner of a 2.56-acre, 376-vehicle, commercial parking lot located at 500 South Broadway, St. Louis, Missouri 63103, known as the Cardinal Lot, or the Property, which is adjacent to Busch Stadium, the home of the St. Louis Cardinals major league baseball team. The Property was purchased by MVP St. Louis from an unaffiliated seller for a purchase price of approximately \$11.4 million, plus payment of closing costs, financing costs, and related transactional costs. As of September 30, 2019, the Company had sold all interests to third-party individuals.

Concurrently with the acquisition of the Property, MVP St. Louis obtained a first mortgage loan from Cantor Commercial Real Estate Lending, L.P, or St. Louis Lender, in the principal amount of \$6.0 million, with a 10 year, interest-only term at a fixed interest rate of 5.25%, resulting in an annual debt service payment of \$315,000, (“St. Louis Loan”). The Company and Michael V. Shustek each provided non-recourse carveout guaranties of the loan and environmental indemnities of St. Louis Lender.

Also concurrently with the acquisition of the Property, MVP St. Louis, as landlord, entered into a 10-year master lease, or St. Louis Master Lease, with MVP St. Louis Cardinal Lot Master Tenant, LLC, owned indirectly by MVP Realty Advisors, as tenant, or St. Louis Master Tenant. St. Louis Master Tenant controls the operation of the Property as landlord under the sublease. St. Louis Master Tenant, in turn, concurrently entered into a 10-year sublease with Premier Parking of Missouri, LLC. The St. Louis Master Lease provides for annual rent payable monthly to MVP St. Louis, consisting of base rent in an amount to pay debt service on the St. Louis Loan, stated rent of \$414,000 and potential bonus rent equal to a share of the revenues payable under the sublease in excess of a threshold. Under the St. Louis Master Lease, MVP St. Louis is responsible for capital expenditures and the St. Louis Master Tenant is responsible for taxes, insurance and operating expenses.

MVP Realty Advisors indirectly owns the signatory trustee of MVP St. Louis, MVP St. Louis Cardinal Lot Signatory Trustee, LLC, or St. Louis Signatory Trustee, which manages the operations of MVP St. Louis.

In connection with the private placements of the remaining beneficial interests in MVP St. Louis, an affiliate of MVP Realty Advisors, MVP American Securities, LLC, in its capacity as dealer-manager, did receive (i) a dealer manager fee equal to 4.0% of the offering proceeds, of which up to 1.5% were re-allowed to the selling group as a non-accountable due diligence allowance; and (ii) commissions of up to 6.0% of the offering proceeds as compensation, which were re-allowed to the selling group. The sponsor of MVP St. Louis, an affiliate of MVP Realty Advisors, were entitled to a sponsor fee of approximately \$255,000, or 2.0% of the Total Investment Cost (3.78% of the maximum offering amount) for the Property, payable out of the offering proceeds.

#### **NOTE J — NOTES PAYABLE**

In April 2018, we financed a 12-month insurance policy for Directors and Officers liability, with an annual interest rate of 3.7%. The agreement required a down payment of \$34,000 and nine monthly payments of approximately \$10,000 beginning on May 27, 2018. As of September 30, 2019, the note was paid in full.

In April 2019, we financed a 12-month insurance policy for Directors and Officers liability, with an annual interest rate of 3.95%. The agreement required a down payment of \$19,000 and nine monthly payments of approximately \$11,000 beginning on May 27, 2019. As of September 30, 2019, the outstanding balance of the note was approximately \$56,000.

In May 2017, during the acquisition of the Property, MVP St. Louis obtained a first mortgage loan from Cantor Commercial Real Estate Lending, L.P., or St. Louis Lender, in the principal amount of \$6.0 million, with a 10 year, interest-only term at a fixed interest rate of 5.25%, resulting in an annual debt service payment of \$315,000, or St. Louis Loan. Each of the Company and Michael V. Shustek provided non-recourse carveout guaranties of the loan and environmental indemnities of St. Louis Lender. As of September 30, 2019, the outstanding balance of the note was approximately \$6.0 million.

## NOTE K— FAIR VALUE

As of September 30, 2019 and December 31, 2018, financial assets and liabilities utilizing Level 1 inputs included investment in marketable securities - related party and third party. We had no assets or liabilities utilizing Level 2 inputs, and assets and liabilities utilizing Level 3 inputs included investments in real estate loans and investments in equity method investees, both held for sale and not held for sale.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, our degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability will be classified in its entirety based on the lowest level of input that is significant to the measurement of fair value.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use prices and inputs that are current as of the measurement date, including during periods of market dislocation, such as the recent illiquidity in the auction rate securities market. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition may cause our financial instruments to be reclassified from Level 1 to Level 2 or Level 3 and/or vice versa.

Our valuation techniques will be consistent with at least one of the three possible approaches: the market approach, income approach and/or cost approach. Our Level 1 inputs are based on the market approach and consist primarily of quoted prices for identical items on active securities exchanges. Our Level 2 inputs are primarily based on the market approach of quoted prices in active markets or current transactions in inactive markets for the same or similar collateral that do not require significant adjustment based on unobservable inputs. Our Level 3 inputs are primarily based on the income and cost approaches, specifically, discounted cash flow analyses, which utilize significant inputs based on our estimates and assumptions.

The following table presents the valuation of our financial assets and liabilities as of September 30, 2019 and December 31, 2018, measured at fair value on a recurring basis by input levels:

	Fair Value Measurements at Reporting Date Using				Carrying Value on Balance Sheet at 9/30/19
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 9/30/19	
Assets					
Investment in marketable securities - related party	\$ 198,000	\$ --	\$ --	198,000	198,000
Investment in real estate loans	\$ --	\$ --	6,000	6,000	6,000

	Fair Value Measurements at Reporting Date Using				Carrying Value on Balance Sheet at 12/31/18
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at 12/31/18	
Assets					
Investment in marketable securities - related party	\$ 299,000	\$ --	\$ --	299,000	299,000
Investment in real estate loans	\$ --	\$ --	6,000	6,000	6,000

## NOTE L— EMPLOYEE BENEFIT PLAN



MVP Advisors maintains a 401(k) Plan (the “Plan”), which is a defined contribution plan covering all eligible employees. Under the provisions of the Plan, participants may direct the Company to defer a portion of their compensation to the Plan, subject to Internal Revenue Code limitations. The Company provides for an employer matching contribution equal to 100% of the first 3% of eligible compensation and 50% of the next 2% of eligible compensation contributed by each employee, which is funded in cash. All contributions vest immediately.

Total expense recorded for the matching 401(k) contribution in the three months ended September 30, 2019 and 2018 was approximately \$0 and \$6,000, respectively. Total expense recorded for the matching 401(k) contribution in the nine months ended September 30, 2019 and 2018 was approximately \$18,000 and \$19,000, respectively.

#### NOTE M — SEGMENT INFORMATION

Company management reviews financial and operating performance in the following three separate operating segments: (1) investment in real estate loans, (2) investments in real property and (3) investment in a real estate management company. Selling, general and administrative expenses, primarily consisting of compensation of employees, seminar expense, professional fees and overhead costs not directly related to a specific operating segment, are reflected in the table below as corporate activities.

Assets related to investments in real property are currently listed as held for sale. Revenues, net of expenses for this segment are reported in discontinued operations.

The following are certain financial data for the Company’s operating segments for the periods:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenues</b>				
Investment in real estate loans	\$ --	\$ 9,000	\$ 21,000	\$ 47,000
Investment in real property	175,000	175,000	559,000	525,000
Investment in real estate management	--	1,096,000	854,000	1,889,000
Total revenues	175,000	1,280,000	1,434,000	2,461,000
<b>Operating expenses</b>				
Investment in real estate loans	\$ 274,000	\$ 274,000	\$ 823,000	\$ 809,000
Investment in real property	1,000	--	2,000	51,000
Investment in real estate management	(2,000)	(20,000)	57,000	321,000
Corporate activities	121,000	510,000	1,503,000	1,975,000
Total expenses	394,000	764,000	2,385,000	3,156,000

<b>Total Assets</b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Investment in real estate loans	\$ 468,000	\$ 1,248,000
Investment in real property	--	11,531,000
Corporate assets	55,189,000	17,128,000
Total assets	\$ 55,657,000	\$ 29,907,000

#### NOTE N — RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers*, an updated standard on revenue recognition. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The standard requires expanded disclosure surrounding revenue recognition. Early application is not permitted. The standard was initially to be effective for fiscal periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption. In July 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers, Deferral of Effective Date*, which delays the effective date of ASU 2014-09 by one year to fiscal periods beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers, Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations and the effective date is the same as requirements in ASU 2015-14. The Company adopted ASU 2014-09 starting first quarter 2018 and there was no material impact on the Company’s financial statements.



In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value with changes in fair value recognized in net income. The ASU also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet has been eliminated by this ASU. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted ASU 2016-01 starting first quarter 2018 and there was no material impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases – (Topic 842)*. This update will require lessees to recognize all leases with terms greater than 12 months on their balance sheet as lease liabilities with a corresponding right-of-use asset. This update maintains the dual model for lease accounting, requiring leases to be classified as either operating or finance, with lease classification determined in a manner similar to existing lease guidance. The basic principle is that leases of all types convey the right to direct the use and obtain substantially all the economic benefits of an identified asset, meaning they create an asset and liability for lessees. Lessees will classify leases as either finance leases (comparable to current capital leases) or operating leases (comparable to current operating leases). Costs for a finance lease will be split between amortization and interest expense, with a single lease expense reported for operating leases. This update also will require both qualitative and quantitative disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; however, early adoption is permitted. We have determined that the provisions of ASU 2016-02 may result in an increase in assets to recognize the present value of the lease obligations with a corresponding increase in liabilities for leases. The Company adopted ASU 2016-02 starting first quarter 2019 and there was no material impact on the Company's financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU replace the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact that ASU No. 2016-13 will have on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. The new guidance requires that the reconciliation of the beginning-of-period and end-of-period amounts shown in the statements of cash flows include restricted cash and restricted cash equivalents. If restricted cash is presented separately from cash and cash equivalents on the balance sheet, companies will be required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. Companies will also need to disclose information about the nature of the restrictions. This update will become effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2016-18 starting first quarter 2018 and there was no material impact on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805) Clarifying the Definition of a Business*. This update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. This update will become effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company adopted ASU 2016-18 starting first quarter 2018 and there was no material impact on the Company's financial statements.

In May 2017, the FASB issued Accounting Standards Update ASU 2017-09, *Compensation-Stock Compensation: Scope of Stock Compensation Modification Accounting*. The ASU was issued to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The update is effective for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted, including adoption in any interim period. The Company adopted ASU 2016-18 starting first quarter 2018 and there was no material impact on the Company's financial statements.

## **NOTE O — LEGAL MATTERS INVOLVING THE COMPANY**

In 2018, VOT Hawaii Management, Inc. (“VOT Hawaii”) threatened to bring claims in arbitration against Vestin Mortgage, LLC as the successor in interest to Vestin Mortgage, Inc., and several other Vestin entities, specifically Vestin Capital, Inc., Vestin Fund I, LLC, Vestin Fund II, LLC, Vestin Group, Inc., Vestin Mortgage, Inc., Vestin Realty Mortgage I, Inc., Vestin Realty Mortgage II, Inc., and

Vestin Originations, Inc. The action was settled for approximately \$0.3 million and the parties released each other from any further claims.

In addition to the matters described above, we are involved in a number of other legal proceedings concerning matters arising in the ordinary course of our business activities. We believe we have meritorious defenses to each of these actions and intend to defend them vigorously. Other than the matters described above, we believe that we are not a party to any pending legal or arbitration proceedings that would have a material adverse effect on our financial condition or results of operations or cash flows, although it is possible that the outcome of any such proceedings could have a material impact on our operations in any particular period.

### ***SEC Investigation***

On June 5, 2019, our chief executive officer, Michael V. Shustek, received a subpoena from the San Francisco Office of the Division of Enforcement of the Securities and Exchange Commission (the “SEC”), requesting the production of documents related to the Company and certain other entities and properties affiliated with Mr. Shustek, the Company in connection with a formal investigation being conducted by the SEC involving the Company. On June 17, 2019, the Company received a substantially similar subpoena from the SEC, as did certain other entities affiliated with Mr. Shustek. On July 1, 2019, Mr. Shustek received a second subpoena from the SEC requesting related documents on the same topics and entities. In connection with each subpoena, the SEC stated that: “this investigation is a non-public, fact-finding inquiry. We are trying to determine whether there have been any violations of the federal securities laws. The investigation and the subpoena do not mean that we have concluded that the recipient of the subpoena or anyone else has violated the law. Also, the investigation does not mean that we have a negative opinion of any person, entity or security.”

The Company and Mr. Shustek intend to cooperate with the SEC in this matter. However, the Company cannot predict the outcome or the duration of the SEC investigation or any other legal proceedings or any enforcement actions or other remedies, if any, that may be imposed on Mr. Shustek, the Company or any other entity arising out of the SEC investigation.

### **NOTE P — INVESTMENT IN VESTIN MORTGAGE**

Vestin Mortgage, LLC, a Nevada limited liability company, is our manager (the “manager” or “Vestin Mortgage”). On January 6, 2018, the Company and Vestin Realty Mortgage I, Inc., (“VRM I”) entered into a Membership Interest Purchase Agreement with Michael Shustek. Pursuant to the Membership Interest Purchase Agreement, Mr. Shustek agreed to sell his interest in Vestin Mortgage, LLC (“VM”) to the Company and VRM I and to also provide to VM all extension fees, late fees and 50% of all future origination fees upon the funding of a loan by the Company and VRM I. The sales price for Mr. Shustek’s interest is approximately \$13.0 million of which approximately \$1.5 million was paid on January 10, 2018, approximately \$1.5 million is due and payable on June 10, 2018, the amount of approximately \$2.9 million is due on January 10, 2019 and then again on January 10, 2020 with a final payment of approximately \$4.4 million due and payable on January 10, 2021. The Membership Interest Purchase Agreement was amended on June 1, 2018 (the “Amendment”) to reduce the sales price by \$4.5 million to approximately \$8.7 million and to change the payment schedule as follows: \$1,465,741 was paid on January 10, 2018, \$1,200,000 was paid on July 17, 2018, \$1,200,000 was paid on January 17, 2019 and the sum of \$1,200,000 will be paid on each of June 10, 2019, January 10, 2020, June 10, 2020 with a final payment of \$1,225,931 due on January 10, 2021. Payment due on June 10, 2019 was paid in July 2019 in the amount of \$500,000. The remaining \$700,000 due will be paid at a later date. The Company is responsible for the payment of 71.56% of the purchase price and VRM I is responsible for 28.44% of the purchase price. In addition, Vestin Mortgage will continue to receive its management fee until \$5,862,965 of the purchase price has been collectively paid by the Company and VRM I. The Amendment changed the termination date and provides that the Membership Interest Purchase Agreement may be terminated by the Company and VRM I in the event a plan of repayment for the monies advanced by the Company and VRM I to MVP Advisor is not in effect by October 10, 2020 from October 1, 2018. The amount advanced is approximately \$23.5 million. In the event the membership Interest Purchase Agreement is terminated, any payments already made to Mr. Shustek will be deducted from the asset management fee payable in 2021 and 2022.

### **NOTE Q — SUBSEQUENT EVENTS**

There have been no material subsequent events to evaluate through the date of this filing with the SEC.

Information contained in a Financial Report is considered current until the due date for the subsequent Financial Report. To remain in the OTC Pink Current Information tier, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of its fiscal quarter-end date.

**6) Describe the Issuer's Business, Products and Services**

Describe the issuer's business so a potential investor can clearly understand the company. In answering this item, please include the following:

A. a description of the issuer's business operations;

The Company invests in loans secured by commercial real estate and also invests in, acquires, manages or sells commercial real property and also invests in entities involved in the ownership or management of commercial real property.

B. Date and State (or Jurisdiction) of Incorporation:

April 1, 2006  
Maryland

C. the issuer's primary and secondary SIC Codes;

Primary 6798

D. the issuer's fiscal year end date;

December 31,

E. principal products or services, and their markets;

See A. above. Throughout the United States, but primarily the western region.

**7) Describe the Issuer's Facilities**

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

N/A

**8) Officers, Directors, and Control Persons**

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant shareholders.

A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

Michael Shustek – CEO, President and Director  
Daryl Idler Jr, Independent Director  
Donovan Jacobs, Independent Director

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

No

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

No

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

No

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

No

C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

Michael Shustek	33.6%	500
Vestin Realty Mortgage I, Inc.	9.0%	134

## 9) **Third Party Providers**

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

### Legal Counsel

Name: Jon S. Cohen

Firm: Snell & Wilmer L.L.P.

Address 1: One Arizona Center

Address 2: Phoenix, Arizona 85004-2202

Phone: 602-382-6247

Email: jcohen@swlaw.com

### Accountant or Auditor

Name: N/A

Firm:

Address 1:

Address 2:

Phone:

Email:

### Investor Relations Consultant

Name: N/A

Firm:

Address 1:

Address 2:

Phone:  
Email:

Other Advisor: Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement.

Name: Vestin Mortgage, LLC

Firm:

Address 1: 8945 W. Post Road Suite 110

Address 2: Las Vegas, NV 89148

Phone: 702-227-0965

Email: mike@vestinmortgage.com

#### **10) Issuer Certification**

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

The certifications shall follow the format below:

I, Michael V. Shustek certify that:

1. I have reviewed this Quarterly financial statement of Vestin Realty Mortgage II, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

November 14, 2019

/s/ Michael V. Shustek

CEO