DVL, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2016

DVL, Inc. and Subsidiaries

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
DVL, Inc. and Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of DVL, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2016, the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DVL, Inc. and its subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Philadelphia, Pennsylvania
April 28, 2017

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2016
(in thousands)

ASSETS	
Residual interests in securitized portfolios	$ 24,422
Mortgage loans receivable from affiliated partnerships	6,665
Allowance for loan losses	(1,253)
Net mortgage loans receivable	5,412
Cash	2,410
Investments	
Real estate held for sale	45,564
Real estate (net of accumulated depreciation and amortization of $1,497)	3,232
Affiliated limited partnerships (net of allowance for losses of $322)	595
Other assets	1,918
Total assets	$ 83,553

See notes to consolidated financial statements.

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2016
(in thousands except share data)
(continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Secured debt - real estate held for sale	$	32,133
Secured debt - other		22,269
Underlying mortgages payable		801
Interest rate swaps		-
Accrued construction costs - associated with real estate held for sale		6,250
Accrued liabilities, accounts payable and security deposits		2,157
Total liabilities		63,610
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.01 par value, authorized - 12,000 shares; issued and outstanding - 5,403 shares		-
Additional paid-in-capital		96,632
Deficit		(76,689)
Total shareholders' equity		19,943
Total liabilities and shareholders' equity	$	83,553

See notes to consolidated financial statements.

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2016
(in thousands)

Income from affiliates:	
Interest on mortgage loans	$ 963
Gain on sale of property	248
Partnership management fees	188
Management fees	314
Distributions and gains from partnership interests	163
Income from others:	
Interest income - residual interests	3,864
Rental income	1,633
Other income and interest	3
	7,376
Operating expenses:	
Impairment on real estate	20,903
General and administrative	2,618
Rental expenses (including depreciation and amortization of $411)	894
Asset servicing fee - NPO Management LLC	912
Legal and professional fees	272
Environmental expense recovery	(459)
Recovery of loan losses	(2)
Interest expense:	
Underlying mortgages	70
Notes payable - residual interests	363
Affiliates	397
Others	770
	26,738
Loss from operations before income tax	(19,362)
Income tax	-
Net loss	$ (19,362)

See notes to consolidated financial statements.

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Year Ended December 31, 2016
(in thousands except share data)

	Common Stock		Additional Paid-In		
	Shares	Amount	Capital	Deficit	Total
Balance - January 1, 2016	5,392	$ -	$ 96,693	$ (57,327)	$ 39,366
Purchase and retirement of shares	(53)	-	(311)	-	(311)
Issuance of common shares	64	-	250	-	250
Net loss	-	-	-	(19,362)	(19,362)
Balance - December 31, 2016	5,403	$ -	$ 96,632	$ (76,689)	$ 19,943

See notes to consolidated financial statements.

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(in thousands)

Cash flows from operating activities:		
Net loss	$	(19,362)
Adjustments to reconcile loss to net cash provided by operating activities		
Impairment on real estate		20,903
Non-cash stock compensation		250
Interest accretion on residual interests		(892)
Net increase in accrued interest on debt		24
Depreciation and amortization		417
Recovery of loan losses		(2)
Net increase in other assets		(1,857)
Net increase in accrued construction costs		988
Net decrease in accounts payable, security deposits and accrued liabilities		(982)
Collections on loans receivable		837
Principal collections on residual interests		2,397
Net cash provided by operating activities		2,721

See notes to consolidated financial statements.

DVL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(in thousands)
(continued)

Cash flows from investing activities:		
Real estate under development	$	(29,694)
Purchase of units in affiliated limited partnerships		(180)
Leasehold improvements and other		(230)
Net cash used in investing activities		(30,104)
Cash flows from financing activities:		
Principal payments on debt		(1,515)
Proceeds from new borrowings		29,426
Payments on underlying mortgages payable		(256)
Purchase and retirement of common stock		(311)
Net cash provided by financing activities		27,344
Net decrease in cash		(39)
Cash, beginning of period		2,449
Cash, end of period	$	2,410
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$	622

See notes to consolidated financial statements.

DVL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Dollars in thousands unless otherwise noted
(except share and per share amounts)

1. Summary of Significant Accounting Policies

a. THE COMPANY: DVL, Inc. is a Delaware corporation. DVL is a commercial finance company which is primarily, through subsidiaries, engaged in (a) the ownership of residual interests in securitized portfolios, (b) the ownership and development of real estate, (c) the ownership and servicing of a portfolio of secured commercial mortgage loans made to limited partnerships in which DVL serves as general partner, which we refer to as Affiliated Limited Partnerships and (d) the performance of real estate asset management and administrative services. All references to "DVL," "we," "us," "our," or the "Company" refer to DVL, Inc. and its consolidated subsidiaries.

DVL's investments consist primarily of residual interests in securitized portfolios, commercial mortgage loans due from Affiliated Limited Partnerships, limited partnership investments in Affiliated Limited Partnerships and other real estate interests. DVL has six 100%-owned active subsidiaries, all of which are consolidated for accounting purposes. All material inter-company transactions and accounts are eliminated in consolidation. DVL does not consolidate the various partnerships (the "Affiliated Limited Partnerships") in which it holds the general partner and limited partner interests, except where DVL has control, nor does DVL account for such interests on the equity method due to the following: (i) DVL's interest in the partnerships as the general partner is a 1% interest, (the proceeds of such 1% interest is payable to the limited partnership settlement fund pursuant to the 1993 settlement of the class action between the limited partners and DVL) (the "Limited Partnership Settlement"); (ii) under the terms of such settlement, the limited partners have the right to remove DVL as the general partner upon the vote of 70% or more of the limited partners; (iii) all major decisions must be approved by a limited partnership Oversight Committee in which DVL is not a member; (iv) there are no major operating policies or decisions made by the Affiliated Limited Partnerships, due to the triple net lease arrangements of the Affiliated Limited Partnership properties; and (v) there are no financing policies determined by the partnerships as all mortgages were in place prior to DVL's obtaining its interest and all potential refinancings are reviewed by the Oversight Committee. Accordingly, DVL accounts for its investments in the Affiliated Limited Partnerships on a cost basis with the cost basis adjusted for impairments, if any. Accounting for such investments on the equity method would not result in any material changes to the Company's financial position or results of operations.

b. RESIDUAL INTERESTS: Residual interests represent the estimated discounted cash flow of the differential of the total interest to be earned on the securitized receivables and the sum of the interest to be paid to the note holders and the contractual servicing fee. Since these residual interests are not subject to prepayment risk, they are accounted for as investments held-to-maturity and are carried at amortized cost using the effective interest method. Permanent impairments are recorded immediately through results of operations. Favorable changes in future cash flows are recognized through results of operations as interest over the remaining life of the retained interest.

c. INCOME RECOGNITION: Interest income is recognized on the effective interest method for the residual interest and all performing loans. The Company stops accruing interest once a loan becomes non-performing. A loan is considered non-performing when scheduled interest or principal payments are not received on a timely basis and, in the opinion of management, the collection of such payments in the future appears doubtful. Rental income is recognized on a straight-line basis in income as rent. DVL records potential rents in the period in which all contingencies are resolved. Management and transaction fees are recognized as earned. Distributions from investments are recorded as income when the amount to be received can be estimated and collection is probable.

d. ALLOWANCE FOR LOSSES: The adequacy of the allowance for losses is determined through a periodic review of the portfolios. Specific loss reserves are provided as required based on management's evaluation of the underlying collateral on each loan or investment.

DVL's allowance for loan losses generally is based upon the value of the collateral underlying each loan and its carrying value. Management's evaluation considers the magnitude of DVL's non-performing loan portfolio and internally-generated appraisals of certain properties.

For the Company's mortgage loan portfolio, the partnership properties are valued based upon the cash flow generated by base rents and anticipated percentage rents or base rent escalations to be received by the partnership plus an estimated residual value at the end of the primary term of the leases. The value of partnership properties which are not subject to percentage rents was based upon estimates of current market value rents and sale prices of similar properties. When any changes in tenants, lease terms, or timely payment of rent have occurred, management revalues the property as appropriate.

Allowances related to the Company's investments in Affiliated Limited Partnerships are adjusted based on Management's estimate of their realizable value.

e. REAL ESTATE: Land, buildings and equipment are stated at cost. Depreciation is provided by charges to operations on a straight-line basis over the estimated useful lives (5 to 40 years).

f. REAL ESTATE UNDER DEVELOPMENT: The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate project. Construction and development costs are capitalized while substantial activities are ongoing to prepare an asset for its intended use.

g. REAL ESTATE HELD FOR SALE: The Company has real estate held for sale that it expects to sell within one year. The real estate, which was previously under development, is held at fair market value at December 31, 2016.

h. PREPAID FINANCING: Prepaid financing costs are deferred and amortized over the term of the respective debt using the effective interest method. Prepaid financing costs on interest-only loans are amortized using the straight-line method over the term of the financing and are netted against the related liability.

i. IMPAIRMENT OF REAL ESTATE INVESTMENTS: Long-lived assets are evaluated for impairment whenever events or changes in circumstances have indicated that an asset may not be recoverable and are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest charges) is less than the carrying value of the assets, the assets will be written down to the estimated fair value and such loss is recognized in income from operations in the period in which the determination is made. Please see Note 2 for a discussion of the 2016 impairment.

A write-down is inherently subjective and is based upon management's best estimate of current conditions and assumptions about expected future conditions. The Company may provide for write-downs in the future and such write-downs could be material.

j. FEDERAL INCOME TAXES: All subsidiaries are included in DVL's consolidated federal income tax return.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Guidance on accounting for uncertainties in income taxes addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. The guidance for accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities before 2013.

k. INTEREST RATE SWAPS: The Company uses derivatives to manage risks related to interest rate movements on its floating rate loans. All derivatives are recognized as either assets or liabilities on the consolidated balance sheet and those instruments are measured at fair value. Changes in fair value of derivatives are reported as a component of interest expense in the consolidated statement of operations.

The following table summarizes the notional values of the Company's derivative financial instruments. The notional value provides an indication of the extent of the Company's involvement in these instruments on December 31, 2016, but does not represent exposure to credit, interest rate or market risks.

Hedge Type	Notional Value	Rate	Termination Date	Fair Value
Interest rate swap agreement	$3,000	3.75%	December 31, 2018	$-

l. FAIR VALUE OF FINANCIAL INSTRUMENTS: As disclosed in Note 5, DVL's loan portfolio is valued based on the value of the underlying collateral. As all loans are either receivables from Affiliated Limited Partnerships or are collateralized by interests in Affiliated Limited Partnerships, it is not practical to estimate fair value of the loans. Due to the nature of the relationship between the Affiliated Limited Partners and DVL's general partner interest in the Affiliated Limited Partnerships and the authority of the Oversight Committee, the amount at which the loans and related mortgages could be exchanged with third parties is not reasonably determinable, as any such estimate would have to consider the intention of the Affiliated Limited Partners, the Oversight Committee, the amounts owed, if any, to DVL for its interests in the Affiliated Limited Partnerships and any transaction fees to which DVL might be entitled. See Note 4 for discussions on residual interests**.**

Financial instruments held by the Company include cash, interest rate swaps, receivables, accounts payable and secured debt. The fair value of cash and cash equivalents, receivables and accounts payable approximates their current carrying amounts due to their short-term nature. Secured debt approximates fair value due to the short-term nature and floating rate interest rates.

The fair value of the Company's interest rate swaps is the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates and creditworthiness of the Company for liabilities. Interest rate swaps are valued using level 2 inputs under the fair value hierarchy. Level 2 inputs are observable inputs for identical or similar assets or liabilities.

m. USE OF ESTIMATES: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for credit losses is subject to significant change in the near term.

n. CASH AND CASH EQUIVALENTS: The Company considers all highly-liquid investments with original purchase maturity dates of three months or less to be cash equivalents.

o. CONCENTRATION OF CREDIT RISK: The Company has concentration of credit risk in cash, residual interests, mortgage loans receivable and rental income. The risk associated with the residual interests is mitigated by the large number of insurance companies from which the payments are due. Credit risk associated with the mortgage loans receivable is discussed in Note 5. Credit risk associated with rental income is disclosed in Note 10.

The Company maintains cash with several banking institutions, which amounts at times exceed federally insured limits.

p. RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in US GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In April 2015, the FASB issued ASU 2015-03, *Interest— Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU was be effective for the Company for fiscal years beginning after December 15, 2015. The adoption of this standard did not have a material impact on the consolidated financial statements.

2. Impairment of Real Estate Asset

During demolition process at the Kearny Site (defined below) in 2016, the Company discovered significant environmental contamination of the Kearny Site which required remediation and caused delays and other costs to be incurred. In addition, capitalization rates for retail properties increased during 2016 thereby lowering the potential value of the Kearny Site. The Company therefore concluded it had a triggering event requiring an assessment of impairment of its long-lived assets. As a result, the Company reviewed its long-lived assets for impairment and recorded an impairment of $20,903. This amount was reported on a separate line of the Consolidated Statement of Operations, “Impairment on real estate.” The impairment was measured under the income and market approaches utilizing forecasted discounted cash flows to determine the fair value of the impaired assets. The inputs utilized in the discounted cash flow analysis are classified as Level 3 inputs within the fair value hierarchy as defined in ASC 820, “Fair Value Measurements and Disclosures.”

The Company has notified the prior owner of the Kearny Site and its insurance company of the Company’s costs for the removal of the environmental contamination. A mediation is scheduled for May 2017. If the matter is not resolved in the mediation, then the Company will vigorously pursue its claims. Because the claim remains unresolved, the Company has not included any payment from the prior owner in determining its impairment.

3. Investments

Real Estate

DVL's real estate properties consist of (i) Approximately ten acres development site located in Kearny, New Jersey, which has been substantially completed as of December 31, 2016, ("the Kearny Site"), and (ii) an 89,000 square foot building on approximately eight acres of land leased to K-Mart in Kearny, New Jersey which is adjacent to the Kearny Site.

The Kearny Site

The Kearny Site represents a portion of the Passaic River Development area designated for redevelopment by the town of Kearny, New Jersey. In connection with the redevelopment of the Kearny Site, on December 11, 2007, DVL entered into a Redeveloper Agreement with the Town of Kearny. Pursuant to the Redeveloper Agreement, as amended, the Town of Kearny designated DVL as the redeveloper of the Kearny Property. As redeveloper, DVL is obligated to redevelop the Kearny Property, at the Company's expense (including funding the cost of certain off-site improvements), in accordance with the plans and specifications described therein, subject to review and approval of the Planning Board of the Town of Kearny. The term of the Redeveloper Agreement along with DVL's rights thereunder expire on September 9, 2017. The Company has substantially completed constructing an approximate 139,000 square foot shopping center on the Kearny Site. Leases have been executed with BJ's Wholesale Club and certain other tenants totaling approximately 132,000 square feet. There is no assurance that the Company will be able to obtain tenants for the remaining square footage. In addition, the State of New Jersey has approved an urban renewal grant of up to $9.6 million paid over a period of years, based on the sales tax and other taxes collected from tenants. As of December 31, 2016 no amounts have been received under the urban renewal grant.

The payment obligations and the completion of all work to be performed by the Redeveloper under the Redeveloper Agreement are guaranteed by DVL.

The development was partially funded through loans totaling $40.5 million (see Note 7 – Secured Debt, Loans Payable Underlying Wrap-around Mortgages).

During the demolition process at the Kearny Site a significant amount of environmental contamination was discovered both in the buildings and in the soil. The Company has filed a claim against the prior owners of the property and will be going to mediation in 2017. There is no assurance that a resolution will be reached.

Cost basis, net of accumulated depreciation, of the Kearny Site at December 31, 2016 was $66,467 and as noted above, the Company recorded an impairment of $20,903 resulting in a net carrying value of $45,564. At December 31, 2016, interest, insurance and real estate taxes were capitalized to the project through the date of substantial completion. Capitalized interest during the year ended December 31, 2016 was $620.

The Bogota Property

DVL is the owner of land underlying certain industrial property located in Bogota, New Jersey (the "Bogota Property"). The land and buildings are master leased to two unaffiliated limited partnerships ("Associates"). Prior to 1984, the Company subleased the Bogota Property back from Associates pursuant to a master sublease and entered into space leases with unaffiliated tenants. In October 2004, the Company agreed to cancel the leasehold of Associates and to permit Associates to acquire the land in the future for a nominal consideration in exchange for cancellation of the master sublease and potential reimbursement of certain costs expended in connection with the environmental remediation described below.

The Company has previously discovered environmental contamination resulting from actions taken by prior owners of the Bogota Property. To date, the Company has expended in excess of $1,462 to remediate contamination and has collected approximately $400 from the settlement of lawsuits against such prior owners. The Company continues to process the remediation of the contamination thereof. At the present time, based on information provided by the environmental consultants, the Company has accrued $282 as the cost of cleanup to the facility.

In 2004, Associates agreed to sell the Bogota Property to an unrelated third party who is currently leasing the Bogota Property. Associates further agreed to reimburse the Company for its out-of-pocket costs incurred in connection with the environmental remediation plus $50 upon a sale of the Bogota Property. To date, as a result of the environmental contamination, the sale has not occurred though the sale agreement has been extended. A sale will not occur until the Company has completed its environmental remediation or the buyer has agreed to assume the cleanup obligation in exchange for a reduction in the sales price.

Summary of Real Estate (in thousands):

Land and land improvements	$	303
Buildings		4,015
Improvements		412
Subtotal		4,730
Less: Accumulated depreciation		1,498
Total	$	3,232

Affiliated Limited Partnerships

DVL acquired various interests in Affiliated Limited Partnerships pursuant to the Terms of certain settlement agreements and through purchases. Allowances are adjusted based on Management's estimate of the realizable value. During 2016, DVL recorded income of $163 from distributions received from these investments.

The activity on DVL's investments in Affiliated Limited Partnerships is as follows (in thousands):

Balance, beginning of year	$	415
Purchase of Units		180
Cost of Units sold		-
Balance, end of year	$	595

4. Residual Interests in Securitized Portfolios

The Company, through its wholly-owned consolidated subsidiary, S2 Holdings, Inc. ("S2"), owns 99.9% Class B member interests in two limited liability companies. The Class B member interests, which are consolidated into S2 for financial statement reporting purposes, entitle the Company to be allocated 99.9% of all items of income, loss and distribution of the limited liability companies. The limited liability companies receive all the residual cash flow from five securitized receivable pools after payment to any securitized note holders. The Company considered whether the member interests should be considered variable interest entities when consolidating S2's ownership of its member interests, and determined that S2's member interests do not meet the definition of variable interest entities.

Any impairment, other than a temporary impairment, if any, is recorded immediately through results of operations. The Company performs quarterly comparisons of fair value to carrying value and updates the expectation of cash flows to be collected over the life of the residual interests. Favorable changes in future cash flows are recognized through results of operations as interest over the remaining life of the residual interest.

The following table presents the key economic assumptions at December 31, 2016 and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions (in thousands):

Carrying value of residual interests	$	24,422
Fair value of residual interest	$	23,547
Weighted-average life (in years)		3.1
Expected credit losses		2.4%
Impact on fair value of 10% adverse change	$	56
Impact on fair value of 20% adverse change	$	111
Discount rate		16.1%
Impact on fair value of 10% adverse change	$	891
Impact on fair value of 20% adverse change	$	1,726

Those sensitivities are hypothetical and should be used with caution. Also, in this table, the effect of a variation in a particular assumption on the fair value of the residual interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another which might magnify or counteract the sensitivities.

5. Mortgage Loans Receivable

At December 31, 2016, the Company's mortgage loan portfolio consisted of 10 first mortgage loans with a net carrying value of $4,596 and two wrap-around mortgage loans with a net carrying value of $816. Substantially all of the Company's mortgage loans are collateral for various debt.

With respect to 8 of the loans in the Company's mortgage loan portfolio with net carrying values of $2,883 as of December 31, 2016, the tenant of the underlying property is Wal-Mart Stores, Inc. Accordingly, a bankruptcy of, or lease termination by Wal-Mart would have a material negative impact on the Company's ability to realize full value on these loans. The leases to Wal-Mart expire at various dates from 2018 through 2034.

In addition to base rent, some of the leases to Wal-Mart require the tenant to pay additional rent equal to a percentage of gross receipts from the tenant's operation of a property above a specified amount. In all cases where additional rent is payable, a portion of the additional rent is required to be paid to us as additional interest and/or additional debt service on our mortgage.

The following table presents the activity in the mortgage loans:

Activity on all collateralized loans is as follows (in thousands):

Balance, beginning of year - individually evaluated for impairment	$	7,502
Collections [(1)]		(837)
Gain on satisfaction of mortgage loans		-
Balance, end of year - individually evaluated for impairment	$	6,665

(1) A substantial amount of the collections was used to pay secured lenders.

6. Allowance for Losses

Allowance for loan loss activity is as follows (in thousands):

Balance, beginning of year	$	1,255
Recovery of loan losses		(2)
Balance, end of year	$	1,253

All loans are evaluated individually for impairment. A summary of DVL's loan portfolio is as follows (in thousands):

	Recorded Investment	Related Allowance	Interest Income Recognized
Performing loans with an allowance recorded	$ 5,243	$ 1,253	$ 574
Performing loans with no allowance recorded	$ 1,422	$ -	$ 389

7. Secured Debt, Loans Payable Underlying Wrap-around Mortgages

Outstanding loans payable as of December 31, 2016 which are scheduled to become due at various times through 2021 are as follows (in thousands):

Creditor	Original Loan Amount	Outstanding Balance Including Accrued Interest at December 31, 2016	Interest Rate	Maturity	Amount due at Maturity
Unaffiliated Bank (1)	$ 3,000	$ 1,069	Swapped to fixed 3.75%	12/31/2018	$ -
Unaffiliated Bank (2)	$ 8,500	$ 7,120	4.75%	7/5/2019	$ -
Unaffiliated Bank (3)	$ 3,600	$ 2,924	LIBOR + 220 basis points	4/1/2018	$ 2,859
Unaffiliated Bank (4)	$ 29,133	$ 29,133	LIBOR + 310 basis points	6/3/2017	$ 29,133
Unaffiliated Bank (5)	$ 3,000	$ 3,000	LIBOR + 400 basis points	6/3/2017	$ 3,000
Unaffiliated Bank (6)	$ 500	$ 417	4.00%	1/1/2021	$ -
Affiliated Lender (7)	$ 5,500	$ 5,875	8%, plus 1% origination and 1% exit	4/21/2018	$ 5,875
Affiliated Lender (8)	$ 5,000	$ 4,977	10%, plus 1% origination and 1% exit	12/31/2018	$ 4,977
		$ 54,515			
Less: Unamortized debt issuance costs		$ (113)			
		$ 54,402			

(1) Secured by first priority interest in five first mortgages.

(2) Collateralized by common stock of S2.

(3) Secured by certain real property. The Company is currently negotiating an extension of this loan.

(4) During 2014, the Company entered into a $30 million construction loan with an unaffiliated bank for the construction of the Kearny Site. As of December 31, 2016, $29,133 of the loan had been advanced. Secured by certain real property. The Company is currently negotiating an extension of this loan.

(5) Secured by interest in a wholly-owned entity which owns the Kearny Site.

(6) Office improvement loan secured by certain leasehold improvements

(7) Loan from certain affiliates and/or officers and directors of the Company to facilitate completion of the construction at the Kearny Site. Partially secured by certain mortgage loans receivable.

(8) Loan from certain affiliates and/or officers and directors of the Company to facilitate completion of the construction at the Kearny Site. Partially secured by certain mortgage loans receivable, subordinated to item (7) above.

The aggregate amount of debt and loans payable underlying wrap-around mortgages (Note 5) maturing during the next five years is as follows (including required principal amortization):

	Debt	Loans Payable Underlying Wrap Around Mortgages
	(in thousands)	
2017	$ 33,536	$ 275
2018	18,237	296
2019	2,613	230
2020	96	-
2021	33	-
Thereafter	-	-
	$ 54,515	$ 801

8. Redeemed Notes Payable – Litigation Settlement

In December 1995, DVL completed its obligations under a 1993 shareholder settlement by, among other things, issuing notes to the plaintiffs (the "Notes") in the aggregate principal amount of $10,387. The Company entered into various transactions through December of 2000 which reduced the outstanding amount of the Notes to $1,210, including accrued interest. Subsequently, the Company sent redemption letters to the remaining note holders to redeem the Notes in cash. As of December 31, 2016, $442 has been paid and the remaining $768 payable is reflected as a non-interest bearing liability and is included in accrued liabilities.

9. Transactions with Affiliates

Management Fee Income Earned:
The Company earned fees for providing accounting and administrative services to certain entities which are affiliated with NPO Management, LLC ("NPO") which are entities engaged in real estate lending and management transactions and are affiliated with certain shareholders and insiders of the Company. As compensation, the Company recorded fees of $314 in 2016.

Management and Other Fees and Expenses Incurred:

A. The Company incurred fees to NPO of $912 under an Asset Servicing Agreement (the "Asset Servicing Agreement") between the Company and NPO, pursuant to which NPO provides the Company with asset management, advisory and administrative services relating to the assets of the Company and its Affiliated Limited Partnerships. During 2016, the Company provided office space under the Asset Servicing Agreement to NPO consisting of approximately 500 square feet of the Company's New York location.

B. The Developer Services Agreement (the "Developer Services Agreement") with P&A Associates and Pemmil (collectively, the "Developer") provides that the Developer will provide services with respect to the development, construction and leasing of the Property. The Developer's obligations under the Developer Services Agreement terminates upon the substantial completion of construction and occupancy by the tenants of at least 95% of the retail space to be developed on the Property.

Pursuant to the Developer Services Agreement, the Developer will be paid a development fee of 4% of all project costs associated with the development of the Property (excluding financing costs) as specified in the Developer Services Agreement and a leasing commission on signed leases once the tenant takes possession of the leased space. Additionally, the Developer could be paid 20% of the net cash flow generated by the project as a result of operations, refinancing and/or sale after the Company receives from operations a 15% return on its net cash investment and in the event of a refinancing or sale, the return of its net cash investment plus a 15% return on such investment (the "Contingent Payment"). Based upon the environmental costs it is unlikely that any amounts will be paid relating to the Contingent Payment. As of December 31, 2016, the Company had paid $627 and $1,720 remained accrued under the Developer Services Agreement.

If the Developer is in default of any terms or conditions of the Developer Services Agreement and does not cure within the appropriate time as set forth in the agreement (to the extent that a cure period is provided for such default), the Company is afforded a number of rights including the right to terminate the Developer Services Agreement. During 2016, the Company accrued $1,146 and paid $180 in aggregate to P&A Associates and Pemmil under the Developer Services Agreement.

C. The Millennium Group, an affiliate of NPO, received approximately $140 for 2016 representing management and analytical services and note collection services.

D. The Philadelphia, Pennsylvania, law firm of Zarwin Baum DeVito ("Zarwin"), of which Alan E. Casnoff, the President, Chief Executive Officer and a director of the Company, is of counsel, has acted as counsel to the Company since November 2004. During 2016, the Company paid Zarwin $126 for legal services.

E. During 2016 Pemmil Funding II LLC and Pemmil Funding III LLC loaned the Company $5.5 million and $4.85 million, respectively, in order to facilitate completion of construction of the Kearny Site. Certain members of Pemmil Funding II LLC and Pemmil Funding III LLC are affiliates and/or officers and directors of the Company. During 2016 the Company accrued interest of $397 and fees of approximately $105 on the two loans.

10. Commitments, Contingent Liabilities and Legal Proceedings

Commitments and Contingent Liabilities

Pursuant to the terms of the Limited Partnership Settlement, a fund has been established into which DVL is required to deposit 20% of the cash flow received on certain of its mortgage loans from Affiliated Limited Partnerships after repayment of certain creditors and 50% of DVL's receipts from certain loans to, and general partnership investments in, Affiliated Limited Partnerships. During 2016, the Company expensed approximately $154 for amounts due to the fund based on cash flow on mortgage loans of which approximately $28 was accrued at year end. These costs have been netted against interest on mortgage loans, where appropriate.

The Company leases space to various tenants under lease terms that include escalation provisions, renewal options and obligations of the tenants to reimburse operating expenses. As of December 31, 2016, the Company had two tenants that comprised 85% of the rented square footage and three tenants comprised 84% of the base rental income. No rents were outstanding at December 31, 2016 from these tenants.

The aggregate future minimum fixed lease payments receivable under non-cancellable leases at December 31, 2016 are as follows (in thousands):

Year Ending	Real Estate		Real Estate Held for Sale	
2017	$	364	$	2,095
2018		364		2,259
2019		364		2,259
2020		364		2,259
2021		121		2,293
Thereafter		-		28,333
	$	1,577	$	39,498

DVL leases premises comprising approximately 5,600 square feet. The lease expires October 31, 2025. During the first extended term, from April 1, 2015 to October 31, 2020 base rent is $315 per year. During the second extended term, from November 1, 2020 to October 31, 2025, base rent is $338 per year. Rent expense was $325 in 2016.

The future minimum rentals during the next five years are as follows (in thousands):

Year Ending	Amount	
2017	$	315
2018		315
2019		315
2020		319
2021		319
Thereafter		1,317
	$	2,900

The Asset Servicing Agreement, pursuant to which NPO is providing the Company and the Affiliated Limited Partnerships with administrative, management, and advisory services, requires monthly payments of approximately $76 through March 2017, with cost of living increases. Payments aggregated $912 in 2016. In January 2017, the Asset Servicing Agreement was extended through March, 2020 under the same terms and conditions.

A subcontractor of the Kearny Site has filed a claim for additional amounts due. The Company is vigorously defending the claim. There can be no assurance that the ultimate liability will not exceed this amount.

11. Shareholders' Equity

Stock Compensation Plans

In November 2012, the Company adopted the DVL, Inc. Stock Compensation Program for Directors, Officers and Consultants.

In January 2016, the Company granted 64 shares of common stock (including 28 shares issued to employees and affiliates of NPO and 10 shares to Alan E. Casnoff) under the Stock Compensation Program for Directors, Officers and Consultants as additional compensation for 2015.

12. Income Taxes

The (provision) benefit for income taxes for the years ended December 31, 2016 was as follows (in thousands):

Current Benefit (Provision)		
Federal	$	-
State		-
Total Current Benefit (Provision)		-
Deferred Benefit (Provision)		
Federal		-
State		-
Total Deferred (Expense) Benefit		-
Total (Expense) Benefit	$	-

The Company's effective income tax rate as a percentage of income differed from the U.S. federal statutory rate primarily due to a change in the valuation allowance.

Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial reporting purposes. The major components of deferred tax assets and the provision for deferred taxes were the following: tax basis of land and building in excess of book, net operating loss carry-forwards, residual interests and mortgage loans receivable. The Company has determined that a full valuation reserve was necessary on the net deferred tax assets.

Deferred tax assets and the valuation allowance against deferred tax assets as of December 31, 2016 are detailed below (in thousands):

Net Deferred Tax Assets	$	20,109
Valuation Allowance		(20,109)
Net Deferred Tax Assets after Valuation Allowance	$	-

At December 31, 2016, the Company had aggregate unused net operating loss carry forwards of approximately $25,408. These credits expire as follows (in thousands):

2018	$	1,022
2019		586
Thereafter through 2036		23,800
	$	25,408

The Company has assessed the tax positions of the federal and state tax returns for all open years (2013 through 2016) and has concluded that it has no material uncertain tax liabilities to be recognized.

13. Fair Value Measurements

The following table shows the Company's non-financial assets that were measured at fair value during 2016:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Real estate held for sale	$ 45,564	$ -	$ -	$ 45,564

During 2016, real estate held for sale with a carrying value of $66,467 was written down to its fair value of $45,564, resulting in an impairment charge of $20,903. The fair value was calculated based on the projected cash flows and an estimated risk-adjusted rate of return that would be used by market participants in valuing these assets or prices of similar assets.

14. Subsequent Events

The Company has evaluated subsequent events through April 28, 2017, the date at which its financial statements were available to be issued.

In March 2017, Sears Holdings ("Sears") published their audited financial statements which indicated that the Sears Holdings may not be able to continue as a going concern. A bankruptcy of Sears, which includes K-Mart stores, could have a material impact on the value of the Company's real estate in Kearny, NJ.