CCUR Holdings: Alternative Finance With an Entrepreneurial Bent

Expected Value vs. $3.70 Market Price (as of 7/31/19) = $7.47/share

102% Upside To Our Price Target (Could Be Higher Pending Recent Repurchase Activity)

Company Trades at Just 62% of Book Value Despite Potential for Significant Profitability

(See Section I.C herein for calculations)

CCUR Holdings Inc. (ticker CCUR) presents an investor the chance to partake in an entrepreneurial alternative finance company with high insider ownership for less than two-thirds of book value. The company has recently transformed its business model into one that could prove quite profitable, which would necessitate a re-rating of the stock to a more conventional 1.25X book value, implying a target price of $7.47/share (or double the current market price). Compared to mainstream financial stocks, such as mega-cap JPMorgan (which trades at ~1.6X book [source]), 1.25X does not seem too much to ask, considering we believe that CCUR can eventually earn a mid single-digit return on assets (versus just a ~1% ROA for JPM). At JPM's multiple of 1.6X book value, CCUR would trade at $9.56/share, nearly 160% higher than the recent market price.

Often the best values in the stock market are companies that are underfollowed and misunderstood (and, hence, underpriced), because they are small enterprises undergoing significant change (think Berkshire Hathaway circa 1965, then trading around the same P/B multiple as CCUR currently). Investors cannot see what the finished product will look like, so they refuse to pay up for it. CCUR clearly falls into this category: no analysts cover it, so there are no earnings estimates; social media chatter is virtually nonexistent (one finds only bot mentions); a Google News search returns no legitimate results (just bot-produced "articles"); and there is but one lonely Seeking Alpha article on the company since its transformation began. Bottom line? Investors have the chance to get in on the ground floor at CCUR. So if "buying low" is one's principal investment goal, we believe this stock fits the bill.

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I. Investment Overview

A. Company Background and History

CCUR Holdings (CCUR) (SECs here) is a microcap alternative finance company, which until recently existed as a shell company. At the end of 2017 it sold its main operating business, a content delivery and storage business, along with certain other related assets, to Vecima Networks (VCM.TO) in exchange for $29.02 million in cash [see Form 8-K here]. Subsequently, the company initiated a new business model, and now has two operating segments: (i) a merchant cash advance (or "MCA") business, conducted primarily by CCUR's LMCS subsidiary, and (ii) a real estate operation, conducted by CCUR's Recur Holdings subsidiary. Each are further described below [source: CCUR Q3FY2019 10-Q filing]:

> In CCUR's fiscal year 2018, following the sale of the Content Delivery business, CCUR began developing a real estate operation initially through, among other activities, making a number of commercial loans secured by real property. Based on the success of these activities, including the yield characteristics of these loans, and management's experience in the real estate area, CCUR created Recur Holdings LLC ("Recur Holdings"), a Delaware limited liability company wholly owned by the Company, during the first quarter of our fiscal year 2019. Through Recur Holdings CCUR conducts, holds and manages its existing and future real estate operations. At this time CCUR does not expect a significant increase in expenses for its real estate operations, as its management team has prior experience in this sector and believes it can manage the business without adding additional staffing resources. As these operations grow, CCUR plans to leverage its contacts and potential strategic partnerships to help source continued opportunities for this business. As a part of its real estate operations, CCUR plans to continue to assess opportunities to create value through real property ownership, financing and/or development, among other strategies.
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> In February 2019, through CCUR's newly formed subsidiary, LM Capital Solutions, LLC ("LMCS"), CCUR closed on a purchase agreement (the "Purchase Agreement") to acquire the operating assets of LuxeMark Capital, LLC ("LuxeMark"). LMCS operates through connecting a network of MCA originators with syndicate participants who provide those originators with additional capital by purchasing participation interests in funded MCAs. In addition, LMCS provides funding to MCA originators by both directly funding MCAs and by providing loans to MCA originators to fund the MCAs themselves. CCUR holds an 80% interest in LMCS, with the remaining 20% held by LuxeMark. LMCS will do business as "LuxeMark Capital" with daily operations led by the three LuxeMark principals.
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> CCUR is actively pursuing business opportunities, including the acquisition of new businesses or assets, as well as developing and managing our current business and assets.

At the end of Q3 (March) of CCUR's FY19, Recur had $5.5 million in outstanding principal balances loaned to five borrowers secured by commercial real estate and one borrower whose loan was secured by its accounts receivable and other business assets, while CCUR's LMCS business had $16.4 million of capital, invested mainly in MCAs.

B. Corporate Governance and Insider Incentives

Key Shareholder

CCUR's principal shareholder, who owns 3,586,269 CCUR shares (40% of the outstanding stock), is an up-and-coming activist investor named Julian Singer, with the following bio (from Evolving Systems' SEC filings, where he is on the board of directors) [source: EVOL 2019 Proxy Statement, page 6]:

> Julian D. Singer, 35, became a member of the [EVOL] Board of Directors in January 2015. Prior to that, he served as a nonvoting observer to the [EVOL] Board of Directors from July 2014 until December 2014. Since May 2013 Mr. Singer has been engaged as an independent investment advisor. Prior to that, from April 2006 through June 2011, Mr. Singer served as an assistant trader and an analyst with York Capital Management where he evaluated potential mergers and acquisitions. Mr. Singer currently serves on the Board of Directors of Live MicroSystems, Inc., which sold its operating assets in 2013, and Fiber Span, a privately held company providing distributed antenna systems (DAS) technology primarily for public safety projects. Mr. Singer has a B.S. in Finance from Lehigh University and an M.B.A. from the NYU Stern School of Business.

The vast bulk of Singer's CCUR shares were purchased with his own funds on the open market at prices in the $5s and $6s (much higher than the current market price) [see his insider trade history here]. Singer comes from a family of activist investors, who have been filing 13Ds and 13Gs for years with considerable financial success [see SEC filings here].

Senior Employee NAV Bonus Program

At the beginning of 2019, the company instituted a bonus plan for senior CCUR employees (the "NAV Program") that aims to align their financial interests with those of the shareholders [source]. The NAV Program rewards insiders with bonuses equal to (in aggregate) 10% of the growth in book value above a 5% annual return threshold:

> Pursuant to the terms of the NAV Program, each participant is eligible to receive a portion of a bonus pool allocated by the Compensation Committee based on the Company's NAV growth in a calendar year in excess of a five percent (5%) required return threshold (the "Threshold Return"), subject to certain adjustments and exclusions (for example, participants are not benefited by stock or debt issuances nor penalized for dividends or share repurchase programs). In essence, the bonus pool is equal to 10% of the growth in book value to the extent such growth on a per share basis in any calendar year exceeds 5%. In addition, there is a rolling three-year "high-water mark" requirement that operates as follows: If the NAV Return is less than the Threshold Return for any year, then the Bonus Pool for the next two calendar years shall be based on a NAV Return using the end of year Bonus NAV per share as compared to the highest end of year Bonus NAV per share for the preceding

two calendar years (such latter number constituting the beginning of year Bonus NAV per share).[1]

The Compensation Committee will determine the participants of the NAV Program and the allocations of the share of the bonus pool among such participants. Thirty-five percent (35%) of the bonus pool has been allocated to CCUR's CEO Barr and twenty-five percent (25%) of the bonus pool has been allocated to CCUR's CFO Sutherland. For each NAV Program participant, their portion of the bonus pool shall be awarded as follows: (a) fifty percent (50%) of the award value will be paid in cash within seventy-four (74) days after the end of the calendar year for which it is awarded; and (b) fifty percent (50%) will be paid in cash, equity or a combination thereof, at the discretion of the Compensation Committee and subject to the limitations set forth in the Stock Plan.

In assessing the NAV Program, one should note that it will be overseen by CCUR's two compensation committee directors: Steven G. Singer (Chairman) and David Nicol. The biographies of these individuals (and their CCUR stock holdings) are as follows:

- Steven G. Singer, Age 57. Shares owned: 15,000. *(Note that Singer appears to be the uncle of Julian D. Singer, regarding whom see more below.)* Biography: Director since July 2017. Mr. Singer currently serves as a consultant for Remus Holdings, Inc., a closely held investment company. From 2000 to 2016, Mr. Singer served as the Chairman and CEO of American Banknote Corporation, a provider of secure financial products and solutions and a public company through 2007. Prior to that, Mr. Singer was Executive Vice President and Chief Operating Officer of Remus Holdings, Inc., a closely held investment company, a position he held from 1994 to 2000. Mr. Singer has served on numerous public and private company boards, including ABNote do Brazil (a publicly traded subsidiary of American Banknote Corporation now operating as Valid SA), CooperVision, Inc., Anacomp, Inc., Motient Corporation (now operating as TerreStar Corporation), Globix Corporation, TVMAX Holdings, Inc. and Galaxy Cable, Inc. (now operating as Galaxy Cablevision). In addition, Mr. Singer served as Chairman of the board of directors of Motient Corporation and Globix Corporation.

- David Nicol, Age 73. Shares owned: 7,500. Biography: Director since February 2018. Mr. Nicol is a seasoned board director and advisor for technology-based businesses. He currently serves on the board of directors for two private companies and on the board of Evolving Systems, Inc. (NASDAQ: EVOL), a publicly traded company, where he has served on the audit committee since March 2004 and as the audit committee chairman since January 2011 and on the compensation committee since March 2004 and as the compensation committee chairman since November 2005. Mr. Nicol is an active member of the National Association of Corporate Directors and Financial Executives International. Since 2015, he has been on the faculty in the Finance Department at the Bloch School of Management at the University of Missouri – Kansas City. From February 2012 through July 2015, Mr. Nicol was President and Chief Operations Officer of Strongwatch, Inc., a security innovation company that was subsequently acquired. Prior to that, he was a consultant to several companies, each subsequently acquired by listed companies. From January 2006 through January 2009, Mr. Nicol was Executive Vice President and Chief Financial Officer for Solutionary, Inc., a managed IT security services provider, since acquired by NTT Security. Prior to 2006, Mr. Nicol held numerous senior executive positions focused on operations, strategy, product management and business development at communication and technology service

[1] Thus, if the Bonus NAV for Year 1 is 1.2X NAV and the Bonus NAV for Year 2 drops back to 1X NAV (i.e., book value declines 17%), the Bonus NAV in Year 3 would be based on exceeding, as a threshold number, the Year 1 ending Bonus NAV (1.2X).

> companies, which included Fortune 500 companies as well as smaller earlier stage and growth companies.

The full 2019 CCUR NAV Program plan can be found here.

Management Agreement with Julian Singer

On February 14, 2019, the company entered into a management agreement with CIDM LLC (the Manager), an entity controlled by Julian Singer, discussed above [source]:

> Under the management agreement, the Manager will, subject to the oversight of the Company's Board of Directors (the "Board") and the Asset Management Committee of the Board and the parameters set forth in the Company's investment policy (the "Investment Policy"), (i) provide the Company with advisory services with respect to the management and allocation of the Assets (as defined therein) of the Company and its subsidiaries and (ii) exercise discretionary management authority over the Company's trading portfolio of publicly traded securities. As a part of the Manager's advisory services, prior to the end of each quarter, the Manager will present a proposed allocation of Assets between the Company's Portfolios (as defined therein) for consideration and approval of the Asset Management Committee. The Manager will also assist and advise the Company with respect to identifying potential businesses and assets for acquisition, along with performing due diligence, and with monitoring and evaluating performance of the Assets.
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> In addition to its advisory services, the Manager will have full management authority to manage the investment and reinvestment of publicly traded equity and debt securities held in the Company's trading portfolio (the "Trading Portfolio"), subject to the (i) limitations and guidelines set forth in the Investment Policy, and any amendments thereto as approved by the Board and (ii) Company's right to, upon notice, withdraw some or all of the Assets of the Trading Portfolio or to assign all authority held by the Manager over the Trading Portfolio to the Company.

The Management Agreement is effective as of February 14, 2019 and may be terminated by either party upon ninety days' prior written notice. The Manager will receive the following compensation for performance under the Management Agreement:

- A management fee equal to 2% of the fair market value of the Assets; and
- A performance fee in respect of each Performance Period shall be equal to 20% of the appreciation of end-of-year net asset value as calculated pursuant to the Company's 2019 Bonus Plan.

The full Julian Singer management agreement can be found here. Normally, an external management agreement with a large shareholder would raise serious alarm bells, as the possibility for self-dealing is huge. For example, witness the destruction of shareholder wealth at Biglari Holdings (BH) recently:

BH CEO and Chairman Sardar Biglari has managed to generate tens of millions of dollars for his own bank account while BH shareholders flounder, due to conflicted related party transactions, including an external management arrangement with Biglari Capital Corp., which controls The Lion Fund and The Lion Fund 2, Biglari's hedge funds (see discussion here, here and here). See also the destruction of shareholder value at Ashford Inc. (AINC) due to questionable related party deals (for example, see here).

However, the CCUR / Singer relationship and management agreement has the following mitigating attributes, which reduce the possibility for self-dealing that might harm minority shareholders:

> (A) the management fees will be paid through the issuance of stock appreciation rights ("SARs") of the Company's common stock, resulting in no cash payment to the Manager unless and until there are certain qualifying changes of control (which does not include any change of control related to the stock ownership of the Manager or its affiliates); and
>
> (B) Singer is also the managing principal of JDS1, LLC, an entity that owns 3,586,269 shares of the Company's stock, which comprises approximately 40.3% of the Company's outstanding stock as of February 4, 2019. Importantly, Singer's SEC filings show that the vast majority of these shares were purchased on the open market using Singer's own funds. Thus, Julian Singer himself effectively pays 2/5^{ths} of the management agreement fees to himself, while the rest of the shareholders only pay 3/5^{ths} of said fees. Shareholders therefore effectively pay Singer a 1.2% management fee plus a 12% incentive fee (subject to a high-water mark), rather than the 2% & 20% amounts set forth in the management agreement.

The factors described in (A) and (B) above increase the likelihood that Singer will be adequately incentivized to see CCUR's stock price appreciate over time (and therefore not treat the company as his personal piggybank). In addition, Singer is not a member of CCUR's board of directors, which we consider an added safeguard against overreaching.

With a long runway ahead of him (Singer is only in his mid-30s), it would seem illogical to permanently “kill the golden goose” (CCUR’s stock) by going into “extraction mode” a la Biglari. If he has any aspirations of becoming the next Warren Buffett[2], it is imperative that Singer treat minority shareholders fairly. If he doesn’t, he could end up with a permanently broken reputation (and broken stock) like Biglari. Note that Biglari is now unlikely to be able to either (1) find entrepreneurs willing to sell their businesses to him or (2) use his stock as a currency.

C. Valuation and Investment Opportunity

CCUR's enterprise value currently stands at a minuscule $18MM (8.79MM shares outstanding multiplied by $3.70 stock price minus $14.67MM net cash/CE as of 3/31/19) and its stock trades at $3.70, a 38% discount to book value, down massively since the high of ~$7/share reached in 2017:

Interestingly, CCUR's stock price took a steep dive right after the LOI was announced for the MCA business acquisition back in early October 2018. Perhaps investors were hoping that the company would return its excess cash to them in the form of a special dividend. However, overall shareholder value should increase if this transaction pays off vis-a-vis receiving the money back as a dividend (which

[2] Interestingly, when he gained control of Berkshire Hathaway, Buffett was approximately the same age as Singer today.

incurs an immediate tax cost and which amount would need to be invested elsewhere by the recipient anyway).

Recent financial results indicate that the new business model holds the promise of future profits. CCUR went from losing $5 million from operations during the first 9 months of fiscal 2018 to nearly breaking even over the first 9 months of fiscal 2019:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Revenues:				
Merchant cash advance income	$ 825	$ -	$ 1,045	$ -
Interest income on loans	249	-	565	-
Total revenues	1,074	-	1,610	-
Operating expenses:				
Sales and marketing	181	-	181	-
General and administrative	728	1,186	2,355	6,510
Amortization of purchased intangibles	53	-	53	-
Provision for credit losses on advances	343	-	838	-
Total operating expenses	1,305	1,186	3,427	6,510
Operating loss	(231)	(1,186)	(1,817)	(6,510)
Other interest income	1,053	225	2,788	371
Dividend income	165	-	275	-
Net realized gain on investments	525	-	726	-
Unrealized loss on equity securities, net	(181)	-	(2,167)	-
Other expense, net	(5)	(109)	(10)	(67)
Income (loss) from continuing operations before income taxes	1,326	(1,070)	(205)	(6,206)
Benefit for income taxes	(75)	(222)	(73)	(1,140)
Income (loss) from continuing operations	1,401	(848)	(132)	(5,066)
(Loss) income from discontinued operations, net of income taxes	-	(245)	-	22,851
Net income (loss)	1,401	(1,093)	(132)	17,785
Less: Net loss attributable to non-controlling interest	10	-	10	-
Net income (loss) attributable to CCUR Holdings, Inc. stockholders	$ 1,411	$ (1,093)	$ (122)	$ 17,785
Basic and diluted earnings (loss) per share:				
Continuing operations attributable to CCUR Holdings, Inc. stockholders	$ 0.16	$ (0.09)	$ (0.01)	$ (0.53)
Discontinued operations	-	(0.02)	-	2.39
Net income (loss) attributable to CCUR Holdings, Inc. stockholders	$ 0.16	$ (0.11)	$ (0.01)	$ 1.86
Weighted average shares outstanding - basic	8,853,451	9,824,588	8,998,935	9,549,215

[Source: Q3 FY19 Earnings Release]

Moreover, CCUR was solidly profitable in the most recently reported quarter (March 31, 2019), with $0.16/share in net income. At $0.64/share net income annualized, CCUR would trade at an enticing 17% earnings yield, with potential upside to this number if things continue to trend favorably. Revenue for the quarter nearly tripled on a sequential basis to $1,074,000 with Merchant Cash Advance (MCA) income growing to $825,000 and interest income on loans growing to $249,000. Other interest, dividend and investment income for the period totaled $1,557,000. CCUR's mortgage lending segment earned $221,000 in both revenues and operating income during Q3FY19 (i.e., there were no operating expenses, as these were absorbed via corporate/HQ overhead) on $5.5 million in assets as of quarter end. Additionally, as part of its MCA business CCUR entered into a $2 million term loan to an MCA originator so that it may fund additional cash advances.

General and administrative expenses declined by 39% from the prior year quarter to $728,000. Total operating expenses for the quarter were $1,305,000 and included sales and marketing expenses of $181,000 to support the growth of CCUR's MCA operations as well as a $343,000 provision for MCA credit losses. CCUR's operating loss for the quarter declined to $231,000 as compared to an operating loss of $1,186,000 for the third quarter of fiscal 2018 and operating cash flow for the quarter was $613,000.

CCUR's balance sheet as of the most recent quarter end is as follows:

CONSOLIDATED BALANCE SHEETS - USD ($) $ in Thousands	Mar. 31, 2019
Current assets:	
Cash and cash equivalents	$ 14,665
Equity securities, fair value	8,616
Fixed maturity securities, available-for-sale, fair value	12,533
Current maturities of mortgage and commercial loans receivable	2,212
Accounts receivable	163
Receivable from sale of Content Delivery business held in escrow	0
Advances receivable, net	10,230
Prepaid expenses and other current assets	1,750
Total current assets	50,169
Property and equipment, net	5
Deferred income taxes, net	475
Mortgage and commercial loans receivable, net of current maturities	5,281
Deposit on mortgage loan receivable held in escrow	0
Definite-lived intangibles, net	2,677
Goodwill	995
Other long-term assets, net	87
Total assets	59,689
Current liabilities:	
Accounts payable and accrued expenses	564
Total current liabilities	564
Long-term liabilities:	
Pension liability	3,647
Contingent consideration (Note 12)	1,860
Other long-term liabilities	225
Total liabilities	6,296
Commitments and contingencies (Note 14)	
Stockholders' equity:	
Shares of common stock, par value $0.01; 14,000,000 authorized; 8,789,644 and 9,117,077 issued and outstanding at March 31, 2019, and June 30, 2018, respectively	88
Capital in excess of par value	208,902
Non-controlling interest	758
Accumulated deficit	-151,599
Accumulated other comprehensive loss	-4,756
Total stockholders' equity	53,393
Total liabilities, non-controlling interest, and stockholders' equity	59,689

At the end of Q3 (March) of CCUR's FY19, cash and cash equivalents of $14.7 million plus available-for-sale fixed maturity securities of $12.5 million totaled about $3/share, while book value was $53.4 million, or $6/share. Working capital of $49.6 million equaled 93% of CCUR's book value, so investors should note the highly liquid nature of the asset base. In addition, the company has repurchased about 4% of its outstanding shares since mid-2018 at prices well below book. With respect to equity holdings, CCUR currently owns the following positions:

- 200,000 shares of noted investor Philip Falcone's investment vehicle HC2 Holdings (HCHC) [SECs here], currently worth $394,000 [source][3];

[3] Per a different SEC filing [source], we learn that "On Nov 20, 2018, CCUR purchased $2,500,000 in aggregate principal amount of the Issuer's [i.e., HCHC's] 7.5% convertible senior notes due 2022 (the "Convertible Notes"). The Convertible Notes bear interest at a rate of 7.5% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on June 1, 2019, unless converted, redeemed or repurchased in accordance with their terms prior to June 1, 2022 (the "maturity date"). The Convertible Notes are convertible at CCUR's option into shares of the Issuer's Common Stock based on an initial conversion rate of 228.3105 shares of Common Stock per $1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of $4.38 per share of the Issuer's Common Stock), subject to certain adjustments, at any time prior to the close of business on the business day immediately preceding the maturity date, in principal amounts of $1,000 or an integral multiple of $1,000 in excess thereof."

- 1,284,910 shares of Seachange International (SEAC) [SECs here], currently worth $2,287,000 [source]; and
- 150,000 shares of Catalyst Biosciences (CBIO) [SECs here], currently worth $1,230,000 [source].

Also note that CCUR closed out a 120,000 share long position in Barnes & Noble (BKS) [SECs here] on June 7, 2019, realizing proceeds of $792,000 [source].

CCUR's stock decline over the past year and a half presents opportunity for the patient investor. Were the stock merely to trade near book value again, buyers at today's prevailing price would realize a ~60% gain. ***Given that CCUR is quickly approaching what appears to be sustainable profitability, our price target is 1.25X of book value, or $7.47/share, which is 102% above the current market price.*** However, we expect CCUR's book value per share to increase, rather than decrease, over time for the following reasons:

- ***Share Repurchase Program***: The company's share buyback program allows CCUR to repurchase stock well below book value (highly accretive to book value). On February 11, 2019, CCUR's Board of Directors approved a new stock repurchase program allowing CCUR to repurchase up to an additional 500,000 shares of stock, for a total of 1,500,000 authorized shares. CCUR repurchased a total of 188,510 shares during the Q3 (Mar) of FY19 for a total of $703,000. A total of 414,607 shares under the authorized program remain available for repurchase as of March 31, 2019.
- ***Available Dry Powder***: CCUR still has ample dry powder on its balance sheet to deploy (almost $15 million in cash at March 31, 2019) into either undervalued securities or attractively priced businesses.

In addition, CCUR has a hidden asset, namely its off-balance sheet net operating losses, which totaled $109 million as of the end of the most recent fiscal year and expire over the next 18 years, per page 56 of the most recent 10-K filing [link here]:

> As of June 30, 2018, we had U.S. federal net operating loss carryforwards ("NOLs") of approximately $56,113 for income tax purposes, of which none expire in fiscal year 2018, and the remainder expire at various dates through fiscal year 2037. We recently completed an evaluation of the potential effect of Section 382 of the Internal Revenue Code (the "IRC") on our ability to utilize these net operating losses. The study concluded that we have not had an ownership change for the period from July 22, 1993 to June 30, 2018, therefore, the NOLs will not be subject to limitation under Section 382... As of June 30, 2018, we had state NOLs of $33,240 and foreign NOLs of $19,416. The state NOLs expire according to the rules of each state and expiration will occur between fiscal year 2018 and fiscal year 2037. The foreign NOLs expire according to the rules of each country. As of June 30, 2018, the foreign operating losses can be carried forward indefinitely in each country, although some countries do restrict the amount of loss that can be used in a given year.

These NOLs probably add about $1/share of net present value to CCUR's value, which is not reflected in the financial statements as they are fully offset by a valuation allowance.

II. Risk Factors / Red Flags

As with any microcap company, there are several investment risks associated with an investment in CCUR. One is the ~40% stake held by, and management agreement with, Julian D. Singer, which we discussed above. Others are covered in detail in CCUR's Q3 FY19 Form 10-Q here (investors are well advised to carefully review each of these items).

Perhaps the most obvious red flag, however, involves the MCA sector in general (see blog here explaining how MCAs work). Considered by critics a form of loan sharking that preys upon unsophisticated small business owners, MCAs are quite controversial (see, e.g., here and here). New York State recently passed legislation restricting the ability of MCA operators to seize assets upon default (see here). The FTC has also opened an investigation into the MCA industry (see here). These developments should not be surprising, because it seems that with any form of lending to distressed borrowers, those who cannot repay their debts (which is a significant chunk of the borrowers) and stand to lose their assets are going to complain loudly to journalists, politicians and regulators. Any pushback by the regulators against the MCA industry could potentially materially adversely affect CCUR's business.

On the other hand, MCA funding has been upheld in courts as legitimate (see here) and provides money to small business owners quickly to get through hard times (albeit at a steep cost). Moreover, even if one of CCUR's MCAs were characterized as a loan, usury laws typically allow APRs of up to somewhere in the range of 16% to 25% (see, e.g., here and here). Publicly-traded entity On Deck Capital (ONDK) (SECs here) offers this type of financing at far higher interest rates than CCUR, yet remains an active lender[4]. Another mitigating factor is that, per the PR announcing the transaction, CCUR will appoint two of the three members of the board overseeing the Luxemark investment:

> Under the terms of the Purchase Agreement, the Company will hold an 80% interest in CCUR's newly formed subsidiary, LM Capital Solutions, LLC (LMCS), with the remaining 20% held by LuxeMark. LMCS will do business as "LuxeMark Capital" with daily operations led by the three current LuxeMark principals - Avraham Zeines, Oskar Kowalski and Kamil Blaszczak. A three-member board comprised of Mr. Barr, Mr. Kowalski and Warren Sutherland, CCUR holdings' Chief Financial Officer, will oversee LMCS.

Therefore, it would appear fairly straightforward to address any problems that might arise at LuxeMark, for example by buying out the remaining 20% interest held by Luxemark's founders. Moreover, CCUR is only paying $2 million of the

[4] Per page 8 of ONDK's 2018 Form 10-K filing, ONDK disclosed the following: "As of December 31, 2018, the APRs of our term loans ranged from 9.1% to 99.8% [*sic*] and the APRs of our lines of credit ranged from 11.0% to 63.2% [*sic*]. Because many of our loans are short term in nature and APR is calculated on an annualized basis, we believe that small business customers tend to evaluate these short term loans primarily on a Cents on Dollar borrowed basis rather than APR. We believe that our product pricing has historically been higher than traditional bank loans to small businesses and lower than certain non-bank small business financing alternatives such as merchant cash advances."

purchase price in cash to the founders initially; the remaining up to $4 million of cash consideration for the Luxemark assets will be paid out over a four-year period in the form of earnouts. Luxemark's founders should also have their incentives aligned with CCUR shareholders since they will be receiving warrants purchase up to an aggregate of 444,630 shares of CCUR common stock at a purchase price of $6.50 per Warrant Share (i.e., well out of the money currently). Finally, the LuxeMark deal when fully funded (i.e., purchase price paid to founders plus $10.35 million in CCUR advances under the MCA program) will represent a relatively small portion (about 1/3rd) of CCUR's assets. In essence, by buying CCUR shares at 65% of book value today, one is obtaining a *pro rata* interest in the LuxeMark transaction—which could potentially be a bonanza for shareholders—basically for free.

III. Short Interest

The most recent figures show that CCUR's short interest is minimal at 23,900 shares sold short [source]. With 4,600 CCUR shares typically traded per day recently, the "days to cover" figure is around 5, neither relatively high nor low:

Sunday July 28, 2019 — 20 Min Delayed

Short Quote™

Enter Symbol: [ ] Short Quote™

CCUR HOLDINGS INC	$ 3.72
CCUR	-0.08
Short Squeeze Ranking™	**view**
Short Interest Ratio (Days To Cover)	6.8
Short Percent of Float	%
Short % Increase / Decrease	-8 %
Short Interest (Shares Short)	23,900
Short Interest (Shares Short) - Prior	26,100
Daily Short Sale Volume	**view**
Daily Naked Short Selling List	**view**
% From 52-Wk High ($ 5.67)	0%
% From 50-Day MA ($ 5.38)	0%
% From 200-Day MA ($ 5.38)	0%
% From 52-Wk Low ($ 4.85)	0%
52-Week Performance	-33.81%
Trading Volume - Today vs Avg	8186.37%
Trading Volume - Today	286,523
Trading Volume - Average	3,500
Shares Float	
Market Cap.	$ 34,856,400
% Owned by Insiders	
% Owned by Institutions	
Exchange	NBB
Record Date	2019-JulB

IV. Conclusion

When the financial incentives of insiders and other decision-makers of a business enterprise are properly aligned with the true owners of said enterprise, namely the shareholders, positive results for all parties are possible[5]. In CCUR's case, we believe the incentives of the interested parties (CCUR's management, as well as significant shareholder Julian Singer) point to the creation of shareholder value over time. One proof point of this is the fact that CCUR has repurchased 10% of its outstanding shares over the past year or so, which indicates that "empire-building" is not on the agenda. Once in a generation or two the stars (and incentives) align to create a Berkshire Hathaway, resulting in a financial lollapalooza for shareholders. While only time will tell if CCUR can become another Berkshire (and certainly it is a *very* long shot), we think that, at less than 2/3rds of book value, a modest investment in such a thesis with respect to CCUR is a risk worth taking.

[5] Based on certain extremely painful past investment experiences, we believe that without such alignment it is almost impossible for shareholders to make much (if any) money over time.

V. Disclaimer

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