



Managing Member – Tim Eriksen Eriksen Capital Management, LLC 8695 Glendale Road, Custer, WA 98240

July 30, 2024

Subject: Cedar Creek Partners 2024 Second Quarter Results

Dear Partners and Friends:

It sounds like a broken record – the market continued to be led by a small handful of tech companies propelling the NASDAQ and S&P 500 ahead of the other major indices we track. In Q2 the NASDAQ gained 8.3% bringing its year-to-date return to 18.1%. The S&P 500 index rose 4.4% in the quarter and was up 15.2% year-to-date. The Russell 2000 and the DJIA both declined in the quarter. Cedar Creek increased by 2.5% in the second quarter, and 4.9% year-to-date, net of fees and expenses.¹

While Cedar Creek Partners focuses primarily on microcap stocks, and over-the-counter stocks in particular, we compare our returns against larger indices as well since we believe we need to outperform the most prominent passive benchmarks over time in order to justify our existence.

Cedar Creek’s average annual return over our 18+ year history is 14.4%, net of fees and expenses, which compares favorably to all the indices we compare against. Cumulative returns since inception for Cedar Creek were 1,096.3%, net of fees and expenses.

	Q2 '24	1H '24	Inception	Ave. Annual
Cedar Creek	2.5%	4.9%	1,096.3%	14.4%
NASDAQ	8.3%	18.1%	665.3%	11.7%
S&P 500 (SPY)	4.4%	15.2%	502.0%	10.2%
DJIA (DIA)	-1.7%	3.8%	443.5%	9.6%
Russell 2000	-3.3%	1.7%	271.6%	7.4%
Russell Microcap	-5.3%	-0.8%	177.2%	5.7%

* fund inception January 15, 2006. Index Returns as reported on Yahoo! Finance, Morningstar, Dow Jones and Russell.

\$100,000 invested in the fund at inception in January 2006 would have grown to \$1,196,288 as of June 30, 2024, net of fees and expenses, whereas \$100,000 invested in the indices we compare against would have only grown to between \$277,231 in the Russell MicroCap and \$765,313 in the NASDAQ.

¹ While, no single index is directly comparable to Cedar Creek Partners, we believe that it is important to compare our performance to a passively managed approach. At the core of our investment philosophy is the belief that we can generate superior risk-adjusted returns by holding a more concentrated portfolio of under-valued securities, than an index holding a far greater number of securities. Index returns are calculated from information reported on Yahoo! Finance, Dow Jones, and Russell (see DISCLAIMER for more information).

Fund Holdings are at Incredibly Attractive Prices

On the whole, as of the end of June 2024, the fund's holdings were trading at 8 times our estimate of earnings for the coming year, and 6.5 times expected earnings net of cash at the respective businesses.² Trailing earnings multiple was 10.9 times. Weighted price-to-book was 1.7. Dividend yield was 1.6%. Weighted expected return on equity as of March 31, 2024, was 21.4%.

Cash Levels and Fund Repositioning

We started the quarter with cash levels at 3% and ended the quarter at 4%. We made the decision to completely exit our position in **M&F Bancorp** (MFBP). It was a difficult decision as it has immense potential if run properly or sold. The trouble is we have no confidence in the board or management to do either. In addition, the bank's performance has been declining in recent quarters and we expect that to continue. To make matters worse, they will start paying \$400,000 per quarter in preferred dividends on the ECIP funds they received nearly two years ago. We forecast Q3 earnings at around \$0.20 per share. We couldn't justify owning a bank at 15 times earnings that is being run poorly.

We added to a few existing positions in the quarter and began two new positions, one is essentially a private company although it does still have a CUSIP. The second new position was **Leon's Furniture** (LNF.TO or LEFUF) that we subsequently exited to build a position in something even more attractive. Leon's is a Canadian furniture retailer that has significant land holdings in Toronto which it plans to unlock in the next couple of years. We expect to talk about what we subsequently purchased in a future letter because we are not done building our position.

Expert Market Exposure

Four positions make up about 85% of the expert market exposure – **Propel Media** (PROM) is about 9% of the fund, **PD-Rx Pharmaceuticals** (PDRX) is about 5.5% of the fund, **First IC** (FIEB) is about 3.8%, and **Pacific Coast Oil Trust** (ROYTL) is roughly 3.5% of the fund.

Our exposure to stocks trading in the expert market decreased in the quarter due to a decrease in the market price of all four of our largest holdings. Expert market stocks are companies impacted by SEC Rule 15c2-11. For those unfamiliar, the rule prevents brokers from not only displaying quotes for non-reporting companies but also restricts transactions to selling only. Institutional accounts, depending on the broker, are not subject to the buying restriction. We started the quarter with 28% exposure to the expert market and ended at 26% of the fund.

We have discussed the situation with most of the large expert market stocks in prior letters. **First IC Corporation** (FIEB) is a Korean run bank outside of Atlanta, Georgia. It focuses on SBA loans and has loan production offices in Seattle and Los Angeles, and branches in Carrollton, TX, Los Angeles, CA, and Palisades Park, NJ in addition to the Atlanta metroplex. It pays a \$1 annual dividend. Trailing earnings are roughly \$2.65 per share. Book value is \$14.58 per share. Our cost basis is \$6.70 per share and the most recent trade was \$7.50 per share. Efficiency ratio is 43%. We believe it is conservatively worth \$25 to \$30 per share. We have no idea when they may sell the bank, but let's be honest most community banks with insider ownership eventually are sold. We are quite happy to earn a 13%+ dividend yield while we wait.

² Ratio excludes cash held by the fund. We add back non-economic amortization in our earnings estimate. Due to the uncertainty of the situation, we did not attribute any earnings for Pacific Coast Oil Trust (ROYTL).

Update on a Few of Our Top Holdings

ENDI Corp (ENDI) – we profiled in last quarter’s letter. During the second quarter the bid price rose from \$4.87 to \$7.96 per share. They continue to execute on their plans. They announced the sale of Willow Oak Asset Management. AUM reached \$3 billion. Assuming 40% cash operating margins, quarterly cash earnings should be approximately \$0.27 per share, or \$1.08 per share annualized. Net cash is approximately \$1.73 per share, meaning the stock is trading at six times earnings net of cash.

We wrote in last quarters’ letter that we think shares of ENDI are worth eight to ten times current earnings plus net cash. That would equate to \$10.35 to \$12.50 per share today with that value growing \$0.27 per share every quarter. Thus, by the end of the year we see fair value being \$11 to \$13 per share assuming the same \$1.08 per share annual earnings run rate and an estimated year-end cash balance of ~\$2.40 per share.

Solitron Devices (SODI) - the bid price for shares decreased slightly in the second quarter of 2024 from \$18.05 per share to \$18.00 per share. As a reminder, I am CEO and CFO of Solitron. Subsequent to quarter end, Solitron announced fourth quarter and fiscal yearend results. Solitron benefited from a bargain purchase gain and release of its deferred tax valuation. Reported results were income of \$5.7 million or \$2.73 per share in the quarter. Adjusted results were operating income of \$766,000 for the quarter, or \$0.37 per share.

PharmChem (PCHM) – the fund is the largest owner, at 33% of outstanding shares, and I serve as Chairman of the Board. The bid price for shares rose from \$2.71 per share to \$3.32 in the second quarter. PharmChem makes sweat patches used to detect drugs of abuse. It is an alternative to urine testing. First quarter results showed improved income despite some one-time charges. Earnings per share rose to \$0.034 per share from \$0.027 per share. More importantly was revenue growth excluding our top customer of 4.6% in the quarter.

Propel Media (PROM) – in January the acquisition of Propel by **IQVIA** (IQV) was blocked by the FTC and both Propel and IQVIA decided to walk away rather than fight. As you may recall the deal was reportedly for between \$700 and \$800 million, or \$2.75 to \$3.15 per Propel share. We were able to purchase shares for \$0.23 per share after becoming aware of the deal in published reports. Propel declared two dividends prior to the deal being called off and paid an additional dividend in February 2024 and announced one for May. All told the dividends amount to \$0.0352 per share, or over 15% on our cost basis.

We purchased the stock in hopes of the deal going through. We had the possibility of 10-12x return. We knew that if it didn’t happen, we were still likely getting a bargain. We doubted that the next best liquidity event would value the company at 1/10 of the potential merger price with IQVIA. We still believe that and are willing to wait. The dividends are a nice bonus to receive while we wait (see our 2023 Q2, Q3 and yearend [letters](#) for more details on our thoughts).

Pacific Coast Oil Trust (ROYTL) units decreased from \$0.36 to \$0.33 per unit in the quarter. Not much new happened in the quarter. The custodian received court approval to delay liquidation until completion of the audits for 2019-2023. Six months have since passed, and no progress has been announced on any of the audits for those years.

We don’t see how the audits will magically be completed in the coming months if they haven’t been able to complete them for four years. BNY Mellon has not communicated what is causing the delay. The recent increase in oil prices is also a positive event. It allows for faster repayment of the asset retirement obligation (ARO) assessed by the operator, PCEC. In a worst-case scenario of dissolution and sale, higher oil prices should result in higher bid prices

for the net profits interest. We have been able to add to our position at \$0.30 per unit in the past few months.

As of the June 28, 2024, production update, the operator has withheld \$37.3 million for asset retirement obligations. If the withheld funds are credited with interest at the discount rate of 7.36% used in the ARO calculations, it puts a total value of \$43.5 million. Total units outstanding are 38.58 million. Thus \$0.97 per unit have been withheld and the withheld funds amounted to \$1.13 per unit after interest as of the end of April 2024. Significantly more than the quarter end \$0.33 unit price. If the trust is dissolved and the net profits interest sold, it is still our argument that the ARO liability transfers to the buyer, thus unitholders should be credited the withheld ARO funds less legal costs incurred by the trust and operator but should not be assessed any interest charges on current or past ARO balances. We suspect the operator would try to argue that the ARO doesn't transfer to the buyer, which would be amazingly hypocritical in our opinion, since it transferred to the operator when they purchased the properties, and the operator (allegedly) transferred it to the trust at its creation³, but nevertheless we suspect they would still argue it.

Another way to look at the investment is to calculate the amount of cash flow that the net profits interest would generate to the potential buyer assuming ARO is not transferred or not assessed until incurred. Over the last twelve months, the trust's 80% net profits interest in the production has resulted in approximately \$10.7 million of distributable proceeds. The operator charges the trust about \$1.3 million annually. Trust expenses would be eliminated if the net profits interest was sold, leaving trailing twelve-month pre-tax cash flow of \$9.4 million. The unknown is what multiple of cash flow bidders will be willing to pay. The market cap at the end of June was \$12.7 million, or about fifteen months' worth of cash flows.

Citizens Bancshares (CZBS) - is an Atlanta, Georgia based bank that received \$95.7 million of additional capital via the US Treasury's Emergency Capital Investment Program (ECIP) at the end of June 2022. The bid price declined from \$49.60 per share at the end of the first quarter to \$45.45 per share at the end of the second quarter. Citizens issued a press release which they normally do not do. Earnings for the first quarter of 2024 were \$1.95 per share, an increase of 16% versus the prior year quarter. They have reduced their share count by 10% over the last year, from 2.0 million shares to 1.8 million shares. In the first quarter they paid a \$1.00 annual dividend. Earnings run rate is roughly \$8 per share. The stock is an incredible bargain at six times earnings for a massively overcapitalized bank that is shareholder friendly.

Tax Information and K-1's

Investor K-1's were issued on April 4. The fund's annual audit report was sent electronically on April 27 and again on May 4 due to email issues. If any of the fund's investors did not receive either, please contact us.

Room for New Members and/or Additional Funds

We continue to have more attractive ideas than capital. Thus, there is plenty of room for existing partners to increase their investment and for others to join. Please consider referring friends of yours who may be potential new investors. The basic requirements are 1) that each invests a minimum of \$100,000 and 2) that new members are accredited (high net worth) individuals. Subsequent investments must be for a minimum of \$10,000.

³ We say allegedly because the offering documents in the 2012 IPO all show the ARO as remaining with the operator. It was only assessed to the trust after new owners took over in 2019, seven years later.

If this letter was passed on to you and you would like to be added to our monthly distribution list, please email me at the email address below. You can find more letters at eriksencapitalmgmt.com/investor-letters. Should you have any questions regarding the fund, please don't hesitate to call or email.

Sincerely,



Tim Eriksen

Manager

Cedar Creek Partners LLC

tim@eriksencapitalmgmt.com (please note this is a new email address)

(360) 354-3331

DISCLAIMERS

Fund Performance

The financial performance figures for 2024 presented in this report are un-audited estimates based on the best information available at the time of the letter and are subject to subsequent revision by the Fund's auditors. Past performance may not be indicative of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

Net Return reflects the experience of an investor who came into the Fund on inception and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figures will therefore include the impact of high water marks in the cumulative return. Individual investor returns will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark figure, if any.

Index Returns

The S&P500 Index returns are reported using the S&P500 Depository Receipt Trust (SPDR) which trades under the ticker symbol SPY. Reinvested dividends are included in these figures. A spreadsheet showing the SPY performance versus the fund since inception is available upon request.

Nasdaq performance excludes dividends, which historically have been immaterial to the total return of that index. In recent years more technology stocks have begun paying dividends thus the inclusion of dividends would increase the reported figures.

Russell 2000 performance is from data reported on Russell's website and includes reinvested dividends.

DJIA returns are reported using the SPDR Dow Jones Industrial Average which trades under the ticker symbol DIA. Reinvested dividends are included in these figures. A spreadsheet showing the DIA performance versus the fund since inception is available upon request.

While reported returns for SPY and DIA will likely be a few tenths of a percentage lower than the representative index annually, we believe they are a better reflection of what a non-institutional investor would earn following a passive investment approach.

Index returns are provided as a convenience to the reader only. The Fund's returns are likely to differ substantially from that of any index, and there can be no assurance that the Fund will achieve results that are superior to such indices.

Share Prices

Share price figures for listed stocks are from Yahoo! Finance and unless specified otherwise are the closing price as of the previous month end. Share price figures for unlisted stocks are closing bid prices as reported on otcmarkets.com, except for unlisted stocks classified as expert market, which do not have public availability of quotes, and are marked to last sale.

Forward Looking Statements

This letter and the accompanying discussion include forward-looking statements. All statements that are not historical facts are forward-looking statements, including any statements that relate to future market conditions, results, operations, strategies or other future conditions or developments and any statements regarding objectives, opportunities, positioning or prospects. Forward-looking statements are necessarily based upon speculation, expectations, estimates and assumptions that are inherently unreliable and subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements are not a promise or guaranty about future events.