



Managing Member – Tim Eriksen

Eriksen Capital Management, LLC

567 Wildrose Cir., Lynden, WA 98264

May 03, 2021

Subject: Cedar Creek Partners First Quarter 2021 Results

Dear Partners and Friends:

While much of the world was still facing the effects of the coronavirus, the vaccine rollout in the U.S. progressed rapidly in the first quarter, allowing for some signs of a return to normalcy. The successful rollout combined with the federal government providing massive fiscal stimulus and the Fed being an aggressive buyer of securities, it is no surprise that the stock market did well.

What was a surprise, for the first time in quite a while, smaller companies, and especially micro cap companies outperformed their larger brethren. The Russell Micro Cap was up 23.9% in the quarter, substantially better than the Russell 2000, which was up a solid 12.7%. The S&P 500 rose 6.3%, and the NASDAQ was the weak performer, posting a 2.8% return. The fund returned 19.7%, net of fees and expenses.¹

	Q1 '21	Inception	Ave. Annual
Cedar Creek	19.7%	651.2%	14.2%
NASDAQ	2.8%	471.7%	12.1%
DJIA (DIA)	8.5%	331.1%	10.1%
S&P 500 (SPY)	6.3%	318.0%	9.9%
Russell 2000	12.7%	285.4%	9.3%
Russell Micro Cap	23.9%	240.1%	8.4%

* 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 \$751,227 as of March 31, 2021, net of fees and expenses, whereas \$100,000 invested in the indexes we compare against would have only grown to between \$340,150 in the Russell Micro Cap and \$571,715 in the NASDAQ.

Fund Holdings are at Incredibly Attractive Prices

On the whole, the fund's holdings are trading at 12 times our estimate of earnings for the coming year, and just 8 times earnings net of cash at the respective businesses.² Weighted price to book is 1.3. Dividend yield is 2.0%.

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).

² Ratio excludes cash held by the fund.

Weighted return on equity is projected to be 10.1%. We believe these to be very attractive levels, particularly in light of the fact that a couple of core positions (e.g. **Pendrell** (PCOA) and **JG Boswell** (BWEL)) are deep value, where the thesis is not based on current earnings, but rather unlocking of balance sheet value, and we own modest positions in a couple of SPACs that have no expected earnings.

Cash Levels and Fund Repositioning

We started the quarter with cash levels at 6% and ended the quarter at just under 13%. We had a lot of activity in the quarter. We exited our position in **Charles Schwab** (SCHW) after it climbed nearly 40% in the quarter. The market seemed to go from not pricing in any future synergies from the TD Ameritrade acquisition to pricing most of them in, so we took profits and moved on to more attractive ideas.

We closed out three minor positions – **Alpha Pro Tech** (APT) a maker of masks, other PPE gear, and barrier wrap for construction, **Tix Corp** (TIXC) a Las Vegas based seller of last minute show tickets, which is unfortunately run by one of the worst CEO's we know of, and **Western Capital Resources** (WCRS) that we have moved in and out of a few times over the last few years.

We added nine new positions, eight of which were minor. In the case of a few of them it is due to the price running up and us missing out on the opportunity of making them larger positions. This group includes **B Riley Financial** (RILY) and **Southern Bancshares** (SBNC). A few of the other were token monitoring positions. As noted above we did purchase a few SPACs (special purpose acquisition companies). The reasoning was we saw them as a better option than holding cash. Remember with a SPAC, the investor can get the original \$10 per share back if the investor votes against the proposed acquisition. Both SPAC positions are still in the potential acquisition phase, and we figured if they struck a deal the market liked, the price would go up, and if they did not, the stock would not fall much below the \$10 floor.

Update on Our Top Five Portfolio Holdings as of March 2021

Solitron Devices (SODI), where I am the CEO, the bid price for shares rose 40% in the quarter from \$5.00 per share to \$7.00. During the quarter, Solitron filed its audited financials for fiscal years 2019 and 2020, quarterly results for the first three quarters of fiscal 2021, and announced it had entered into an agreement to purchase a new building for \$4.2 million, and expects to make improvements to the building in order to relocate its existing operations later in the calendar year. Currently Soliton is in a rented facility. Subsequent to the end of the quarter, Soliton closed on the building purchase, putting 25% down and financing the balance at 3.8% fixed rate for the first ten years.

Pendrell Corporation (PCOA) bid price increased from \$125,000 per share to \$202,000 per share in the first quarter. In February, the SPAC Pendrell sponsored, **Holarity** (HOL) announced a deal to merge with Astra. Astra makes small rockets to send satellites into orbit. The deal was positively received as Holarity shares went from \$10.34 prior to the announcement to as high as \$22.47 before falling back to \$11.80 at the end of the quarter.

Pendrell has 778 shares outstanding per the otcmarkets website. Pendrell owns 6,731,000 shares of Holarity and warrants to buy 5,333,333 shares at \$11.50 per share. That works out to 8,651 shares and 6,855 warrants of Holarity for each Pendrell share. At Holarity's quarter end share price of \$11.80 per share that makes the value of the Holarity shares equal to \$102,901 per Pendrell share ($8,651 \times \$11.80$) and the value of the warrants

another \$2,057 per Pendrell share ($6,855 \times (\$11.80 - \$11.50)$), resulting in a total value for Holicity at \$104,148 per Pendrell share. We estimate that Pendrell has cash and other investments of roughly \$190,000 to \$210,000 per share.³ Therefore, the total value of Pendrell is over \$300,000 per share. During the quarter Pendrell brought another SPAC, **Colicity** (COLIU) public as well. Colicity is larger than holicity so the economics are even better than with holicity. Should Pendrell find an acceptable acquisition, total value of Pendrell would increase by roughly another \$100,000 to \$150,000 per share to \$400,000 to \$450,000 per share.

DBM Global (DBMG) bid price increased by 16% to \$65 per share in the quarter. DBM is 92% owned by **HC2 Holdings** (HCHC). On March 15, DBM Global announced its intent to acquire Bunker Steel. The press release was short on specifics. It did note that the deal would "substantially increase DBM's revenue and EBITDA." HC2's SEC filings note that the acquisition is for \$145 million. DBM's market cap is roughly twice that, so it appears to be a significant acquisition. It appears DBM is issuing a \$30 million note to the sellers as part of the financing. In the five years we have owned DBM we have collected almost \$26 per share in total dividends, which is not too far below our \$32.50 average cost.

PharmChem (PCHM) continues to perform well. During the first quarter the bid price increased 28% from \$3.80 per share to \$4.88 per share. The company makes a sweat patch to detect drugs. Revenues have been rising in recent years and climbed 20% in the first half of 2020 versus 2019. Net income climbed from \$0.16 to \$0.19 per share. We are expecting the strong sales for PharmChem to have continued and possibly grown even faster in the second half of 2020 and early 2021. Added to that, the company has made it clear that it is for sale at the right price. (Subsequent to quarter end, PharmChem reported 2020 year end results. Revenue in the second half grew by 20% and net income by 9%. The reason net income did not grow as fast as revenues is that the company exhausted its historical net operating losses and began paying taxes at normal rates. Pre-tax income in the second half of 2020 actually increased by 27% versus 2019. For 2020, PharmChem reported EPS of \$0.34 per share, and \$0.28 per share fully diluted. Net cash per share increased to \$1.34 and they announced a \$0.12 dividend. All quite impressive for a stock under \$5 per share.)

PD-Rx Pharmaceuticals (PDRX). Our position in PD-Rx was increased significantly in the quarter. We had 1% of the fund in the stock as of the end of 2020. During Q1 we had the opportunity to buy shares between \$2.60 and \$2.75 per share. By quarter end, it was roughly 4.5% position in the fund. The company releases financials annually based on a June fiscal year. As of June 30, 2020, the company had a book value of \$4.00 per share, no debt other than a PPP loan, and net cash of \$2.02 per share. After more than a decade of profits PD-Rx did suffer modest losses in fiscal 2020. It was reported as (\$0.22) per share but that should get revised upward due to their auditors treating expected PPP forgiveness as a taxable event, which later legislation clarified was incorrect. Absent that, the loss would have been (\$0.09) per share. Due to a June year end all of the company's cost cutting measures had yet to take full impact. We really don't know if they have returned to profitability or not, but felt the substantial discount to book value, high cash balance, and the fact that accounts receivable was nearly twice total liabilities assuming PPP forgiveness, provided a large margin of safety. In fact, cash plus receivables minus total liabilities exceeded the price we paid on most of our purchases (see Appendix A).

Overall, one can see that PD-Rx and Pendrell are asset plays, while PharmChem, DBM and Solitron are earnings-based investments. We are very comfortable investing in both types of value investments. Our preference is still for earnings-based investments for the simple reason we want to see overall intrinsic value at the company to be increasing. Of course,

³ Based on book value per share of \$206,980 as of 12/31/2017 less estimated burn rate plus accretive share repurchases.

based on what they are doing, Pendrell is clearly growing intrinsic value per share even though it does not have ongoing "operating" earnings.

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.

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. Should you have any questions regarding the fund, please don't hesitate to call or email.

Sincerely,



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Appendix A

PD-Rx Pharmaceuticals, Inc.

BALANCE SHEETS

June 30,

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,456,605	\$ 2,409,182
Certificates of deposit	-	750,000
Accounts receivable (net of allowance for doubtful accounts of \$49,790 and \$105,026 in 2020 and 2019, respectively)	2,295,283	2,533,749
Inventories	1,849,036	1,465,579
Prepaid income taxes	158,328	266,213
Other	117,490	131,915
Total current assets	<u>7,876,742</u>	<u>7,556,638</u>
PROPERTY AND EQUIPMENT, net	848,844	960,130
DEFERRED INCOME TAXES	<u>66,068</u>	<u>141,789</u>
	<u><u>\$ 8,791,654</u></u>	<u><u>\$ 8,658,557</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 583,859	\$ 589,514
Accrued and other current liabilities	<u>647,397</u>	<u>1,058,204</u>
Total current liabilities	<u>1,231,256</u>	<u>1,647,718</u>
NOTES PAYABLE	<u>933,700</u>	<u>-</u>
Total liabilities	<u>2,164,956</u>	<u>1,647,718</u>
COMMITMENTS AND CONTINGENCIES (Note E)		
STOCKHOLDERS' EQUITY		
Preferred stock - \$.10 par value; authorized, 10,000,000 shares; issued and outstanding, none	-	-
Common stock - \$.01 par value; 3,000,000 authorized; 2,094,804 shares issued in 2020 and 2019, respectively	20,948	20,948
Additional paid-in capital	1,344,461	1,344,461
Retained earnings	<u>5,502,390</u>	<u>5,886,531</u>
	<u>6,867,799</u>	<u>7,251,940</u>
Less common stock in treasury - at cost; 379,718 shares in 2020 and 2019	<u>(241,101)</u>	<u>(241,101)</u>
	<u>6,626,698</u>	<u>7,010,839</u>
	<u><u>\$ 8,791,654</u></u>	<u><u>\$ 8,658,557</u></u>

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

PD-Rx Pharmaceuticals, Inc.

STATEMENTS OF OPERATIONS

Years ended June 30,

	2020	2019
Net sales	\$ 21,025,546	\$ 20,870,974
Cost of sales	<u>14,767,246</u>	<u>13,286,202</u>
Gross profit	6,258,300	7,584,772
Selling, general and administrative expenses	<u>6,495,945</u>	<u>7,650,506</u>
Operating loss	(237,645)	(65,734)
Other income		
Interest income and other	37,111	50,392
Gain on disposition of assets	<u>-</u>	<u>907</u>
Other income, net	<u>37,111</u>	<u>51,299</u>
Loss before income taxes	(200,534)	(14,435)
Income tax (expense) benefit	<u>(183,607)</u>	<u>1,516</u>
NET LOSS	<u>\$ (384,141)</u>	<u>\$ (12,919)</u>
Loss per common share – basic and diluted	<u>\$ (0.22)</u>	<u>\$ (0.01)</u>

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

DISCLAIMERS

Fund Performance

The financial performance figures for 2021 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.

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.