PCSO

# *ITEM 5.* FINANCIAL STATEMENTS

## Protective Capital Structure Corporation

Unaudited Financial Statements

For the Quarter Ended

June 30, 2020

PCSO

# Balance Sheet

As at June 30, 2020

## ASSETS

| | | |
|---|---|---|
| **CURRENT ASSETS:** | | |
| ACCOUNTS RECEIVABLE (CONVERTIBLE TO SECURITIES): | | |
| Amortized Origination Fees **(NOTE 2A)** | | $ 1,037,298,881 |
| Accrued Interest Receivable **(NOTE 2B)** | | 54,005,645,247 |
| TOTAL ACCOUNTS RECEIVABLE | | **55,042,944,128** |
| OTHER CURRENT ASSETS: | | |
| Deposit on Office Building | | **17,000** |
| **TOTAL CURRENT ASSETS** | | **55,042,961,128** |
| LOANS HELD FOR INVESTMENT (HFI): | | |
| Structured Notes **(NOTE 4)** | | **302,370,704,180** |
| **TOTAL ASSETS** | | **$357,413,665,308** |

## LIABILITIES & EQUITY

| | | |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Accounts Payable **(NOTE 6A)** | | $ **282,222** |
| **OTHER CURRENT LIABILITIES:** | | |
| Payroll Liabilities **(NOTE 6B)** | | 2,360,705 |
| Contingent Liabilities **(NOTE 6C)** | | 564,361,426 |
| Cumulative Preferred Stock Dividend **(NOTE 6D)** | | 1,509,264 |
| **TOTAL OTHER CURRENT LIABILITIES** | | **568,231,395** |
| **TOTAL LIABILITIES** | | **568,513,617** |
| **EQUITY:** | | |
| Cumulative Preferred Stock, $.002 Par Value, 1,000,000,000 Shares, with 2-year Treasury rate plus 2% annual dividend Authorized, 24,000,000 Shares Issued & Outstanding **(NOTE 7)** | | 48,000 |
| Common Stock, $.001 Par Value, 30,000,000,000 Shares Authorized, 15,118,769,209 Issued & Outstanding | | 15,118,769 |
| Additional Paid-In Capital: | | |
| Preferred Stock | 4,752,000 | |
| Common Stock | 287,485,656,812 | |
| Total Additional Paid-In Capital | | 287,490,408,812 |
| Retained Earnings | | 66,909,497,103 |
| Net Income | | 2,430,079,007 |
| **TOTAL EQUITY** | | **356,845,151,691** |
| **TOTAL LIABILITIES & EQUITY** | | **$ 357,413,665,308** |

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# Income Statement

For the Quarter Ended June 30, 2020

| | |
|---|---|
| INCOME | |
| **INCOME FROM OPERATIONS** | |
| Amortized Interest Income **(NOTE 2B)** | $ 2,385,397,446 |
| Loan Origination Fees **(NOTE 2A, SCHEDULE I)** | 45,099,951 |
| **TOTAL OPERATING INCOME** | **$ 2,430,497,397** |
| EXPENSES | |
| Consulting Expense | 13,524 |
| Payroll Expense | 717,205 |
| Office Expense | 759 |
| Preferred Stock Dividend | 51,840 |
| Professional Fees | 17,000 |
| Rent Expense | 36,000 |
| Transfer Agents Fees | 25,576 |
| Systems Expense | 2,174 |
| Travel & Entertainment | 4,029 |
| License Expense | 50 |
| Other Expense | 1,233 |
| Provision for Contingency | (451,000) |
| **TOTAL EXPENSES** | **418,390** |
| **NET ORDINARY INCOME** | **$ 2,430,079,007** |
| EARNINGS PER SHARE **(NOTE 5)** | |
| **NET INCOME PER COMMON STOCK (BASIC)** | $ .16 |

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# Statement of Cash Flow

For the Quarter Ended June 30, 2020

| | |
|---|---|
| OPERATING ACTIVITIES | |
| NET INCOME FROM OPERATIONS | $ 2,430,079,007 |
| **Adjustment to reconcile Net income to Net cash provided by operation:** | |
| Callable Notes: Interest Receivables | (2,385,397,446) |
| Callable Notes: Loan Origination Fees | (45,099,951) |
| Accrued Expenses | 100,345 |
| Preferred Stock Dividend | 51,840 |
| Accrued Payroll | 717,205 |
| Provision for Contingency | (451,000) |
| Net Cash Provided by Operating Activities | 0 |
| **NET CASH INCREASE/ (DECREASE) FOR THE PERIOD** | **0** |
| **CASH AT THE BEGINNING OF PERIOD** | **0** |
| **TOTAL CASH & CASH EQUIVALENT** | **$ 0** |

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## Protective Capital Structure Corporation
### Statement of Shareholder's Equity
**June 30, 2020**
**(in 000s)**

| | Preferred Stock | Common Stock | Additional Paid-In-Capital | Retained Earnings* | Accumulated Other Comprehensive Income | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2019** | $ 48 | $ 15,119 | $ 287,490,409 | $ 66,909,497 | $ - | $ - | $ 354,415,073 |
| **Net Income (Loss) for 2020** | | | | 2,430,079 | | | 2,430,079 |
| **Preferred Stock issued** | | | | | | | - |
| **Common Stock Issued** | | | | | | | - |
| **Additional Paid-In-Capital** | | | | | | | |
| Preferred Stock | | | | | | | - |
| Common Stock | | | | | | | - |
| **Balance, March 31, 2020** | $ 48 | $ 15,119 | $ 287,490,409 | $ 69,339,576 | $ - | $ - | $ 356,845,152 |

* Includes Net Income from the prior period.

**NOTE:** PLEASE, READ PAGES 23 - 24 FOR MANAGEMENT DISCUSSIONS ON LIQUIDITY AND CASH FLOWS.

# Notes to the Financial Statement

June 30, 2020

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

### (A) BASIS OF PRESENTATION

Protective Capital Structure Corporation (PCSO) maintained its financial records on the "accrual basis" of accounting in conformity with the Generally Accepted Accounting Principles (GAAP) of the United States. The 2018 and 2019 annual reports were issued and submitted late due to required revision from the previously submitted annual reports, as disclosed.

### (B) USE OF ESTIMATES

Preparation of financial statements in conformity with GAAP allows management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and reported amounts of income earned and expenses incurred during the period. However, subsequent actual results could differ from the estimates used. As the business has not been in operation, no accounting system or general ledger has been maintained, so values and current rates have been used in calculation of values. In order to mitigate estimates, accruals and contingent liability estimates have been used.

### (C) FAIR VALUE DETERMINATION

In accordance with Paragraph $54^{C}$ to $54^{H}$ of Financial Accounting Standard Board's (FASB) Accounting Standard Codification, (ASC) 820-10-35 clarify the application of FASB ASC Topic 820 in determining fair value when the volume or level of activity for an asset or a liability has significantly decreased. Guidance is also included in identifying transactions that are not orderly.

FASB ASC 820-10-35-$54^{C}$ lists a number of factors that should be evaluated to determine whether there has been a significant decrease in the volume or level of activities for the asset or liability (or similar assets or liabilities) when compared with normal market activity. If the reporting entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market conditions, further analysis of the transactions or quoted prices is needed to determine whether an adjustment to the transactions or quoted prices is necessary.

And, ASC subparagraph 820-10-35-$54^{H}$ states that estimating the price at which market participants would be "WILLING" to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date, and requires judgement.

Formation of Protective Capital Structure Corporation's (PCSO) "Proprietary BCLOC Securities" coincided with the meltdown of the global financial markets (around 2008 and 2009) when market price for PCSO stock had dropped to $.002 per share. Hence, the Company conducted a 100,000:1 reverse stock split to an average price of $21.54 per share to initiate private negotiations with institutional investors.

Considering the facts and circumstances surrounding the markets at that period, Protective Capital Structure Corporation agreed with its clients to sign their binding commitments at a privately negotiated fair value of $20 per share (instead of $21.54), for all Promissory Notes signed by the Company in 2008 to create a BCLOC Security or the Special Purpose Limited Corporation (SPLC) Notes.

## NOTE 2. ACCOUNT RECEIVABLE CONVERTIBLE TO SECURITIES

As indicated in the balance sheet, the account receivable has two sub-components:

a. The Loan Origination Fees; and
b. The Accrued Interests.

### (A) LOAN ORIGINATION FEES

The notes were structured with a one-time loan origination fee rate of 5% calculated on the outstanding principal balance. In accordance with FASB ASC Paragraph 310-20-35-22, origination fees or costs associated with demand debt provide guidance on the amortization of net fees or costs for loans that are payable at the lender's demand. Interpretation of the standard permits any fee or cost to be recognized as an adjustment of yield on a straight-line basis over a period that is consistent with any of the following:

a. The understanding between the borrower and lender.
b. If no understanding exists, the lender's estimate of the period-of-time over which the loan will remain outstanding; any unamortized amount shall be recognized when the loan is paid in full.

As stated in the agreements between Protective Capital Structure Corporation and the clients, the loan origination fees are due on demand and clients have the option to pay in Cash or Marketable Securities, effective 2019 financial year. As provided in the covenants, the Notes cannot be redeemed within the first ten (10) years. Thus, neither the client nor Protective can trade or call the Notes within 10 years. Afterwards, Protective reserves the right to call the Notes, when necessary.

If paid in marketable securities instead of cash, the instruments would be marked to market and fluctuations in market value would be recognized in Protective's Other Comprehensive Income statement as gain or loss in the period recognized.

**STRAIGHT-LINE AMORTIZATION OF LOAN ORIGINATION FEES**

| ENTITY | PRINCIPAL | FEE RATE 5% | TOTAL LOAN ORIGINATION FEES in USD ($) | 35 YEAR STRAIGHT LINE AMORTIZATION | CUMULATIVE AMORTIZATION |
|---|---|---|---|---|---|
| RREH | $ 59,515,931,880 | 0.05 | $ 2,975,796,594 | $ 85,022,760 | $ 977,761,738 |
| RESTORATION | 2,824,000,000 | 0.05 | 141,200,000 | 4,034,286 | 46,394,286 |
| AVI | 800,000,000 | 0.05 | 40,000,000 | 1,142,857 | 13,142,857 |
| **TOTAL** | **$ 63,139,931,880** | | **$ 3,156,996,594** | **$ 90,199,903** | **$ 1,037,298,881** |

**(SCHEDULE I)**
SECOND QUARTER LOAN AMORTIZATION FEE:
Allocation of Loan Origination Fee for the first quarter was based on the pro-rated amount of the total straight-line annual amortized amount of $90,199,903 divided by twelve (12) months, and, multiplied by six (6) months. Thus,

(90,199,903 ÷ 12) × 6 **= $ 45,099,951**.

## (B) SLPC NOTES AMORTIZATION

Interest calculation on the thirty-five (35) year SLPC Notes was based on the compounding method. The stated coupon rate for Restoration started at 2.67% per annum for the first five (5) years; and the rate changed to 8.75% for the remaining thirty (30) years. However, both Relm Real Estate Holdings (RREH) and Access Versalign Inc. (AVI) remain fixed at the contract coupon rate of 7.5%.

***Disclaimer: Subsequent to the close of the period, it was determined that further assessment of the basis of the principal of the notes is needed, and the interest accrued on the notes will likely be materially revised and adjusted.***

## SUMMARY OF ACCRUED INTEREST (SCHEDULE I)

| DESCRIPTION | RELM REALESTATE HOLDINGS (RREH) @ 7.5% | RESTORATION years 1-5 @ 2.67% years 6 until maturity @ 8.75% | ACCESS VERSALIGN INC. (AVI) @ 7.5% | CUMMULATIVE TOTAL |
|---|---|---|---|---|
| ***PRINCIPAL*** | ***$59,515,931,880*** | ***$2,824,000,000*** | ***$800,000,000*** | ***$63,139,931,880*** |
| 2009 | 4,463,694,891 | 75,400,800 | 60,000,000 | 4,599,095,691 |
| 2010 | 8,927,389,782 | 150,801,600 | 120,000,000 | 9,198,191,382 |
| 2011 | 13,391,084,673 | 226,202,400 | 180,000,000 | 13,797,287,073 |
| 2012 | 17,854,779,564 | 301,603,200 | 240,000,000 | 18,396,382,764 |
| 2013 | 22,318,474,455 | 377,004,000 | 300,000,000 | 22,995,478,455 |
| 2014 | 26,782,169,346 | 624,104,000 | 360,000,000 | 27,766,273,346 |
| 2015 | 31,245,864,237 | 871,204,000 | 420,000,000 | 32,537,068,237 |
| 2016 | 35,709,559,128 | 1,118,304,000 | 480,000,000 | 37,307,863,128 |
| 2017 | 40,173,254,019 | 1,365,404,000 | 540,000,000 | 42,078,658,019 |
| 2018 | 44,636,948,910 | 1,612,504,000 | 600,000,000 | 46,849,452,910 |
| 2019 | 49,100,643,801 | 1,859,604,000 | 660,000,000 | 51,620,247,801 |
| **2020 (2nd Quarter)** | **51,332,491,247** | **1,983,154,000** | **690,000,000** | **54,005,645,247** |

## SUMMARY OF ACCRUED INTEREST (SCHEDULE II)

| DESCRIPTION | RELM REALESTATE HOLDINGS (RREH) @ 7.5% | RESTORATION years 1-5 @ 2.67% years 6 until maturity @ 8.75% | ACCESS VERSALIGN INC. (AVI) @ 7.5% | AMOUNT TOTAL |
|---|---|---|---|---|
| ***PRINCIPAL*** | ***$59,515,931,880*** | ***$2,824,000,000*** | ***$800,000,000*** | ***$63,139,931,880*** |
| 2009 | 4,463,694,891 | 75,400,800 | 60,000,000 | 4,599,095,691 |
| 2010 | 4,463,694,891 | 75,400,800 | 60,000,000 | 4,599,095,691 |
| 2011 | 4,463,694,891 | 75,400,800 | 60,000,000 | 4,599,095,691 |
| 2012 | 4,463,694,891 | 75,400,800 | 60,000,000 | 4,599,095,691 |
| 2013 | 4,463,694,891 | 75,400,800 | 60,000,000 | 4,599,095,691 |
| 2014 | 4,463,694,891 | 247,100,000 | 60,000,000 | 4,770,794,891 |
| 2015 | 4,463,694,891 | 247,100,000 | 60,000,000 | 4,770,794,891 |
| 2016 | 4,463,694,891 | 247,100,000 | 60,000,000 | 4,770,794,891 |
| 2017 | 4,463,694,891 | 247,100,000 | 60,000,000 | 4,770,794,891 |
| 2018 | 4,463,694,891 | 247,100,000 | 60,000,000 | 4,770,794,891 |
| 2019 | 4,463,694,891 | 247,100,000 | 60,000,000 | 4,770,794,891 |
| **2020 (2nd Quarter)** | **2,231,847,446** | **123,550,000** | **30,000,000** | **2,385,397,446** |
| **Total** | **$51,332,491,247** | **$1,983,154,000** | **$690,000,000** | **$54,005,645,247** |

## NOTE 3. INCOME TAXES

The Company's effective tax rate of 21% reflects the Tax Cuts and Jobs Act flat tax rate change that was enacted in 2017. Significant judgement is required in evaluating corporate tax positions. In the ordinary course of business, many transactions occur for which the ultimate tax outcome is uncertain. Accounting standards governing the accounting for uncertainty in income taxes for a tax position taken or expected to be taken in a tax return require that the tax effects of a position be recognized if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold must be met in each reporting period to support continued recognition of the benefit.

Also, the SEC staff has indicated in SAB Topic 1.B.1 (codified in ASC 225-10-S99) that it "believes that it is material to investors to know what the effect of income would have been if the registrant had not been eligible to be included in a consolidated income tax return with its parent." For this reason, the SEC staff has indicated that the separate-return method of allocation is preferable and that, if it is not used to prepare financial statements of a member that would be included in a public filing, the SEC staff will require a pro-forma income statement reflecting a tax provision calculated on a separate return only.

Relatively, ASC 740-10-50-17 requires the following disclosures in the separately issued financial statement of a member of a group that files a consolidated tax return:

A. The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented.
B. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the above disclosures are presented.

As indicated in the related party disclosure section of this report, Protective Capital Structure Corporation has subsidiary relations with another business entity; hence, taxes would be reported and paid at the consolidated level. However, the following pro-forma income statement reflecting the aggregate tax expense is presented in compliance with the above quoted standard for entities with separately issued financial statement that are members of a consolidated tax return:

PROTECTIVE CAPITAL STRUCTURE CORPORATION
**PROFORMA INCOME STATEMENT FOR TAX PURPOSES**
AS OF June 30, 2020

| | | |
|---|---|---|
| **EBITDA (From the Income Statement)** | | **$ 2,430,079,007** |
| LESS: | | |
| *RELATED PARTY TRANSACTIONS:* | | |
| AVI 65% Ownership by Parent company | (20,242,857) | |
| TOTAL EARNINGS FROM RELATED PARTIES | | (20,242,857) |
| | | |
| EARNINGS FROM UNRELATED PARTIES | | $ 2,409,836,150 |
| Enacted Effective Corp. Tax Rate of 21% | | (506,065,591) |
| **NET ORDINARY INCOME** | | **$ 1,903,770,559** |

## NOTE 4. LOANS HELD FOR INVESTMENT (HFI)

As promulgated by FASB, when a reporting entity holds an originated or purchased loan for which it has the intent and ability to hold for the foreseeable future or to maturity or payoff, the loan should be classified as held for investment.

In accordance with ASC Paragraph 310-10-35-47, loans held for investment are reported on the balance sheet at the outstanding principal balance adjusted for any write-offs, the allowance for loans losses, any deferred fees or costs, and any unamortized premiums or discounts.

Protective Capital Structure Corporation has the intent and ability to hold originated structured notes for the foreseeable future or to maturity. And, as the company does not anticipate any probability for loan losses due to the fixed interest rate and the contractual nature of the Structured Note, no portion of the principal amount is deemed allowance for write-offs; hence the Notes are appropriately reported in the balance sheet in accordance with the code.

The Notes are counterparty negotiated loan commitments structured to create Protective Capital Structure Corporation's proprietary BCLOC Security as a Special Purpose Vehicle to finance the real estate and real estate development activities of their clients RREH and Restoration III.

Relatively, Protective Capital Structure Corporation offered its own PCSO Common Stocks as loan to the Clients to serve as the underlying collateral in exchange for the clients' Promissory Notes to necessitate the creation of the BCLOC Security to finance the above stated projects. The Notes have thirty-five (35) year duration at a Fixed Interest Rate of 7.50% per annum for RREH and AVI. In satisfying certain investing conditions, Restoration started at a Fixed Interest Rate of 2.67% for the first five (5) years, after which the rate changed to 8.75% for the remaining thirty (30) years of the Note.

The parties agreed to price the underlying common stocks at $20 due to the circumstances that surrounded the company's common stocks and the global financial markets as explained above in Note 1C. Hence, the basis of the structured note as indicated in the balance sheet is detailed in the table below:

### SUMMARY OF STRUCTURED NOTES

| ENTITY | SHARE QUANTITY | PRICE | AMOUNT ($) |
|---|---|---|---|
| RREH | 14,937,335,209 | $20 | $ 298,746,704,180 |
| RESTORATION | 141,200,000 | 20 | 2,824,000,000 |
| AVI | 40,000,000 | 20 | 800,000,000 |
| **TOTAL** | **15,118,535,209** | | **$ 302,370,704,180** |

***Disclaimer: Subsequent to the close of the period, it was determined that further assessment of the basis of the principal of the notes is needed, and likely be materially revised and adjusted.***

## NOTE 5. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing Net Ordinary Income attributable to Protective Capital Structure Corporation by weighted average number of shares outstanding during the reporting period. Since there is no issued and outstanding Convertible Preferred Shares at the balance sheet date, and the outstanding Series B Preferred Shares are not convertible, and no new shares were issued during the financial reporting period, the reported earnings per share amount is deemed as basic and anti-dilutive.

## NOTE 6. INDEBTEDNESS

### (A) ACCOUNTS PAYABLE

The Accounts Payable balance of $282,222 is made up of $17,000 Deposit on Office Building, $47,000 Professional Fees and $218,222 of other actual operating expenses incurred and accrued as of year-to-date June 30, 2020 pending payment following the close of third quarter financial reporting.

### (B) PAYROLL LIABILITIES

The Company has incurred a total year-to-date estimated accrued liability of $2,360,705 for Payroll activities for 2020 pending for payment after the second quarter financial reporting period.

### (C) CONTINGENT LIABILITIES

As indicated in the prior year's financial report, the current management did not have access to actual expense data at the balance sheet date as the prior officers that managed the company did not keep accurate professional records. Hence, management used reasonable judgement in accordance with ASC Topic 420-20-20 to recognize 1% of Total Operating Income of $2,430,497,397 plus Accrued Interest Receivable of $54,005,645,247, or $564,361,426, as a provision for Contingent Liabilities, to settle any probable future obligation, as demonstrated and accrued in the Q2-2020 Income Statement, that may likely be brought to the attention of management. The Net Provision for Contingency Liability is the difference between the prior period Contingency Liability and the current year Provision for Contingency Liabilities, or a $24,079,474 increase in the provision.

| | |
|---|---|
| Net Ordinary Income | 2,430,497,397 |
| Accrued Interest Receivable | 54,005,645,247 |
| **Total** | 56,436,142,644 |
| Multiply by 1% | X 1% |
| **Provision for Contingent Liabilities** | **564,361,426** |

| | |
|---|---|
| **Q2-2020 Provision for Contingent Liabilities** | 564,361,426 |
| **Less: Q1-2020 Provision for Contingent Liabilities** | 540,281,952 |
| | **24,079,474** |

## (D) PREFERRED STOCK DIVIDEND

The series B Preferred Shares were issued on January30, 2009 to all shareholders of record on December 10, 2008, and the shares pay dividends in cash or company common stock. The dividend declaration annually is priced at 2% over the 2-Year U.S. Treasuries. It was expected of the past Management to payout the annual dividend on January 30, 2011 but failed to do so and has not paid any of the subsequent annual dividends to date. Hence, the Series B Preferred dividend has accumulated to the sum of $1,509,264 over the years and it is incumbent for the current Management's approval to make the accrued annual dividend balances owed.

**ANALYSIS OF THE PREFERRED STOCK DIVIDEND**

| AS OF DATE | 2-YEAR US TREASURY RATE | 2% OVER 2-YEAR TRESURY RATE | ANNUAL PREFERRED STOCK DIVIDEND @ 2% OVER TREASURY RATE | CUMMULATIVE PREFERRED DIVIDEND @ 2% OVER TREASURY RATE |
|---|---|---|---|---|
| **TOTAL PREFERRED STOCK** | | | **$ 4,800,000** | |
| 12/31/2010 | 0.605% | 2.605% | $ 125,040 | $ 125,040 |
| 12/31/2011 | 0.247% | 2.247% | 107,856 | 232,896 |
| 12/31/2012 | 0.251% | 2.251% | 108,048 | 340,944 |
| 12/31/2013 | 0.384% | 2.384% | 114,432 | 455,376 |
| 12/31/2014 | 0.672% | 2.672% | 128,256 | 583,632 |
| 12/31/2015 | 1.052% | 3.052% | 146,496 | 730,128 |
| 12/31/2016 | 1.198% | 3.198% | 153,504 | 883,632 |
| 12/31/2017 | 1.887% | 3.887% | 186,576 | 1,070,208 |
| 12/31/2018 | 2.496% | 4.496% | 215,808 | 1,286,016 |
| 12/31/2019 | 1.571% | 3.571% | 171,408 | 1,457,424 |
| 6/30/2020 | 0.160% | 2.160% | 51,840 | **1,509,264** |
| **CUMULATIVE PREFERRED STOCK DIVIDEND** | | | **$ 1,509,264** | |

## NOTE 7. SERIES B PREFERREDSTOCK

On December 10, 2008, the Company executed a reverse stock split of 100,000 to 1, thereby reducing the number of outstanding common shares. To protect the shareholders, the Company declared a one-time special dividend based on 2008 year-end results, in the amount $4.8 Million as Series B Preferred Stock. This represented an effective price of $.002 per share or 2 (two) times the price quoted on December 10, 2008 to shareholders of record as of that date.

| | |
|---|---|
| 24,000,000 Preferred Shares @ $.002 Par Value | $ 48,000 |
| Additional Paid-In Capital | 4,752,000 |
| **TOTAL ISSUED & OUTSTANDING PREFERRED STOCK** | **$ 4,800,000** |

## NOTE 8. RELATED PARTY TRANSACTIONS & DISCLOSURE

For the first quarter ended March 31, 2020, the Company did not execute any new related party transactions apart from the existing structured commitments that were signed from the inception when the Company's proprietary BCLOC Security was developed. The following outline summarizes the disclosure of affiliations or related party enterprises, and the percentage of ownership held by the ultimate parent company:

1. PCSO Capital Investments LLC, affiliated company.
2. First Life Financial Corporation (FLFC), pending reinstatement, is 100% or wholly owned by PCSO.
3. Protective State Capital Trust (PSCT) Pending reinstatement, is 100% or wholly owned by PCSO.
4. Access Visalign Inc. (AVI), pending reinstatement, is 65% owned by PCSO with the remaining 35% privately owned.

As promulgated under ASC 860-10-40-5, a transfer of financial assets from one subsidiary to another subsidiary of a common parent is accounted for as a sale by the transferring entity if all the conditions in ASC 860-10-40-5 are met and the receiving entity is not consolidated by the transferring entity. Relatively, Protective Capital Structure Corporation (PCSO) has subsidiary relationships with other entities, as indicated above, as this report represents a Consolidated Financial Report as the Ultimate Parent level, in compliance with the above standard.

# NOTE 9. MANAGEMENT DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

CAUTIONARY NOTE REGARDING FORWAND-LOOKING STATEMENTS

***The management discussions and analysis of the financial conditions and results of operations include statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding expectations, intentions or strategies regarding the future. All statements, other than statements of historical facts, included in this report regarding our financial position, business strategy and other plans and objectives for future operations are forward-looking statements. The terms, "may," "will," "could," "anticipate," "plan," "continue," "project," "intend," "estimate," "believe," "expect" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words.***

***Although we believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that they will prove to be correct or that we will take any actions that may now be planned. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the "Risk Factors" in our latest annual report. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.***

***The discussion and analysis below should be read in conjunction with the financial statement elsewhere in this report. Management has presumed that the readers of this interim financial information have read or have access to Management Discussions and Analysis of Financial Conditions and Results of Operations appearing in our Annual Financial Report for the year ended December 31, 2019.***

# OVERVIEW

Protective Capital Structure Corporation is a structured finance company that has accumulated over $355 billion in assets by providing advanced investment financing strategy through the use of their “Proprietary BCLOC” securitization. The company is a Non-Depository Financial Institution that operates in the United States with plans to expand globally.

Protective Capital Structure Corporation is also a holding company whose core strategy is to package our BCLOC Security through multiple distribution channels to fulfill the Two (2) Strategic Funding Options needed by various sophisticated projects that include independent real estate entities such as Restoration and Relm Real Estate Holdings (RREH), and related companies: Access Visalign Inc. (AVI). Creation of our fintech backed Proprietary BCLOC Security which is valued as a “Derivative and, Off-Balance Sheet Transaction” involves the lending of a package of PCSO stocks, as collateral, in exchange for clients’ Promissory Notes issued as a 35-year Special Limited Purpose Corporation (SLPC) vehicle, is paired with a U.S. Treasury Fund.

In executing our core strategy, the Board established three (3) subsidiary companies under Protective to provide different functions needed to achieve Protective Capital Structure Corporations financing objectives. The subsidiaries include First Life Financial Corporation (FLFC), Protective State Chartered Trust and PCSO Capital Investment, LLC.

Management intends to utilize First Life Financial Corporation (FLFC) as a US Treasury Fund to periodically raise funds through strategic Bonds Issue and Trust Preferred Securities targeting institutional investors such as Pension Funds; Insurance Companies; Sovereign Wealth Funds; and High Net-Worth Investors, to trade primarily in U.S. Treasuries and the BCLOC Securities to enhance value for the bond investors.

Thus, the FLFC’s Treasury Fund is an alternate funding source to provide liquidity to finance the operations of clients’ business when the market price of the borrowed PCSO Stock has not appreciated to a feasible level where clients can liquidate and use the proceeds to finance their operations. However, clients would still earn dividend on their borrowed PCSO stocks when declared, as Protective continues to accrue interest on the promissory notes until the accrued interest and notes are redeemed by cash or clients’ issued securities to be held in a brokerage or trust account and be liquidated when necessary.

Also, management intends to utilize Protective State Charted Trust as a Trustee or Trust Company that will take custody and account for all collateral assets held on (a) BCLOC Securities, (b) Cash raised through FLFC Offerings, and (c) All Stocks and Marketable  Securities issue by Customers, for a fee. Both FLFC and Protective State Chartered Trust would be registered to comply with the Delaware State Insurance and Trust Laws.

## LIQUIDITY AND CURRENT BUSINESS DEVELOPMENTS

In the first half of the 2019 financial year, management focused on relaunching the business by creating a new board and new management, assembling all supporting documents, and developing the necessary structures needed to revamp the company. Management shifted its focus in the second half of the year towards improving liquidity. Recognizing that the relaunching and the SEC shelf registration of the BCLOC Security may take time to complete, the company has established a private placement memorandum as detailed below, as an interim measure, to raise $200 million to cover the operating cost until all registrations are completed by the selected Underwriters.

## PRIVATE PLACEMENT MEMORANDUM (PPM)

As stated in "Item 4" above, the Company has issued a confidential private placement memorandum (PPM) through a related company PCSO Capital Investment, LLC to raise $200 million to be transferred, based on agreement, to Protective Capital Structure Corporation to increase liquidity for Protective Capital Structure Corporation

The offering has a Minimum of Four (4) and a Maximum of Four Hundred (400) Promissory Notes at an offering price of Five Hundred Thousand Dollars ($500,000) per Note to raise a Minimum of Fifty Million Dollars and a Maximum of Two Hundred Million Dollars ($ 200,000,000) from qualified investors who meet the investor suitability requirements set forth in the PPM, and the breakdown as to how the amount would be used is detailed in the table below.

## USE OF PROCEEDS

| | |
|---|---|
| 1. Legal Fees | $ 2,000,000 |
| 2. S.E.C. Fees | 10,000,000 |
| 3. Other cost | 1,000,000 |
| 4. Commission & Offering Expense | 21,000,000 |
| 5. Operational Cost | 8,000,000 |
| 6. Escrow Reserve Account | 75,000,000 |
| 7. Cash Reserve for Operations | 83,000,000 |
| TOTAL | $ 200,000,000 |

### PROGRESS IN CLIENTS BUSINESS ACTIVITES

In reliance upon the pre-audit book value as a threshold price, clients are expected to sell stocks on a stand-alone basis. If the stocks are sold in concurrent with the customer issuing bonds through our guarantee company - First Life Financial Corporation, the customer is expected to be able to execute her business plans over the next three or more years.

Thus, Relm Real Estate Holdings (RREH) has identified a management team to handle real estate investments using triple-net and other lease strategies, and other real estate development and holdings.

Restoration is looking to developing upscale housing units to satisfy the market of people in the income level of approximately $300 thousand and up.

Also, the company (PCSO) intends to issue $5 billion or more bonds through First Life Financial Corporation to develop and resource the U.S. Treasury Fund to enhance BCLOC corporate clients with additional liquidity to develop their respective businesses. During the bond capital raise, there is a high probability that management would setup a bond sinking fund to service or help make interest payments on the Notes.

While the accounts receivable balance on the balance sheet continues to increase, our commitment to responsible management enables us to implement the necessary strategy to pursue the reduction of the receivables by negotiating with clients (based on agreement) to pay by issuing securities. When payment is received in securities, we would place the securities in an escrow account within a FINRA broker-dealer firm and make them available for sale during a twelve months period.

However, during the construction phase, quantity of shares that is likely to be sold may be less until the properties are fully developed. If the securities are not sold within the twelve-month period, the process will continue until the securities are converted to cash to pay-off the outstanding interests in full.

## *ITEM 6.* DESCRIPTION OF COMPANY BUSINESS, PRODUCTS AND SERVICES

### A. DESCRIPTION OF THE ISSUER'S BUSINESS OPERATIONS;

Protective Capital Structure Corporation (PCSO) operates as a Non-Depository financial institution that specializes in "Structured Finance" products. PCSO is 97% independently owned with 3% minority interest held by the promissory note holders and the general public through stock acquisition. Also, there are preferred stockholders with 46% held by the general public. PCSO was incorporated in March 2004 pursuant to an Automax, Inc. reverse merger in the state of Florida. In 2004, PCSO began quoting on the OTC market to facilitate the creation of the Business Collateral Line of Credit or "BCLOC Security.

### VALUATION & ASSESSMENT

The BCLOC Security as a structured finance product is a repackaged instrument or a hybrid of financial assets made-up of Equity; Fixed Income; Cash and other investment assets, held within a unit investment trust, including the Business Income, together with the structured assets' related earnings from Dividends; Interest Income; Capital Gains, and appreciation of the Indices. The foregoing makes the BCLOC Security, one of the safest or default-free financial instruments ever structured.

In compliance with regulatory requirements in the structured finance industry, PCSO is required to maintain at least 10% ownership stake in clients' business to motivate PCSO Management to continually monitor and ensure the operating success of the clients. Relatively, PCSO retains, at least, 10% interest in each client's business. Hence, as value increases in the BCLOC securitization structure, including clients' business, a corresponding increasing effect takes place on PCSO assets, respectively.

## The Business Collateral Line-Of-Credit (BCLOC) as a Security

Protective Capital Structures Corporation (PCSO, also, referred to as the Company) is a relaunched non-depository bank and finance company whose purpose is to create alternative capital financing strategies with lower default risk and volatility. This is accomplished by the use of its proprietary Business Collateral Line-of-Credit (BCLOC) product and associated technologies which incorporate both hybrid marketable securities and cash strategies, providing better than above average returns on invested assets.

The Business Collateral Line-of-Credit, or BCLOC is a security developed as a means of capital financing. It's packaged as a fixed-asset investment linked to an equity security, in order to minimize certain investment risks while providing for higher than average investment returns for the given amount of risk anticipated. Protective Capital Structures Corporation's (PCSO) BCLOC securities product uses technologies to mitigate client risk and grow their business investments as a part of the capital financing process.

The PCSO proprietary fintech software incorporates algorithms to utilize and link marketable securities, cash and near cash accounts to transfer the associated investment risk to four (4) collateral legs, consisting of the following:

1. PCSO and client common stock;
2. U.S. Treasury securities;
3. Cash and near-cash securities held in trust; and
4. Cash-flow from PCSO business operations.

By leveraging the above four collateral components, our technology creates automations and efficiencies that further analyses determination of clients' default risk by employing a "safety net" using seven (7) financial instruments:

1. Publicly traded common stock purchased by the borrower from PCSO;
2. The interest paid on the notes to PCSO;
3. Client common stock;
4. U.S. Treasury securities;

5. The funds set aside in the trust;
6. Cash-flows of the clients' business operations as determined by the fintech algorithm; and,
7. Cash-flows of PCSO's business operations as determined by the fintech algorithm

**How Cash is Generated to Fund Two (2) of the Collateral Legs**

Two of the four collateral "legs" of the BCLOC security are funded by cash generated through the swapping of securities and using the business cash-flows of PCSO operations.

One of the ways is through First Life Financial Corporation (FLFC), a financial guarantee company and subsidiary of PCSO. In the BCLOC structure, FLFC maintains a trust fund of cash, cash-equivalents and other marketable securities funding a hedge position on behalf of the client. The Company's proprietary technology automates transfer of the investment risk from the investor to the trust fund set-up by FLFC. The trust initially invests funds from the capital raise into U.S. Treasury securities, which is expected to fully discharge the debt obligation at maturity of each respective tranche.

However, there is a provisional option based on the business cash-flow of PCSO. In the event that operational business cash-flows of the Company permit, where the trust may reduce the amount of the invested U.S. Treasury holdings by as much as 20% by swapping some of the U.S. Treasuries being held following the capital raise with either the client common stock or PCSO common stock. Using the proprietary technology, the trust will initiate a security swap with the assumption that the four (4) legs supporting the BCLOC will be readily able to repay any debt obligations. The debt obligation is expected to be repaid with the cash generated from the business component and the cash provided through the payment of interest on the U.S. Treasury securities, or any other gains, earnings or liquidations from the securities held in the FLFC trust fund.

*For example:*

> *If the cost basis, for the PCSO stock is $20 per share and the stock can be sold at a threshold price of $45 per share, then the surplus of $25 per will be used to fund the business component and the cash hedge account and there would be a no swap leveraging. The total value of the U.S. Treasury investments will be supported by the funds held in the FLFC trust.*

**Comparison of the BCLOC Security to an Equity-Linked Certificates of Deposit (CDs)**

For illustration, a brief comparison is made between the BCLOC Security and an Equity-Linked CD (as described at www.sec.gov/equity-linkedCDs).

An equity-linked CD is subject to a number of variables, including stock market volatility and changes to the components of the respective linked index. In addition, there is no guarantee of principal return unless the investment is held to maturity. Also, if the equity-linked CD is sold before maturity, it may be worth less than its original purchased amount or face value.

BCLOC securities, on the other hand, use equity (i.e. PCSO stock and customer capital stock) to transfer risk by linking with the four (4) collateral legs. By using collateral of the four collateral components, the risk is intended to be mitigated to the FLFC U.S. Treasury trust fund. The trust fund is anticipated to receive a Standard & Poor's (S&P) in the range of CCC to AA rating level or better once it's operational. However, unlike the equity-Linked CD, the BCLOC Security is likely to pay principal and interest if not fully held to maturity.

**Fair Market Value of the BCLOC Security**

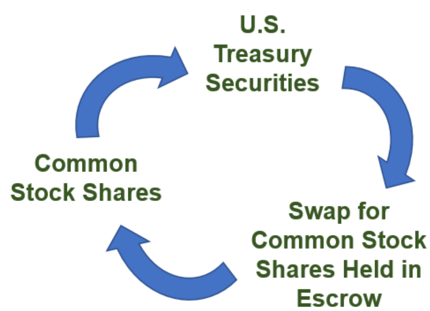
The fair market value of the BCLOC Security will be cumulative fair market value of the component financial instrument components taken in total:

1. The valuation of the total shares of the respective common stock per their market price per share;
2. The fair market value of the respective U.S. Treasuries held by the trust;
3. The valuation of the cash and cash-equivalent funds held by the trust; and,
4. The business earnings from Company and client operations at the designated time of measure.

**Swap Process**

At the end of the designated maturity of the trust (35 years) and the BCLOC has reached its termination, the client company shares are swapped for the U.S. Treasury investments held in the trust fund, following the proceeding steps:

1. Client shares are liquidated to cash in equal value to redeem the U.S. Treasuries, plus any interest;
2. The proceeds from the swap are paid to the client in cash, plus any interest earned (as designated in the respective escrow agreement);
3. These cash proceeds must then be used to purchase U.S. Treasury securities at the end of the period of the same value as those from the original transaction;
4. The escrow agreement stipulates the amounts to be returned at the end of swap process.




**BCLOC Swap Example**

The following is a simple example of the BCLOC Swap:

**Assumptions:**

(1) $2,000,000 value of repackaged cash or cash equivalent package includes the following:

a. $1,000,000 in stock with a current market price of $20 per share (or 25,000 shares) and with a 1.75% annual dividend;

b. $1,000,000 in cash, with hypothetical interest earned of 1% simple annual interest, compounded annually; and,

(2) Timeframe of 2 years, or,

| | Rate {I.75%) Dividend Paid On Stock | Rate (1.0%) Interest Paid On Cash | Total Cash Received |
|---|---|---|---|
| **Year #1** | $8,750 | $10.000 | $18,750 |
| **Year #2** | $8,750 | $10,100 | $18,850 |
| **Total** | **$17,500** | **$20,100** | **$37,600** |

| Total Principal Balance | Total Payment | BCLOC Swap Value |
|---|---|---|
| $2,000,000 | $37,600 | $2,037,600 |

(3) Annual PCSO net earnings from business operations (EBITDA) of $50,000 each year, or $100,000 over two (2) years;

(4) Return of Shares – PCSO swaps $1,000,000 in shares in exchange for $1,000,000 in U.S. Treasury securities from the customer.

| | # Shares | Price per Share | Amount |
|---|---|---|---|
| Repackaged PCSO Stock | 50,000 | $20.00 | $1,000,000 |
| + Customer Share in the swap | 50,000 | 20.00 | 1,000,000 |
| + Earnings on investments | | | 37,600 |
| + Earnings from Business Operations | | | 100,000 |
| **Total Increase in BCLOC Security Value** | | | **$2,137,600** |

B. DATE AND STATE (JURISDICTION) OF INCORPORATION:

March 2004, Florida

C. PRIMARY AND SECONDARY SIC CODES:

6719 Holding Companies - Not Elsewhere Classified; and

671999 Investment Holding Companies - Except Banks.

D. THE ISSUER'S FISCAL YEAR END DATE:

December 31st.

E. PRINCIPAL PRODUCTS OR SERVICES, AND THEIR MARKETS:

Please See Response to "Item 6A" Above.

## *ITEM 7.* DESCRIBE THE ISSUER'S FACILITIES

Protective Capital Investment Corporation (PCSO) is headquartered in the heart of the city of Wilmington, Delaware, on the third floor of the Hercules Building, at 1313 North Market Street.