

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2019
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 001-37605

LM FUNDING AMERICA, INC.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

47-3844457
(I.R.S. employer
identification no.)

1200 West Platt Street
Suite 1000
Tampa, FL
(Address of principal executive offices)

33606
(Zip code)

Registrant's telephone number, including area code: 813-222-8996

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Trading symbol	Name of each exchange on which registered
Common Stock par value \$0.001 per share	LMFA	The National Stock Market LLC

The registrant had 3.1 million shares of Common Stock, par value \$0.001 per share, outstanding as of August 14, 2019.

LM FUNDING AMERICA, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

LM Funding America, Inc. and Subsidiaries Condensed Consolidated Balance Sheets

	<u>June 30, 2019</u> (Unaudited)	<u>December 31,</u> <u>2018</u>
ASSETS		
Cash	\$ 3,093,733	\$ 3,520,753
Finance receivables:		
Original product - net (Note 3)	329,770	425,012
Special product - New Neighbor Guaranty program, net of allowance for credit losses of (Note 4)	157,169	237,043
Prepaid expenses and other assets	112,767	155,420
Due from related party (Note 5)	-	25,507
Fixed assets, net (Note 1)	30,328	33,818
Real estate assets owned (Note 1)	46,533	122,604
Operating lease - right of use assets (Note 8)	21,833	-
Other investments (Note 1)	-	1,507,375
Goodwill (Note 2)	5,689,586	-
Other Assets	42,036	32,036
Total assets	<u>\$ 9,523,755</u>	<u>\$ 6,059,568</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Note payable	\$ 660,793	\$ 42,875
Related party convertible note payable	3,461,782	
Due from related party (Note 5)	6,888	
Operating lease liability (Note 8)	22,259	-
Accounts payable and accrued expenses	359,160	188,354
Tax liability	14,226	-
Other liabilities and obligations	68,268	19,690
Total liabilities	<u>4,593,376</u>	<u>250,919</u>
Stockholders' equity:		
Common stock, par value \$.001; 30,000,000 shares authorized; 3,134,261 and 3,124,961 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	3,134	3,125
Additional paid-in capital	17,324,650	17,295,408
Accumulated deficit	(12,397,405)	(11,489,884)
Total stockholders' equity	<u>4,930,379</u>	<u>5,808,649</u>
Total liabilities and stockholders' equity	<u>\$ 9,523,755</u>	<u>\$ 6,059,568</u>

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

**LM Funding America, Inc. and Subsidiaries Condensed Consolidated Statements of Operations
(unaudited)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues:				
Interest on delinquent association fees	\$ 463,738	\$ 564,593	\$ 878,013	\$ 1,115,455
Administrative and late fees	43,314	50,301	82,807	118,629
Recoveries in excess of cost - special product	4,502	(8,437)	26,272	59,100
Underwriting and other revenues	74,791	53,625	115,515	108,186
Net commission revenue	181,391	-	280,159	-
Rental revenue	72,285	217,904	219,954	440,349
Total revenues	<u>840,021</u>	<u>877,986</u>	<u>1,602,720</u>	<u>1,841,719</u>
Operating Expenses:				
Staff costs and payroll	375,677	298,651	664,075	700,934
Professional fees	547,823	121,577	1,150,535	456,684
Settlement costs with associations	38,286	11,403	40,178	27,115
Selling, general and administrative	126,362	79,667	237,633	152,215
Provision for credit losses	(7,375)	-	(7,375)	581
Real estate management and disposal	100,306	162,578	297,434	281,940
Depreciation and amortization	20,782	22,156	39,902	44,311
Collection costs	9,786	29,560	(13,301)	30,162
Other operating expenses	16,191	7,578	30,687	11,879
Total operating expenses	<u>1,227,838</u>	<u>733,170</u>	<u>2,439,768</u>	<u>1,705,821</u>
Operating income (loss)	(387,817)	144,816	(837,048)	135,898
Interest expense	62,686	94,576	70,473	94,576
Gain on litigation	-	(405,000)	-	(405,000)
Income (loss) before income taxes	(450,503)	455,240	(907,521)	446,322
Income tax benefit	-	-	-	-
Net income (loss)	<u>\$ (450,503)</u>	<u>\$ 455,240</u>	<u>\$ (907,521)</u>	<u>\$ 446,322</u>
Income (loss) per share:				
Basic	\$ (0.14)	\$ 0.73	\$ (0.29)	\$ 0.71
Diluted	(0.14)	0.73	(0.29)	0.71
Weighted average number of common shares outstanding:				
Basic	3,134,261	625,319	3,133,106	625,319
Diluted	3,134,261	625,319	3,133,106	625,319

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

**LM Funding America, Inc. and Subsidiaries Condensed Consolidated Statements of Cash Flows
(unaudited)**

	<u>For the Six Months ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (907,521)	\$ 446,322
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	32,550	44,311
Right to use asset depreciation	4,852	-
Stock compensation	6,931	7,769
Amortization of debt discount	-	75,638
Amortization of debt issuance costs	-	5,705
Gain on litigation	-	(405,000)
Change in assets and liabilities		
Prepaid expenses and other assets	52,389	(51,901)
Accounts payable and accrued expenses	89,329	(174,887)
Advances (repayments) to related party	32,395	71,289
Other liabilities	48,578	(22,277)
Lease liability payments	(4,426)	-
Deferred taxes	(14,200)	-
Net cash used in operating activities	(659,123)	(3,031)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net collections of finance receivables - original product	95,242	133,250
Net collections of finance receivables - special product	79,874	70,635
Net cash received from business acquisition	51,327	-
Proceeds for real estate assets owned	64,101	32,544
Net cash provided by investing activities	290,544	236,429
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowing	-	500,000
Principal repayments	(80,761)	(39,028)
Exercise of warrants	22,320	-
Debt issue costs	-	(82,382)
Net cash provided by (used in) financing activities	(58,441)	378,590
NET INCREASE (DECREASE) IN CASH	(427,020)	611,988
CASH - BEGINNING OF YEAR	3,520,753	590,394
CASH - END OF YEAR	\$ 3,093,733	\$ 1,202,382
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash paid for interest	\$ 16,743	\$ -
SUPPLEMENTAL DISCLOSURES OF NON-CASHFLOW INFORMATION		
Non Cash - insurance financing	-	87,012
Non Cash - debt discount - warrants	-	154,676
ROU asset obligation recognized	\$ 26,685	\$ -

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

LM Funding America, Inc. and Subsidiaries Consolidated Statements of Changes in Stockholders' Equity

For the Three and Six Months Ended June 30, 2019 and 2018
(unaudited)

	Common Stock		Additional paid-in capital	Accumulated Deficit	Total Equity
	Shares	Amount	Additional paid-in capital	Accumulated Deficit	
Balance - December 31, 2017	625,318	\$ 625	\$ 11,914,083	\$ (11,017,725)	\$ 896,983
Stock option expense	-	-	(540)	-	(540)
Net loss	-	-	-	(8,918)	(8,918)
Balance - March 31, 2018	<u>625,318</u>	<u>\$ 625</u>	<u>\$ 11,913,543</u>	<u>\$ (11,026,643)</u>	<u>\$ 887,525</u>
Stock option expense	-	-	8,309	-	8,309
Warrants issued	-	-	154,676	-	154,676
Net income	-	-	-	455,240	455,240
Balance - June 30, 2018	<u>625,318</u>	<u>\$ 625</u>	<u>\$ 12,076,528</u>	<u>\$ (10,571,403)</u>	<u>\$ 1,505,750</u>
Balance - December 31, 2018	3,124,961	\$ 3,125	\$ 17,295,408	\$ (11,489,884)	\$ 5,808,649
Warrants exercised for cash	9,300	9	22,311	-	22,320
Stock option expense	-	-	3,500	-	3,500
Net loss	-	-	-	(457,018)	(457,018)
Balance - March 31, 2019	<u>3,134,261</u>	<u>\$ 3,134</u>	<u>\$ 17,321,219</u>	<u>\$ (11,946,902)</u>	<u>\$ 5,377,451</u>
Stock option expense	-	-	3,431	-	3,431
Net loss	-	-	-	(450,503)	(450,503)
Balance - June 30, 2019	<u>3,134,261</u>	<u>3,134</u>	<u>17,324,650</u>	<u>(12,397,405)</u>	<u>4,930,379</u>

LM FUNDING AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

LM Funding America, Inc. ("LMFA" or the "Company") was formed as a Delaware corporation on April 20, 2015. LMFA was formed for the purpose of completing a public offering and related transactions in order to carry on the business of LM Funding, LLC and its subsidiaries (the "Predecessor"). LMFA is the sole member of LM Funding, LLC and operates and controls all of its businesses and affairs.

LM Funding, LLC a Florida limited liability company organized in January 2008 under the terms of an Operating Agreement dated effective January 8, 2008 as amended, had two members: BRR Holding, LLC and CGR 63, LLC. The members contributed their equity interest to LMFA prior to the closing of its initial public offering.

The Company acquired IIU, Inc. on January 16, 2019 (IIU, Inc), which provides global medical insurance products for international travelers, specializing in policies covering high-risk destinations, emerging markets and foreign travelers coming to the United States. All policies are fully underwritten with no claim risk remaining with IIU Inc.

We are a diversified business with two focuses:

- specialty finance company that provides funding to nonprofit community associations primarily located in the state of Florida. We offer incorporated nonprofit community associations, which we refer to as "Associations," a variety of financial products customized to each Association's financial needs. Our original product offering consists of providing funding to Associations by purchasing their rights under delinquent accounts that are selected by the Associations arising from unpaid Association assessments. Historically, we provided funding against such delinquent accounts, which we refer to as "Accounts," in exchange for a portion of the proceeds collected by the Associations from the account debtors on the Accounts. We have started purchasing Accounts on varying terms tailored to suit each Association's financial needs, including under our New Neighbor Guaranty™ program.
- specialty health insurance broker (IIU, Inc) that was purchased on January 16, 2019, which provides global medical insurance products for international travelers, specializing in policies covering high-risk destinations, emerging markets and foreign travelers coming to the United States. All policies are fully underwritten with no claim risk remaining with IIU Inc.

Specialty Finance

The Company has a specialty finance company that provides funding principally to community associations that are almost exclusively located in Florida. The business of the Company is conducted pursuant to relevant state statutes (the "Statutes"), principally Florida Statute 718.116. The Statutes provide each community association lien rights to secure payment from unit owners (property owners) for assessments, interest, administrative late fees, reasonable attorneys' fees, and collection costs. In addition, the lien rights granted under the Statutes are given a higher priority (a "Super Lien") than all other lien holders except property tax liens. The Company provides funding to associations for their delinquent assessments from property owners in exchange for an assignment of the association's right to collect proceeds pursuant to the Statutes. The Company derives its revenues from the proceeds of association collections.

The Statutes specify that the rate of interest an association (or its assignor) may charge on delinquent assessments is equal to the rate set forth in the association's declaration or bylaws. In Florida if a rate is not specified, the statutory rate is equal to 18% but may not exceed the maximum rate allowed by law. Similarly, the Statutes in Florida also stipulate that administrative late fees cannot be charged on delinquent assessments unless so provided by the association's declaration or bylaws and may not exceed the greater of \$25 or 5% of each delinquent assessment.

The Statutes limit the liability of a first mortgage holder for unpaid assessments and related charges and fees (as set forth above) in the event of title transfer by foreclosure or acceptance of deed in lieu of foreclosure. This liability is limited to the lesser of twelve months of regular periodic assessments or one percent of the original mortgage debt on the unit (the "Super Lien Amount").

Specialty Health Insurance

Our subsidiary IIU Inc. (“IIU”) through its wholly owned company Wallach and Company (“Wallach”) offers health insurance, travel insurance and other travel services to:

- United States citizens and residents traveling abroad
- Non United States citizens or residents who travel to the United States

These services are typically sold through a policy offered by Wallach and fully underwritten by a third party insurance company. The policies offered include:

- HealthCare Abroad - Short term medical insurance, medical evacuation and international assistance for Americans traveling overseas. There is an age limit of 84 years old.
- HealthCare Global – up to 6 months coverage for Americans traveling abroad and foreign nationals traveling outside their home countries to destinations other than the United States. There is an age limit of 70 years old.
- HealthCare America – up to 90 days coverage for foreign nationals visiting the United States. There is an age limit of 70 years old.
- HealthCare International – International medical insurance & assistance for persons living outside their home country. There is an age limit of 70 years old.
- HealthCare War – up to 6 months coverage for Americans traveling abroad and foreign nationals traveling outside their home countries to identified war risk areas. There is an age limit of 70 years old.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of LMFA and its wholly-owned subsidiaries: LM Funding, LLC; LMF October 2010 Fund, LLC; REO Management Holdings, LLC (including all 100% owned subsidiary limited liability companies); LM Funding of Colorado, LLC; LM Funding of Washington, LLC; LM Funding of Illinois, LLC; and LMF SPE #2, LLC and various single purpose limited liability corporations owned by REO Management Holdings, LLC which own various properties. It also includes IIU Inc. and its wholly-owned subsidiary: Wallach & Company. All significant intercompany balances have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The interim condensed consolidated financial statements as of June 30, 2019 and for the three and six months ended June 30, 2019 and June 30, 2018, respectively are unaudited. In the opinion of management, the interim condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of the results for the interim periods. The accompanying condensed consolidated balance sheet as of December 31, 2018, is derived from the audited consolidated financial statements presented in the Company’s Annual Report on Form 10-K for fiscal the year ended December 31, 2018.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the evaluation of any probable losses on amounts funded under the Company’s *New Neighbor Guaranty* program as disclosed below, the evaluation of probable losses on balances due from a related party, the realization of deferred tax assets, the evaluation of contingent losses related to litigation and fair value estimates of real estate assets owned.

Revenue Recognition

Accounting Standards Codification (“ASC”) 606 of the Financial Accounting Standards Board (“FASB”) states an entity needs to conclude at the inception of the contract that collectability of the consideration to which it will be entitled in exchange for the goods and services that will be transferred to the customer is probable. That is, in some circumstances, an entity may not need to assess its ability to collect all of the consideration in the contract. The Company provides funding to community associations by purchasing their rights under delinquent accounts from unpaid assessments due from property owners (the “accounts”). Collections on the accounts may vary greatly in both the timing and amount ultimately recovered compared with the total revenues earned on the accounts because of a variety of economic and social factors affecting the real estate environment in general. The Company’s contracts with its customers have very specific performance obligations. The Company has determined that the known amount of cash to be realized or realizable on its revenue generating activities cannot be reasonably estimated. The Company determined rental income from leasing arrangements is specifically excluded from the standard. The Company analyzed its remaining revenue streams and concluded there were no changes in revenue recognition with the adoption of the new standard.

Under ASC 606, the Company applies the cash basis method to its original product and the cost recovery method to its special product as follows:

Finance Receivables—Original Product: Under the Company’s original product, delinquent assessments are funded only up to the Super Lien Amount as discussed above. Recoverability of funded amounts is generally assured because of the protection of the Super Lien Amount. As such, payments by unit owners on the Company’s original product are recorded to income when received in accordance with the provisions of the Florida Statute (718.116(3)) and the provisions of the purchase agreements entered into between the Company and community associations. Those provisions require that all payments be applied in the following order: first to interest, then to late fees, then to costs of collection, then to legal fees expended by the Company and then to assessments owed. In accordance with the cash basis method of recognizing revenue and the provisions of the statute, the Company records revenues for interest and late fees when cash is received. In the event the Company determines the ultimate collectability of amounts funded under its original product are in doubt, payments are applied to first reduce the funded or principal amount.

Finance Receivables—Special Product (New Neighbor Guaranty program): During 2012, the Company began offering associations an alternative product under the *New Neighbor Guaranty* program where the Company will fund amounts in excess of the Super Lien Amount. Under this special product, the Company purchases substantially all of the delinquent assessments owed to the association, in addition to all accrued interest and late fees, in exchange for payment by the Company of (i) a negotiated amount or (ii) on a going forward basis, all monthly assessments due for a period up to 48 months. Under these arrangements, the Company considers the collection of amounts funded is not assured and under the cost recovery method, cash collected is applied to first reduce the carrying value of the funded or principal amount with any remaining proceeds applied next to interest, late fees, legal fees, collection costs and any amounts due to the community association. Any excess proceeds still remaining are recognized as revenues. If the future proceeds collected are lower than the Company’s funded or principal amount, then a loss is recognized.

Net Commission Revenue: The Company acts as an agent in providing health travel insurance policies. As a result, the Company revenue is recorded at net. The Company has determined that the known amount of cash to be realized or realizable on its revenue generating activities can be reasonably estimated and as such, classifies its receivables as accrual and recognizes revenues in the accompanying statements of income on the accrual basis. If a policy is not effective as of the end of a period, then the associated revenue and underwriting costs are deferred until the effective date.

Cash

The Company maintains cash balances at several financial institutions that are insured under the Federal Deposit Insurance Corporation’s (“FDIC”) Transition Account Guarantee Program. Balances with the financial institutions may exceed federally insured limits.

Finance Receivables

Finance receivables are recorded at the amount funded or cost (by unit). The Company evaluates its finance receivables at each period end for losses that are considered probable and can be reasonably estimated in accordance with ASC 450-20. As discussed above, recoverability of funded amounts under the Company’s original product is generally assured because of the protection of the Super Lien Amount. However, the Company did have an accrual at June 30, 2019 and December 31, 2018 for an allowance for credit losses for this program of \$112,552 and \$194,000.

Under the *New Neighbor Guaranty* program (special product), the Company funds amounts in excess of the Super Lien Amount. When evaluating the carrying value of its finance receivables, the Company looks at the likelihood of future cash flows based on historical payoffs, the fair value of the underlying real estate, the general condition of the community association in which the unit exists, and the general economic real estate environment in the local area. The Company estimated an allowance for credit losses for

this program of \$20,015 as of June 30, 2019 and \$40,758 at December 31, 2018 under ASC 450-20 related to its New Neighbor Guaranty program.

The Company will charge any receivable against the allowance for credit losses when management believes the collectability of the receivable is confirmed. The Company considers writing off a receivable when (i) a first mortgage holder who names the association in a foreclosure suit takes title and satisfies an estoppel letter for amounts owed which are less than amounts the Company funded to the association; (ii) a tax deed is issued with insufficient excess proceeds to pay amounts the Company funded to the association; (iii) an association settles an account for less than amounts the Company funded to the association or (iv) the association terminates its relationship with the Company's designated legal counsel. Upon the occurrence of any of these events, the Company evaluates the potential recovery via a deficiency judgment against the prior owner and the ability to collect upon the deficiency judgment within the statute of limitations period or whether the deficiency judgment can be sold. If the Company determines that collection through a deficiency judgment or sale of a deficiency judgment is not feasible, the Company writes off the unrecoverable receivable amount. Any losses greater than the recorded allowance will be recognized as expenses. Under the Company's revenue recognition policies, all finance receivables (original product and special product) are classified as nonaccrual.

During the six months ended June 30, 2019 and 2018, write offs charged against the allowance for credit losses were \$20,743 and \$6,894, respectively. Any losses greater than the recorded allowance will be recognized as expenses. Under the Company's revenue recognition policies, all finance receivables (original product and special product) are classified as nonaccrual.

Real Estate Assets Owned

In the event collection of a delinquent assessment results in a unit being sold in a foreclosure auction, the Company has the right to bid (on behalf of the community association) for the delinquent unit as attorney in fact, applying any amounts owed for the delinquent assessment to the foreclosure price as well as any additional funds that the Company, in its sole discretion, decides to pay. If a delinquent unit becomes owned by the community association by acquiring title through an association lien foreclosure auction, by accepting a deed-in-lieu of foreclosure, or by any other way, the Company in its sole discretion may direct the community association to quitclaim title of the unit to the Company.

Properties quitclaimed to the Company are in most cases acquired subject to a first mortgage or other liens, and are recognized in the accompanying consolidated balance sheets solely at costs incurred by the Company in excess of original funding. At times, the Company will acquire properties through foreclosure actions free and clear of any mortgages or liens. In these cases, the Company records the estimated fair value of the properties in accordance with ASC 820-10, *Fair Value Measurements*. Any real estate held for sale is adjusted to fair value less the cost to dispose in the event the carrying value of a unit or property exceeds its estimated net realizable value.

The Company capitalizes costs incurred to acquire real estate owned properties and any costs incurred to get the units in a condition to be rented. These costs include, but are not limited to, renovation/rehabilitation costs, legal costs, and delinquent taxes. These costs are depreciated over the estimated minimum time period the Company expects to maintain possession of the units. Costs incurred for unencumbered units are depreciated over 20 years and costs for units subject to a first mortgage are depreciated over 3 years. As of June 30, 2019 and December 31, 2018, capitalized real estate costs, net of accumulated depreciation, were \$46,533 and \$122,604, respectively.

During the three and six-month periods ended June 30, 2019 and 2018, depreciation expense was \$5,526 and \$11,969, respectively for 2019 and \$11,323 and \$22,645, respectively for 2018.

If the Company elects to take a quitclaim title to a unit or property held for sale, the Company is responsible to pay all future assessments on a current basis, until a change of ownership occurs. The community association must allow the Company to lease or sell the unit to satisfy obligations for delinquent assessments of the original debt. All proceeds collected from any sale of the unit shall be first applied to all amounts due the Company plus any additional funds paid by the Company to purchase the unit, if applicable. Rental revenues and sales proceeds related to real estate assets held for sale are recognized when earned and realizable. Expenditures for current assessments owed to associations, repairs and maintenance, utilities, etc. are expensed when incurred.

If the community association elects (prior to the Company obtaining title through its own election) to maintain ownership and not quitclaim title to the Company, the community association must pay the Company all interest, late fees, collection costs, and legal fees expended, plus the original funding on the unit, which have accrued according to the purchase agreement entered into by the community association and the Company. In this event, the unit will be reassigned to the community association.

Fixed Assets

The Company capitalizes all acquisitions of fixed assets in excess of \$500. Fixed assets are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Fixed assets are comprised of furniture, computer and office equipment with an assigned useful life of 3 to 5 years. Fixed assets also include capitalized software costs. Capitalized software costs include costs to develop software to be used solely to meet the Company's internal needs, consist of employee salaries and benefits and fees paid to outside consultants during the application development stage, and are amortized over their estimated useful life of 5 years. As of June 30, 2019 and December 31, 2018, capitalized software costs, net of accumulated amortization, was \$10,322 and \$21,951, respectively. Amortization expense for capitalized software costs for the three and six month periods ended June 30, 2019 was \$5,815 and \$11,630, respectively for 2019 and \$5,815 and \$11,630, respectively for 2018.

Right to Use Assets

The Company capitalizes all leased assets pursuant to ASU 2016-02, "Leases (Topic 842)," which requires lessees to recognize right-of-use assets and lease liability, initially measured at present value of the lease payments, on its balance sheet for leases with terms longer than 12 months and classified as either financing or operating leases. As of June 30, 2019, right to use assets, net of accumulated amortization, was \$21,833. Amortization expense for right to use assets for the three and six month period ended June 30, 2019 was \$2,426 and \$4,852, respectively while the payments totaled \$5,422 for the six months ended June 30, 2019.

Other Assets

On November 2, 2018, the Company invested cash by purchasing a Securities Purchase Agreement (the "IIU SPA") from IIU Inc. ("IIU"), a synergistic Virginia based travel insurance brokerage company controlled by Craven House N.A. (whose ownership excluding unexercised warrants is approximately 25% of the Company's outstanding stock as of June 30, 2019), pursuant to which IIU issued to the Company a Senior Convertible Promissory Note ("IIU Note") in the original principal amount of \$1,500,000 in exchange for a purchase price of \$1,500,000. The maturity date of the Note is 360 dates after the date of issuance (subject to acceleration upon an event of default). The Note carries a 3.0% interest rate, with accrued but unpaid interest being payable on the Note's maturity date.

The IIU Note allows the Company the right on or after the maturity date to convert any unpaid principal and accrued and unpaid interest of the IIU Note into shares of IIU based on a conversion amount which is the fair value of the common shares of IIU at the time. The conversion price will be reset if IIU issues or sells common shares, convertibles securities or options at a price per share that is less than the conversion price in effect immediately prior to such issue or sale or deemed issuance or sale of such dilutive issuance.

On January 16, 2019, the Company entered into a Stock Purchase Agreement with Craven House North America, LLC ("Craven") to purchase all of the shares of IIU as a possible synergistic effort to diversify revenue sources that are believed to be accretive to earnings. IIU provides global medical insurance products for international travelers, specializing in policies covering high-risk destinations, emerging markets and foreign travelers coming to the United States. All policies are fully underwritten with no claim risk remaining with IIU.

The Board of Directors of LMFA approved the purchase of IIU. LMFA purchased 100% of the outstanding stock of IIU for \$4,969,000. LMFA paid the Purchase Price at closing as follows:

- Cancellation by LMFA of all principal and accrued interest of IIU's Promissory Note dated November 3, 2018 and issued to LMFA for principal indebtedness and accrued interest of \$1,507,375.
- LMFA issued to Craven a \$3,581,982 Convertible Promissory Note ("Craven note") for the balance of the Purchase Price. At the option of Craven, the Convertible Note may be paid in restricted common shares of LMFA or cash. The Convertible Note shall bear simple interest at 3% per annum. The Convertible Note shall be due and payable 360 days from the Closing Date. If repaid by LMFA in restricted common stock, the outstanding principal and interest of the Convertible Note shall be paid by LMFA by issuing to Seller a number of restricted common shares equal to the adjusted principal and accrued interest owing on the Convertible Note divided by \$2.41. As a result of provisions in the purchase agreement, the note principal was reduced by \$120,200 arising from lower than expected Closing Cash and Net Working Capital. Craven had verbally agreed to extend repayment of this Convertible Promissory Note 12 months from April 15, 2019.

As such, the \$1.5 million note was cancelled as of January 16, 2019.

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the fair value of the net assets acquired. Goodwill is not amortized, but instead is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

We had goodwill of \$5.7 million on our Consolidated Balance Sheet at June 30, 2019, which represents amounts for the IIU acquisition. For purposes of the 2019 annual test, we will elect to perform a qualitative assessment to assess whether it was more likely than not that the fair value of these reporting units exceeded their respective carrying values. In performing these assessments, management will rely on a number of factors including, but not limited to, macroeconomic conditions, industry and market considerations, cost factors that would have a negative effect on earnings and cash flows, overall financial performance compared with forecasted projections in prior periods, and other relevant reporting unit events, the impact of which are all significant judgments and estimates. This assessment was performed as of June 30, 2019 and showed no impairment.

Debt Issue Costs

The Company capitalizes all debt issue costs and amortizes them on a method that approximates the effective interest method over the remaining term of the note payable. The Company did not have any unamortized debt issue costs at June 30, 2019 and at December 31, 2018. Any costs will be presented in the accompanying condensed consolidated balance sheets as other assets until the loan proceeds are received which at that time will be reclassified as a direct deduction from the carrying amount of that debt liability in accordance with Accounting Standards Update (“ASU”) 2015-03 (see below). The Company adopted this new standard in the first quarter of fiscal 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial position and had no impact on its consolidated income or cash flows. In addition, the amortization of debt issuance costs is to be reported as interest expense under ASU 2015-03 (ASC 835-30-45-3).

Settlement Costs with Associations

Community associations working with the Company will at times incur costs in connection with litigation initiated by the Company against property owners and or mortgage holders. These costs include settlement agreements whereby the community association agrees to pay some monetary compensation to the opposing party or judgments against the community associations for fees of opposing legal counsel or other damages awarded by the courts. The Company indemnifies the community association for these costs pursuant to the provisions of the agreement between the Company and the community association. Costs incurred by the Company for these indemnification obligations for the three and six months ended June 30, 2019 and 2018 were approximately \$38,000 and \$40,000, respectively for 2019 and \$11,000 and \$27,000, respectively for 2018. The Company does not limit its indemnification based on amounts ultimately collected from property owners.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes resulting primarily from the tax effects of temporary differences between financial and income tax reporting. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Under ASC 740-10-30-5, *Income Taxes*, deferred tax assets should be reduced by a valuation allowance if, based on the weight of available evidence, it is more-likely-than-not (i.e., a likelihood of more than 50%) that some portion or all of the deferred tax assets will not be realized. The Company considers all positive and negative evidence available in determining the potential realization of deferred tax assets including, primarily, the recent history of taxable earnings or losses. Based on operating losses reported by the Company during 2018, 2017 and 2016, the Company concluded there was not sufficient positive evidence to overcome this recent operating history. As a result, the Company believes that a valuation allowance was necessary based on the more-likely-than-not threshold noted above. During the year ended December 31, 2018, the Company decreased the valuation allowance to \$3,204,036 to reflect a change in deferred tax assets.

Loss Per Share

Basic loss per share is calculated as net loss to common stockholders divided by the weighted average number of common shares outstanding during the period.

The Company issued 2,500,000 shares at various times during the month of November 2018 and has weighted average these new shares in calculating loss per share.

On October 15, 2018, the Company effected a common share consolidation (“Reverse Stock Split”) by means of a one-for-ten (1:10) reverse split of its outstanding common stock, par value \$0.001 per share which resulted in a decrease in outstanding common stock to 625,318 shares. The Reverse Stock Split became effective, on October 16, 2018 and the Company’s common stock began trading on The Nasdaq Global Market on a split-adjusted basis on October 16, 2018.

The Company has restated all share amounts to reflect the Reverse Stock Split.

Diluted loss per share for the period equals basic loss per share as the effect of any stock based compensation awards or stock warrants would be anti-dilutive.

The anti-dilutive stock based compensation awards consisted of:

	As of June 30,	
	2019	2018
Stock Options	19,300	19,800
Stock Warrants	2,754,287	160,000

As part of its initial public offering, on October 23, 2015 the Company issued warrants that allowed for the right to purchase 120,000 shares of common stock at an average exercise price of \$125.00 per share. These warrants expire in the year 2020.

On October 31, 2018, the Company issued warrants as part of its secondary offering that allowed for the right to purchase 2,500,000 shares of common stock at an exercise price of \$2.40 per share. These warrants expire in the year 2023. During the three and six months ended June 30, 2019, warrants for 9,300 shares were exercised for \$22,320.

On April 2, 2018, the Company issued warrants that allowed for the right to purchase 40,000 shares of common stock at an exercise price of \$6.605 per share. If the Company, at any time this warrant is outstanding, combines its outstanding shares of Common Stock into a smaller number of shares or enters into a corporate action or transaction to change the number of outstanding share of common stock, then the exercise price is adjusted along with the number of shares that can be purchased under this agreement. Due to the subsequent issuance of stock and warrants on October 31, 2018, these warrants now have the right to purchase 143,587 shares at an exercise price of \$1.84 per share. These warrants expire in the year 2023.

Stock-Based Compensation

The Company records all equity-based incentive grants to employees and non-employee members of the Company’s Board of Directors in operating expenses in the Company’s Consolidated Statements of Operations based on their fair values determined on the date of grant. Stock-based compensation expense, reduced for estimated forfeitures, is recognized on a straight-line basis over the requisite service period of the award, which is generally the vesting term of the outstanding equity awards.

Contingencies

The Company accrues for contingent obligations, including estimated legal costs, when the obligation is probable and the amount is reasonably estimable. As facts concerning contingencies become known, the Company reassesses its position and makes appropriate adjustments to the consolidated financial statements. Estimates that are particularly sensitive to future changes include those related to tax, legal and other regulatory matters.

Fair Value of Financial Instruments

FASB ASC 825-10, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. The Company engages a third-party valuation firm to assist in estimating the fair value of its finance receivables.

Risks and Uncertainties

Funding amounts are secured by a priority lien position provided under Florida law (see discussion above regarding Florida Statute 718.116). However, in the event the first mortgage holder takes title to the property, the amount payable by the mortgagee to satisfy the priority lien is capped under this same statute and would generally only be sufficient to reimburse the Company for funding amounts noted above for delinquent assessments. Amounts paid by the mortgagee would not generally reimburse the Company for

interest, administrative late fees and collection costs. Even though the Company does not recognize these charges as revenues until collected, its business model and long-term viability is dependent on its ability to collect these charges.

In the event a delinquent unit owner files for bankruptcy protection, the Company may at its option be reimbursed by the association for the amounts funded (i.e., purchase price) and all collection rights are re-assigned to the association.

Non-cash Financing and Investing Activities

During the six months ended June 30, 2019 and 2018, the Company acquired unencumbered title to certain properties as a result of foreclosure proceedings. Properties were recorded at fair value less cost to dispose of approximately \$0 and \$0, respectively. The fair value of these properties was first applied to recover the Company's initial investment with any remaining proceeds applied to interest, late fees, and other amounts owed by the property owner.

During the six months ended June 30, 2019, the Company acquired IIU which included assets and liabilities listed in Note 2.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires lessees to recognize right-of-use assets and lease liability, initially measured at present value of the lease payments, on its balance sheet for leases with terms longer than 12 months and classified as either financing or operating leases. ASU 2016-02 requires a modified retrospective transition approach for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, and provides certain practical expedients that companies may elect including those contained in ASU 2018-01, "Leases (Topic 842): Lease Easement Practical Expedient for Transition to Topic 842". This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted. The Company has evaluated the impact that the adoption of this ASU will have on its consolidated financial statements and related disclosures and does not expect any significant impact to the Company.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses* which establishes a new approach for credit impairment based on an expected loss model rather than an incurred loss model. The standard requires the consideration of all available relevant information when estimating expected credit losses, including past events, current conditions and forecasts and their implications for expected credit losses. The guidance is effective January 1, 2020 with a one-year early adoption permitted. The Company is evaluating the impact of the new guidance.

In June 2018, the FASB issued ASU No. 2018-07 " Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting". The standard simplified the accounting for share-based payments granted to nonemployees for goods and services, therefore guidance on such payments to nonemployees would be mostly aligned with the requirements for share-based payments granted to employees. ASU 2018-07 will be effective for us beginning October 1, 2019, but early adoption is permitted (but no earlier than the adoption date of Topic 606). We are currently evaluating the impact of implementation of this standard on our financial statements.

Recent accounting guidance not discussed above is not applicable, did not have, or is not expected to have a material impact to the Company.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Subsequent Events

The Company has evaluated subsequent events through the date which the condensed consolidated financial statements were issued.

Note 2. Goodwill and Acquisition

On January 16, 2019, the Company, acquired 100% of the share capital of IIU, Inc and its wholly-owned subsidiary Wallach and Company, health insurance broker, (for the initial consideration of \$5,089,357 which was paid with a forgiven note to Craven House Capital North American LLC ("Craven") of \$1,507,375 plus a convertible senior note for \$3,581,982. Net cash received in the business acquisition was \$51,327. The note was subsequently reduced by \$120,200 for the closing cash and net working capital adjustment.

The following table summarizes the approximate consideration paid and the amounts of the identified assets acquired and liabilities assumed at the acquisition date:

	<u>January 16, 2019</u>
Total adjusted purchase price	\$ 4,969,200
Recognized preliminary amounts of identifiable assets acquired and (liabilities assumed), at fair value:	
Cash	51,300
Prepaid and other current assets	5,200
Profit on purchased policies	14,600
Property, plant and equipment	17,100
Accounts payable	(5,100)
Accrued expenses and other liabilities	(62,686)
Income taxes	(28,500)
Deferred revenue	(9,300)
Debt	(703,000)
Preliminary estimate of the fair value of assets and liabilities assumed	<u>(720,386)</u>
Goodwill	<u>\$ 5,689,586</u>

The accompanying unaudited pro forma statements of operations presents the accounts of LM Funding and IIU for the six- months ended June 30, 2019 and June 30, 2018, assuming the acquisition occurred on January 1, 2018:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues:	840,021	1,077,981	1,617,288	2,182,073
Net commission revenue	840,021	1,077,981	1,617,288	2,182,073
Operating Expenses:	1,227,838	867,977	2,452,886	1,981,074
Operating income (loss)	(387,817)	210,004	(835,598)	200,999
Investment income	-	(110,335)	-	(32,668)
Gain on litigation	-	(405,000)	-	(405,000)
Interest expense	62,686	94,576	70,473	94,576
Income (loss) before income taxes	(450,503)	630,763	(906,071)	544,091
Income tax benefit	-	-	(14,226)	-
Net income (loss)	<u>\$ (450,503)</u>	<u>\$ 630,763</u>	<u>\$ (891,845)</u>	<u>\$ 544,091</u>
Income (loss) per share:				
Basic	\$ (0.14)	\$ 1.01	\$ (0.28)	\$ 0.87
Diluted	(0.14)	1.01	(0.28)	0.87
Weighted average number of common shares outstanding:				
Basic	3,134,261	625,319	3,133,106	625,319
Diluted	3,134,261	625,319	3,133,106	625,319

IJU generated \$280,159 of net commission revenue from January 16, 2019 to June 30, 2019 and \$178,023 of operating expenses plus \$16,778 of interest expense.

Note 3. Finance Receivables – Original Product

The Company's original funding product provides financing to community associations only up to the secured or "Super Lien Amount" as discussed in Note 1. Finance receivables for the original product as of June 30, 2019 and December 31, 2018 based on the year of funding are approximately as follows:

	June 30, 2019	December 31, 2018 (Audited)
Funded during the current year	\$ 30,000	\$ 79,000
1-2 years outstanding	35,000	35,000
2-3 years outstanding	27,000	18,000
3-4 years outstanding	13,000	7,000
Greater than 4 years outstanding	338,000	411,000
	443,000	550,000
Reserve for credit losses	(113,000)	(125,000)
	<u>\$ 330,000</u>	<u>\$ 425,000</u>
Number of active units with delinquent assessments	692	826
Amount of outstanding interest and late fees on active units	\$ 10,408,000	\$ 11,268,000

Note 4. Finance Receivables – Special Product (New Neighbor Guaranty program)

The Company typically funds amounts equal to or less than the "Super Lien Amount". During 2012 the Company began offering Associations an alternative product under the New Neighbor Guaranty program where the Company funds amounts in excess of the "Super Lien Amount".

Under this special product, the Company purchases substantially all of the outstanding past due assessments due from delinquent property owners, in addition to all interest, late fees and other charges in exchange for the Company's commitment to pay monthly assessments on a going forward basis up to 48 months.

As of December 31, 2018, maximum future contingent payments under these arrangements was approximately \$249,000.

Delinquent assessments and accrued charges under these arrangements as of June 30, 2019 and December 31 2018, are as follows:

	June 30, 2019	December 31, 2018 (Audited)
Finance receivables, net	\$ 157,000	\$ 237,000
Delinquent assessments	495,000	707,000
Accrued interest and late fees	305,000	465,000
Number of active units with delinquent assessments	51	58

Allowance for credit losses are recorded for losses that are considered "probable" and can be "reasonably estimated" in accordance with ASC 450-20. Recoverability of the Company's Original Product is generally assured because of the protection of the Super Lien under Florida statute and as such no allowance is recorded.

Credit losses on the NNG product were estimated by the Company based on analyzing the investment in each unit and comparing that balance to the average payout for completed units for the past 12 months. The allowance for losses based on these analyses, had a remaining balance of \$20,000 and \$41,000 as of June 30, 2019 and December 31, 2018, respectively.

Note 5. Due to Related Party

Legal services for the Company associated with the collection of delinquent assessments from property owners are performed by a law firm (Business Law Group "BLG") which was owned solely by Bruce M. Rodgers, the Chief Executive Officer of LMFA until and through the date of the initial public offering. Following the offering, Mr. Rodgers transferred his interest in BLG to other attorneys at the firm through a redemption of his interest in the firm, and BLG is now under control of those lawyers. The law firm has historically performed collection work primarily on a deferred billing basis wherein the law firm receives payment for services rendered upon collection from the property owners or at amounts ultimately subject to negotiations with the Company.

During 2016, the Company experienced a decline in collection events that affected revenues both to the Company and BLG. That resulted in an increase in the related party receivable and reflects the decision by the Company to advance funds to BLG based on the amount of their unpaid legal fees due from property owners. Effective January 1, 2017, the Company entered into a new services agreement with BLG which partially alters the traditional deferred billing arrangement noted above.

Under the new agreement, the Company pays BLG a fixed monthly fee of \$82,000 for services rendered. The Company will continue to pay BLG a minimum per unit fee of \$700 in any case where there is a collection event and BLG receives no payment from the property owner. This provision has been expanded to also include any unit where the Company has taken title to the unit or where the association has terminated its contract with either BLG or the Company.

Amounts expensed by the Company to BLG for the three and six months ended June 30, 2019 and 2018, respectively were approximately \$291,000 and \$536,000, respectively for 2019 and \$218,000 and \$492,000, respectively for 2018. As of June 30, 2019 and December 31, 2018, receivables from property owners for charges ultimately payable to BLG approximate \$2,222,000 and \$2,753,000, respectively.

Under the related party agreement with BLG in effect during 2017 and 2018, the Company pays all costs (lien filing fees, process and serve costs) incurred in connection with the collection of amounts due from property owners. Any recovery of these collection costs is accounted for as a reduction in expense incurred. The Company incurred expenses related to these types of costs for the three and six months ended June 30, 2019 and 2018 were \$62,000 and \$109,000, respectively for 2019 and \$107,000 and \$173,000, respectively for 2018. Recoveries during the three and six months ended June 30, 2019 and 2018, related to those costs were approximately \$52,000 and \$122,000, respectively for 2019 and \$78,000 and \$143,000, respectively for 2018.

The Company also shares office space and related common expenses with BLG. All shared expenses, including rent, are charged to the legal firm based on an estimate of actual usage. Any expenses of BLG paid by the Company that have not been reimbursed or settled against other amounts are reflected as due from related parties in the accompanying consolidated balance sheet.

Amounts receivable from (payable to) BLG as of June 30, 2019 and December 31, 2018 were approximately \$(77,900) and \$25,500, respectively.

As of June 30, 2019, Craven House Capital North America, LLC owes \$71,000 to IIU.

Note 6. Debt and Other Financing Arrangements

	<u>June 30, 2019</u>	<u>December 31, 2018 (Audited)</u>
Financing agreement with FlatIron capital that is unsecured. Down payment of \$28,125 was required upfront and equal installment payments of \$8,701 to be made over a 10 month period. The note matures May 31, 2019. Annualized interest is 5.99%	\$ -	\$ 42,875
Senior secured convertible note to Craven House Capital North America LLC (Related Party), bearing interest at 3.0%. Note was issued on January 16, 2019 and matures on either January 14, 2019 or convertible into 1,436,424 shares of the Company's common shares. The beneficial conversion feature as of January 16, 2019 was zero.	3,461,782	-
Promissory note issued by a financial institution, bearing interest at 5.85%, interest and principal payments due monthly of \$10,932. Note was issued on May 31, 2018 with original borrowings of \$608,000 and subsequent borrowings of \$141,000 and repayments of \$51,000. The note matures on May 30, 2025 and can be prepaid at any time without penalty. This note is secured by the Company's inventory, chattel paper, accounts, equipment and general intangible intangibles and deposit accounts.	660,793	
	<u>\$ 4,122,575</u>	<u>\$ 42,875</u>

Note 7. Going Concern

On August 27, 2014, FASB issued ASU 2014-05, *Disclosure of Uncertainties about an Entity's ability to Continue as a Going Concern*, which requires management to assess a company's ability to continue as a going concern within one year from financial statement issuance and to provide related footnote disclosures in certain circumstances.

The Company has experienced significant operating losses over the past 3 years (2016 through 2019) with cumulative losses of approximately \$12,397,000. These losses resulted in the usage of all cash proceeds from the Company's initial public offering in 2015. The Company's net cash used in operating activities for the six months ended June 30, 2019 was approximately 659,000 and net working capital is a negative \$243,000. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Under a purchase agreement dated January 16, 2019, the Company owes Craven \$3,461,782 which may be converted into common stock or paid in cash by January 16, 2020.

The Company will explore ways to either convert the Craven note into common stock or explore options to refinance the Craven note by unlocking value across a range of assets, including exploring ways to maximize the value of our unsecured debt owed by current and former owners of the condominium units.

The Company has a history of refinancing debt and management is confident that it will be able to successfully refinance the current Craven note and/or obtain new financing to pay off the Craven note.

However, we cannot predict, with certainty, the outcome of our actions to generate liquidity, including the availability of additional debt financing, or whether such actions would generate the expected liquidity as currently planned.

Note 8. Commitments and Contingencies

Leases

The Company leases certain office space, construction and office equipment, vehicles and temporary housing generally under non-cancelable operating leases. Leases with an initial term of one year or less are not recorded on the balance sheet, and the Company generally recognizes lease expense for these leases on a straight-line basis over the lease term. As of June 30, 2019, the Company's operating leases have remaining lease terms ranging from less than one year to 3 years, some of which include options to renew the leases. The exercise of lease renewal options is generally at the Company's sole discretion. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

The Company determines if an arrangement is a lease at inception. Operating lease ROU assets are included in other assets, while current and long-term operating lease liabilities are included in accrued expenses and other current liabilities, and other long-term liabilities, respectively, on the Condensed Consolidated Balance Sheet as of June 30, 2019. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The present value of future lease payments are discounted using either the implicit rate in the lease, if known, or the Company's incremental borrowing rate for the specific lease as of the lease commencement date. The ROU asset is also adjusted for any prepayments made or incentives received. The lease terms include options to extend or terminate the lease only to the extent it is reasonably certain any of those options will be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Company accounts for lease components (e.g., fixed payments) separate from the non-lease components (e.g., common-area maintenance costs). The Company does not have any material financing leases.

The Company leases its office under an operating lease beginning March 1, 2014 and ending July 31, 2019. It also has a month to month lease for its IIU operations.

The Company shares this space and the related costs associated with this operating lease with a related party (see Note 5) that also performs legal services associated with the collection of delinquent assessments. The Company entered into a sub-lease with an unrelated party but we stopped receiving such sub-lease rental income in September 2018. Net rent expense recognized for the three and six months ended June 30, 2019 and 2018 were approximated 50,000 and \$97,000, respectively for 2019 and \$25,000 and \$44,000, respectively for 2018.

The following table presents components of lease expense for the six months ended June 30, 2019:

	Six Months Ended June 30, 2019
Operating lease expense	<u>\$ 97,301</u>
	<u>\$ 97,301</u>

The following table presents supplemental balance sheet information related to operating leases as of June 30, 2019

	Balance Sheet Line Item	Six Months Ended June 30, 2019
Assets		
ROU assets	Right of use asset, net	<u>\$ 21,833</u>
Total lease assets		<u>\$ 21,833</u>
Liabilities		
Current lease liabilities	Lease liability	\$9,401
Long-term lease liabilities	Lease liability	<u>12,858</u>
Total lease liabilities		<u>\$ 22,259</u>
Weighted-average remaining lease term (in years)		2.5
Weighted-average discount rate		8.02%

The following table presents supplemental cash flow information and non-cash activity related to operating leases for the six months ended June 30, 2019:

	<u>Operating Leases</u>
Operating cash flow information	
Cash paid for amounts included in the measurement of lease liabilities	\$ 4,426
Non-cash activity:	
ROU assets obtained in exchange for lease liabilities	26,685

The following table presents maturities of operating lease liabilities on an undiscounted basis as of June 30, 2019:

<u>Year</u>	<u>Operating Leases</u>
2019 (excluding the six months ended June 30, 2019)	\$ 4,607
2020	9,784
2021	7,868
	<u>\$ 22,259</u>

Legal Proceedings

Other than the lawsuits described below, we are not currently a party to material litigation proceedings. However, we frequently become party to litigation in the ordinary course of business, including either the prosecution or defense of claims arising from contracts by and between us and client Associations. Regardless of the outcome, litigation can have an adverse impact on us because of prosecution, defense, and settlement costs, diversion of management resources and other factors.

The Company accrues for contingent obligations, including estimated legal costs, when the obligation is probable and the amount is reasonably estimable. As facts concerning contingencies become known, the Company reassesses its position and makes appropriate adjustments to the consolidated financial statements. Estimates that are particularly sensitive to future changes include those related to tax, legal, and other regulatory matters.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs, and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expects," "intends," "plans," "projects," "estimates," "anticipates," "believes," or the negative thereof or any variation thereon or similar terminology or expressions.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties, and assumptions about us that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Important factors which could materially affect our results and our future performance include, without limitation, our ability to purchase defaulted consumer receivables at appropriate prices, changes in governmental regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables, our ability to employ and retain qualified employees, changes in the credit or capital markets, changes in interest rates, deterioration in economic conditions, and negative press regarding the debt collection industry which may have a negative impact on a debtor's willingness to pay the debt we acquire, as well as other factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and Item 1A of this Quarterly Report on Form 10-Q.

Except as required by law, we assume no duty to update or revise any forward-looking statements.

Overview

We are a diversified business with two focuses:

- specialty finance company that provides funding to nonprofit community associations primarily located in the state of Florida. We offer incorporated nonprofit community associations, which we refer to as "Associations," a variety of financial products customized to each Association's financial needs. Our original product offering consists of providing funding to Associations by purchasing their rights under delinquent accounts that are selected by the Associations arising from unpaid Association assessments. Historically, we provided funding against such delinquent accounts, which we refer to as "Accounts," in exchange for a portion of the proceeds collected by the Associations from the account debtors on the Accounts. We have started purchasing Accounts on varying terms tailored to suit each Association's financial needs, including under our New Neighbor Guaranty™ program.
- specialty health insurance broker (IIU, Inc) that was purchased on January 16, 2019, which provides global medical insurance products for international travelers, specializing in policies covering high-risk destinations, emerging markets and foreign travelers coming to the United States. All policies are fully underwritten with no claim risk remaining with IIU Inc.

We provide funding to nonprofit community associations primarily located in the state of Florida and, to a lesser extent, nonprofit community associations in the states of Washington, Colorado, and, since February 2016, Illinois. We offer incorporated nonprofit community associations, which we refer to as "Associations," a variety of financial products customized to each Association's financial needs. Our original product offering consists of providing funding to Associations by purchasing their rights under delinquent accounts that are selected by the Associations arising from unpaid Association assessments. We provide funding against such delinquent accounts, which we refer to as "Accounts," in exchange for a portion of the proceeds collected by the Associations from the account debtors on the Accounts. More recently, we have started to engage in the business of purchasing Accounts on varying terms tailored to suit each Association's financial needs, including under our New Neighbor Guaranty program.

Because of our role as a trusted advisor to our Association clients, we are exploring a potential product line which resembles a more traditional consulting model for Associations desirous of this relationship. Areas of our consultancy may include purchase money mortgage qualification consulting, accounts receivable management, reserve study recommendations, and property tax assessed value analysis. In the event we move forward with this new product line, we will seek to provide services and advice inside of our core competency of community association finance in an effort to drive demand for our financial products.

In our original product offering, we typically purchase an Association's right to receive a portion of the proceeds collected from delinquent unit owners. Once under contract, we engage law firms, typically on behalf of our Association clients pursuant to a power of attorney, to perform collection work on delinquent unit accounts. Our law firms typically service collection matters on a deferred billing basis whereby payment is received upon collection from the delinquent unit account debtors or at a predetermined contractual

rate if amounts collected from delinquent unit account debtors are less than legal fees and costs incurred. We typically fund an amount less than or equal to the statutory “Super Lien Amount” an Association would recover at some point in the future based on the Association’s statutory lien priority. Upon collection of an Account, the law firm retained for the collection matter distributes proceeds pursuant to the terms of the agreement by and between the Association and us. Not all agreements are the same, but our typical payoff distribution will result in us first recovering amounts advanced to the Association, interest, late fees, and costs advanced, with legal fees kept by the retained law firm, and assessment amounts remitted to the Association client. In connection with our business, we have developed proprietary software for servicing Accounts, which we believe enables law firms to service Accounts efficiently and profitably.

Under the New Neighbor Guaranty program, an Association will generally assign substantially all of its outstanding indebtedness and accruals on its delinquent units to us in exchange for payment by us of an amount less than or equal to the monthly assessment payment for each assigned delinquent unit account. This simultaneously eliminates a substantial portion of the Association’s balance sheet bad debts and assists the Association in meeting its budget by both guaranteeing periodic revenues and relieving the Association of its legal fee and cost burdens typically incurred to collect bad debts.

In our initial underwriting of an Association and its individual Accounts, we review the property values of the underlying units, the governing documents of the Association, the total number of delinquent receivables held by the Association, the legal proceedings instituted, and many other factors. While we are relatively certain of the actions necessary to produce a revenue event, we cannot predict when an individual delinquent unit account will have a revenue event or payoff.

Our subsidiary IIU Inc. (“IIU”) through its wholly owned company Wallach and Company (:Wallach”) offers health insurance, travel insurance and other travel services to:

- United States citizens and residents traveling abroad
- Non United States citizens or residents who travel to the United States

These services are typically sold through a policy offered by Wallach and fully underwritten by a third party insurance company. The policies offered include: HealthCare Abroad, HealthCare Global, HealthCare America, HealthCare International, HealthCare War.

Corporate History and Reorganization

The Company was originally organized in January 2008 as a Florida limited liability company under the name LM Funding, LLC. Historically, all of our business was conducted through LM Funding, LLC and its subsidiaries (the “Predecessor”). Immediately prior to our initial public offering in October 2015, the members of the LM Funding, LLC contributed all of their membership interests to LM Funding America, Inc., a Delaware corporation incorporated on April 20, 2015 (“LMFA”), in exchange for an aggregate of 2,100,000 shares of the common stock of LMFA (the “Corporate Reorganization”). Immediately after such contribution and exchange, the former members of LM Funding, LLC became the holders of 100% of the issued and outstanding common stock of LMFA, thereby making the LM Funding, LLC a wholly-owned subsidiary of LMFA. As used in this discussion and analysis, unless the context requires otherwise, references to “LMF,” “LM Funding,” “we,” “us,” “our,” “the Company,” “our company,” and similar references refer to (i) following the date of the Corporate Reorganization, LM Funding America, Inc., a Delaware corporation, and its consolidated subsidiaries, and (ii) prior to the date of the Corporate Reorganization, LM Funding, LLC, a Florida limited liability company, and its consolidated subsidiaries.

Results of Operations – Three Months

The Three Months Ended June 30, 2019 compared with the Three Months Ended June 30, 2018

Revenues

During the Three Months ended June 30, 2019, total revenues decreased by \$38 thousand, or 4.3%, to \$840 thousand from \$878.0 thousand in the Three Months ended June 30, 2018.

Interest on delinquent association fees for the Three Months ended June 30, 2019 decreased \$101 thousand or 17.9% as the number of payoffs decreased to 119 payoff occurrences as compared to 151 payoff occurrences for the three months ended June 30, 2018. “Payoffs” consist of recovery of the entire legally collectible portion, or a settlement thereof, of our principal investment, accrued interest, and late fees owed to us from the proceeds of the Accounts collected by the Associations in accordance with our contracts with Associations. The decrease in payoff occurrences was offset in part due to an increase in revenue per unit. The average revenue per unit per the Statement of Operations, excluding rental revenue and net commission revenue increased to \$6,452 for the Three Months ended June 30, 2019 compared with \$4,370 for the Three Months ended June 30, 2018.

We saw a decrease in rental revenue in the Three Months ended June 30, 2019 of \$146 thousand to \$72 thousand from \$218 thousand for the Three Months ended June 30, 2018. This was due to a reduced number of rental units in 2019 as compared to 2018.

Our new acquisition generated \$181 thousand of net commission revenue in the Three Months ended June 30, 2019 as compared to no revenue in the prior year.

Operating Expenses

During the Three Months ended June 30, 2019, operating expenses increased \$495 thousand, or 67.5%, to \$1,228 thousand from \$733 thousand for the Three Months ended June 30, 2018. The increase in operating expenses can be attributed to various factors, including increased professional fees of \$426 thousand primarily related to the IIU acquisition and expenses associated with strategic shift alternatives, increased staffing costs of \$77 thousand resulting from more employees in 2019 (due in part to \$33 thousand associated with the IIU acquisition) as compared to the comparable period in 2018, offset in part by a reduction in real estate management expenses of \$62 thousand. The overall increase in operating expenses was also due in part to a \$101 thousand increase in operating expense associated with the IIU operating expenses that were not in the prior year.

Professional fees, excluding fees from the BLG service agreement, for the Three Months ended June 30, 2019 were approximately 257,000 compared with approximately negative \$96,000 for the Three Months ended June 30, 2018. In 2018, we received a \$200K insurance reimbursement for legal fees. In the ordinary course of our business, we are involved in numerous legal proceedings and expenses associated with acquisitions and corporate initiatives. We regularly initiate collection lawsuits, using our network of third party law firms, against debtors. In addition, debtors occasionally initiate litigation against us. The settlement costs of these lawsuits increased by approximately \$27,000 to approximately \$38,000 compared with approximately \$11,000 for the Three Months ended June 30, 2018.

Legal fees for BLG for the Three Months ended June 30, 2019 were \$291 thousand compared to \$218 thousand for the Three Months ended June 30, 2018 See Note 5. Due From Related Party for further discussion regarding the service agreements with BLG.

Interest Expense

During the Three Months ended June 30, 2019, the Company incurred \$63 thousand as compared to \$95 thousand of interest expense for the Three Months ended June 30, 2018.

Gain (Loss) on Litigation

During the Three Months ended June 30, 2018, the Company reassessed its class action litigation and adjusted the \$505,000 class action accrual that was incurred during the Three Months ended June 30, 2017 to \$100,000 with the \$405,000 change reflected as income

Net Loss (Income)

During the Three Months ended June 30, 2019, the net loss was \$451 thousand as compared to net income of \$455 thousand for the Three Months ended June 30, 2018. The increase in the loss was primarily due to increased costs associated with the IIU purchase, fees associated with a strategic shift and a reduction in revenue.

The Six Months Ended June 30, 2019 compared with the Six Months Ended June 30, 2018

Revenues

During the Six months ended June 30, 2019, total revenues decreased by \$239 thousand, or 13.0%, to \$1,603 thousand from \$1,842 thousand in the Six months ended June 30, 2018.

Interest on delinquent association fees for the Six months ended June 30, 2019 decreased \$237 thousand or 21.3% even as the number of payoffs increased to 254 payoff occurrences as compared to 232 payoff occurrences for the six months ended June 30, 2018. "Payoffs" consist of recovery of the entire legally collectible portion, or a settlement thereof, of our principal investment, accrued interest, and late fees owed to us from the proceeds of the Accounts collected by the Associations in accordance with our contracts with Associations. The decrease in revenue was due in part to a decrease in revenue per unit. The average revenue per unit per the Statement of Operations, excluding rental revenue and net commission revenue decreased to \$5,444 for the Six months ended June 30, 2019 compared with \$6,040 for the Six months ended June 30, 2018.

We saw a decrease in rental revenue in the Six months ended June 30, 2019 of \$220 thousand to \$220 thousand from \$440 thousand for the Six months ended June 30, 2018. This was due to a reduced number of rental units in 2019 as compared to 2018.

Our new acquisition generated \$280 thousand of net commission revenue in the Six months ended June 30, 2019 as compared to no revenue in the prior year.

Operating Expenses

During the Six months ended June 30, 2019, operating expenses increased \$734 thousand, or 43.0%, to \$2,440 thousand from \$1,706 thousand for the Six months ended June 30, 2018. The increase in operating expenses can be attributed to various factors, including increased professional fees of \$694 thousand primarily related to the IIU acquisition, expenses associated with strategic shift alternatives, offset in part by a reduction in staffing costs of \$37 thousand even after adding \$63 thousand of staffing costs for IIU, as compared to the comparable period in 2018 offset. The overall increase in operating expenses was also due in part to a \$189 thousand increase in operating expense associated with the IIU operating expenses that were not in the prior year.

Professional fees, excluding fees from the BLG service agreement, for the Six months ended June 30, 2019 were approximately \$614,000 compared with approximately negative \$35,000 for the Six months ended June 30, 2018. In the ordinary course of our business, we are involved in numerous legal proceedings and expenses associated with acquisitions and corporate initiatives. We regularly initiate collection lawsuits, using our network of third party law firms, against debtors. In addition, debtors occasionally initiate litigation against us. The settlement costs of these lawsuits increased by approximately \$13,000 to approximately \$40,000 compared with approximately \$27,000 for the Six months ended June 30, 2018.

Legal fees for BLG for the Six months ended June 30, 2019 were \$537 thousand compared to \$492 thousand for the Six months ended June 30, 2018 See Note 5. Due From Related Party for further discussion regarding the service agreements with BLG.

Interest Expense

During the Six months ended June 30, 2019, the Company incurred \$70 thousand as compared to \$95 thousand of interest expense for the Six months ended June 30, 2018.

Loss on Litigation

During the Six Months ended June 30, 2018, the Company reassessed its class action litigation and adjusted the \$505,000 class action accrual that was incurred during the Six Months ended June 30, 2017 to \$100,000 with the \$405,000 change reflected as income.

Net Loss (Income)

During the Six months ended June 30, 2019, the net loss was \$908 thousand as compared to net income of \$446 thousand for the Six months ended June 30, 2018. The loss was primarily due to increased costs associated with the IIU purchase and a reduction in revenue.

Liquidity and Capital Resources

General

As of June 30, 2019, we had cash and cash equivalents of \$3,094 thousand compared with \$3,521 thousand at December 31, 2018. This increase was primarily driven by funds generated from a secondary equity offering.

Cash from Operations

Net cash used in operations was \$659 thousand during the Six Months ended June 30, 2019 compared with \$3 thousand during the Six Months ended June 30, 2018. This increase in cash used by operating activities was primarily driven by greater losses during the Six Months ended June 30, 2019 compared to a smaller loss during the Six Months ended June 30, 2018, offset in part by improved management of working capital funds.

Cash from Investing Activities

For the Six Months ended June 30, 2019 net cash provided by investing activities was \$290 thousand as compared to net cash provided by investing activities of \$236 thousand for the six months ended June 30, 2018. The increase primarily arose from acquiring \$51 thousand from the IIU business acquisition. Net collections from our finance receivables for the Six Months ended June 30, 2019 was \$175 thousand compared to \$203 thousand for the Six Months ended June 30, 2018. Our primary business relies on our ability to invest in Accounts, and during the Six Months ended June 30, 2019, the number of active Accounts has decreased compared with the Six Months ended June 30, 2018. This balance has been in consistent decline since 2012. This balance is very susceptible to housing market fluctuations in Florida.

Cash from Financing Activities

Net cash used in financing activities was \$58 thousand for the Six Months ended June 30, 2019 compared with net cash provided by financing activities of \$379 thousand during the Six Months ended June 30, 2018. At June 30, 2019, the principal indebtedness of the Company was \$4,122 thousand (excluding lease liability of \$22 thousand) compared with \$43 thousand at December 31, 2018 and \$587 thousand at June 30, 2018. For the Six Months ended June 30, 2019 the Company repaid \$81 thousand of principal repayments compared to \$39 thousand principal repayments for the Six Months ended June 30, 2018 and \$82 thousand of debt issue costs incurred in 2018. During the Six Months ended June 30, 2019 the Company received \$22 thousand from the exercise of warrants. During the Six Months ended June 30, 2018 the Company received \$500 thousand from borrowings.

Debt of the Company consisted of the following at June 30, 2019 and December 31, 2018:

	<u>June 30, 2019</u>	<u>December 31, 2018 (Audited)</u>
Financing agreement with FlatIron capital that is unsecured. Down payment of \$28,125 was required upfront and equal installment payments of \$8,701 to be made over a 10 month period. The note matures May 31, 2019. Annualized interest is 5.99%	\$ -	\$ 42,875
Senior secured convertible note to Craven House Capital North America LLC (Related Party), bearing interest at 3.0%. Note was issued on January 16, 2019 and matures on either January 14, 2019 or convertible into 1,436,424 shares of the Company's common shares. The beneficial conversion feature as of January 16, 2019 was zero.	3,461,782	-
Promissory note issued by a financial institution, bearing interest at 5.85%, interest and principal payments due monthly of \$10,932. Note was issued on May 31, 2018 with original borrowings of \$608,000 and subsequent borrowings of \$141,000 and repayments of \$51,000. The note matures on May 30, 2025 and can be prepaid at any time without penalty. This note is secured by the Company's inventory, chattel paper, accounts, equipment and general intangible intangibles and deposit accounts.	660,793	
	<u>\$ 4,122,575</u>	<u>\$ 42,875</u>

As of June 30, 2019, minimum required annual principal payments are as follows:

Years Ending December 31,		
2019	\$	54,351
2020		3,559,546
2021		103,825
2022		110,153
2023		116,867
After 2023		177,833
	<u>\$</u>	<u>4,122,575</u>

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are not required to make disclosures under this item.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2019. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of June 30, 2019 for the reasons discussed below. In addition, management identified the following material weaknesses in its assessment of the effectiveness of disclosure controls and procedures as of June 30, 2019:

The Company did not effectively segregate certain accounting duties due to the small size of its accounting staff.

A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Notwithstanding the determination that our internal control over financial reporting was not effective, as of June 30, 2019, and that there was a material weakness as identified in this Quarterly Report, we believe that our consolidated financial statements contained in this Quarterly Report fairly present our financial position, results of operations and cash flows for the years covered hereby in all material respects.

We expect to be dependent upon our Chief Financial Officer who is knowledgeable and experienced in the application of U.S. Generally Accepted Accounting Principles to maintain our disclosure controls and procedures and the preparation of our financial statements for the foreseeable future. We plan on increasing the size of our accounting staff at the appropriate time for our business and its size to ameliorate our concern that we do not effectively segregate certain accounting duties, which we believe would resolve the material weakness in disclosure controls and procedures, but there can be no assurances as to the timing of any such action or that we will be able to do so.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Other than the lawsuits described below, we are not currently a party to material litigation proceedings. However, we frequently become party to litigation in the ordinary course of business, including either the prosecution or defense of claims arising from contracts by and between us and client Associations. Regardless of the outcome, litigation can have an adverse impact on us because of prosecution, defense, and settlement costs, diversion of management resources and other factors.

The Company accrues for contingent obligations, including estimated legal costs, when the obligation is probable and the amount is reasonably estimable. As facts concerning contingencies become known, the Company reassesses its position and makes appropriate adjustments to the consolidated financial statements. Estimates that are particularly sensitive to future changes include those related to tax, legal, and other regulatory matters.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the section entitled “Risk Factors” in our Annual Report Form 10-K for the fiscal year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Sales of Unregistered Securities.

None.

(b) Use of Proceeds.

On October 23, 2015, we closed the initial public offering of our units, each consisting of one share of common stock and one warrant to purchase one share of common stock. We issued and sold the minimum of 1,200,000 units at a public offering price of \$10.00 per unit.

The offer and sale of up to 2,000,000 units in the offering was registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form S-1 (File No. 333-205232), which was declared effective by the SEC on October 21, 2015. Following the sale of the shares in connection with the closing of our initial public offering, the offering was terminated. International Assets Advisory, LLC acted as the lead placement agent in the offering.

We received aggregate gross proceeds from the offering of \$12 million, or aggregate net proceeds of \$9.6 million after deducting placement agent fees of \$0.9 million and related offering costs of \$1.5 million. No payments for such expenses were made directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates.

As of June 30, 2019, we have used \$9.0 million of the net proceeds, to repurchase a non-controlling interest (\$0.25 million), repay a debt (\$3.11 million), make interest payments (\$0.89 million), fund our original product (\$0.34 million), fund our New Neighbor Guaranty program (\$0.71 million) and make real estate owned investments (\$0.57 million). The remainder of the funds have been invested in accordance with our investment policy as well as used in normal operations of the Company.

(c) Repurchase of Securities.

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None

Item 6. Exhibits

The following documents are filed as a part of this report or are incorporated herein by reference.

**EXHIBIT
NUMBER****DESCRIPTION**

31.1	Rule 13a – 14(a) Certification of the Principal Executive Officer
31.2	Rule 13a – 14(a) Certification of the Principal Financial Officer
32.1	Written Statement of the Principal Executive Officer and Principal Financial Officer, Pursuant to 18 U.S.C. § 1350
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

#Indicates a management contract or compensatory arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

Date: August 14, 2019

LM FUNDING AMERICA, INC.

By: /s/ Bruce M. Rodgers
Bruce M. Rodgers
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Date: August 14, 2019

By: /s/ Richard Russell
Richard Russell
Chief Financial Officer
(Principal Accounting Officer)

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Bruce Rodgers, certify that:

1. I have reviewed this annual report on Form 10-Q of LM Funding America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2019

/s/ Bruce Rodgers

Bruce Rodgers

*CEO and Chief Executive Officer
(Principal Executive Officer)*

A signed original of this document has been provided to LM Funding America, Inc. and will be retained by LM Funding America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Richard Russell, certify that:

1. I have reviewed this annual report on Form 10-Q of LM Funding America Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 14, 2019

/s/ Richard Russell
Richard Russell
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this document has been provided to LM Funding America, Inc. and will be retained by LM Funding America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Written Statement of the Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Executive Officer of LM Funding America, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2019 as filed with the Securities and Exchange Commission on August 14, 2019 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Bruce Rodgers

Bruce Rodgers

CEO and Chief Executive Officer

(Principal Executive Officer)

August 14, 2019

A signed original of this document has been provided to LM Funding America, Inc. and will be retained by LM Funding America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Written Statement of the Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Executive Officer of LM Funding America, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2019 as filed with the Securities and Exchange Commission on August 14, 2019 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard Russell

Richard Russell

Chief Financial Officer

(Principal Financial and Accounting Officer)

August 14, 2019

A signed original of this document has been provided to LM Funding America, Inc. and will be retained by LM Funding America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.