

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

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)

302 Knights Run Avenue  
Suite 1000 Tampa, FL  
(Address of principal executive offices)

47-3844457  
(I.R.S. Employer  
Identification No.)

33602  
(Zip Code)

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

Title of each Class	Name of each exchange on which registered
Common Stock, Par Value \$0.001 Per Share	Nasdaq Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES  NO

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

The aggregate market value of voting and nonvoting common equity held by non-affiliates of the Registrant was approximately \$13,749,450 as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares of the Registrant's Common Stock outstanding as of April 12, 2018 was 6,253,189.

## Table of Contents

	<u>Page</u>
<b><u>PART I</u></b>	
Item 1. <a href="#">Business</a>	3
Item 1A. <a href="#">Risk Factors</a>	6
Item 1B. <a href="#">Unresolved Staff Comments</a>	15
Item 2. <a href="#">Properties</a>	16
Item 3. <a href="#">Legal Proceedings</a>	16
Item 4. <a href="#">Mine Safety Disclosures</a>	16
<b><u>PART II</u></b>	
Item 5. <a href="#">Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	17
Item 6. <a href="#">Selected Financial Data</a>	18
Item 7. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	18
Item 7A. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	23
Item 8. <a href="#">Financial Statements and Supplementary Data</a>	23
Item 9. <a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a>	23
Item 9A. <a href="#">Controls and Procedures</a>	23
Item 9B. <a href="#">Other Information</a>	24
<b><u>PART III</u></b>	
Item 10. <a href="#">Directors, Executive Officers and Corporate Governance</a>	24
Item 11. <a href="#">Executive Compensation</a>	27
Item 12. <a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	29
Item 13. <a href="#">Certain Relationships and Related Transactions, and Director Independence</a>	31
Item 14. <a href="#">Principal Accounting Fees and Services</a>	32
<b><u>PART IV</u></b>	
Item 15. <a href="#">Exhibits, Financial Statement Schedules</a>	33
Item 16. <a href="#">Form 10-K Summary</a>	33

## PART I

### Item 1. Business.

We are a specialty finance company that provides funding to nonprofit community associations primarily located in the state of Florida. As of February 2016, we also began operations in Illinois, which is the fourth-largest assessment market in the United States for community associations. 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.

Under our original line of business, we purchase Associations’ right to receive a portion of the Association’s collected proceeds from owners that are not paying their assessments. After taking assignment of an Association’s right to receive a portion of the Association’s proceeds from the collection of delinquent assessments, we engage law firms to perform collection work on a deferred billing basis wherein the law firms receive payment upon collection from the account debtors or a predetermined contracted amount if payment from account debtors is less than legal fees and costs owed. Under this business model, we typically fund an amount equal to or less than the statutory minimum an Association could recover on a delinquent account for each Account, which we refer to as the “Super Lien Amount”. Upon collection of an Account, the law firm working on the Account, on behalf of the Association, generally distributes to us the funded amount, interest, and administrative late fees, with the law firm retaining legal fees and costs collected, and the Association retaining the balance of the collection. In connection with this line of 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 monthly dues on each delinquent unit. This simultaneously eliminates a substantial portion of the Association’s balance sheet bad debts and assists the Association to meet its budget by receiving guaranteed monthly payments on its delinquent units and relieving the Association from paying legal fees and costs to collect its bad debts. We believe that the combined features of the program enhance the value of the underlying real estate in an Association and the value of an Association’s delinquent receivables. We intend to leverage our proprietary software platform, as well as our industry experience and knowledge gained from our original line of business, to expand the New Neighbor Guaranty program in certain situations and to potentially develop other new products in the future.

Because we acquire and collect on the delinquent receivables of Associations, the Account debtors are third parties about whom we have little or no information. Therefore, we cannot predict when any given Account will be paid off or how much it will yield. In assessing the risk of purchasing Accounts, we review the property values of the underlying units, the governing documents of the relevant Association, and the total number of delinquent receivables held by the Association.

### Our Products

#### Original Product

Our original product relies upon Florida statutory provisions that effectively protect the principal amount invested by us in each Account. In particular, Section 718.116(1), Florida Statutes, makes purchasers and sellers of a unit in an Association jointly and severally liable for all past due assessments, interest, late fees, legal fees, and costs payable to the Association. As discussed above, the statute grants to Associations a so-called “super lien”, which is a category of lien that is given a statutorily higher priority than all other types of liens other than property tax liens. Under the Florida statute, a Florida Association’s super lien has higher priority than all other lien holders, except that in the case of property tax liens. The amount of the Association’s priority over a first mortgage holder that takes title to a property through foreclosure (or deed in lieu), referred to as the Super Lien Amount, is limited to twelve months’ past due assessments or, if less, one percent (1.0%) of the original mortgage amount. Under our contracts with Associations for our original product, we pay Associations an amount up to the Super Lien Amount for the right to receive all collected interest and late fees on Accounts purchased from the Associations.

In other states in which we have offered our original product, which are currently only in Washington, Colorado and Illinois, we rely on statutes that we believe are similar to the above-described Florida statutes in relevant respects. A total of approximately 22 U.S. states, Puerto Rico and the District of Columbia have super lien statutes that give Association assessments super lien status under some circumstances, and of these states, we believe that all of these jurisdictions other than Alaska have a regulatory and business environment that would enable us to offer our original product to Associations in those states on materially the same basis.

### New Neighbor Guaranty

In 2012, we began development of a new product, the New Neighbor Guaranty, wherein an Association assigns substantially all of its outstanding indebtedness and accruals on its delinquent units to us in exchange for payments in an amount equal to the regular ongoing monthly or quarterly assessments for delinquent units when those amounts would be due to the Association. We assume both the payment and collection obligations for these assigned Accounts under this product. This simultaneously eliminates an Association's balance sheet bad debts and assists the Association to meet its budget by receiving guaranteed assessment payments on its delinquent units and relieving the Association from paying legal fees and costs to collect its bad debts. We believe that the combined features of the product enhance the value of the underlying real estate in an Association and the value of an Association's delinquent receivables.

Before we implement the New Neighbor Guaranty program, an Association typically asks us to conduct a review of its accounts receivable. After we have conducted the review, we inform the Association which Accounts we are willing to purchase and the terms of such purchase. Once we implement the New Neighbor Guaranty program, we begin making scheduled payments to the Association on the Accounts as if the Association had non-delinquent residents occupying the units underlying the Accounts. Our New Neighbor Guaranty contracts typically allow us to retain all collection proceeds on each Account other than special assessments and accelerated assessment balances. Thus, the Association foregoes the potential benefit of a larger future collection in exchange for the certainty of a steady stream of immediate payments on the Account.

### Future Products

We are also developing other variations of our contracts with Associations in various states that we may introduce to the market in the future. For example, under one product under development, at the request of an Association lender we may contract with an Association to provide that the Association will have revenues equal to or more than 90% of budget or any other percentage the lender requests. If an Association is at 80% of budget and a lender requires it to maintain revenues of 90% of budget, this product would provide upfront capital to bring the Association to the 90% threshold and then make continuing payments to keep it there through the term of the loan. This minimizes the lender's risk of delinquencies adversely affecting the loan's repayment. Also, this would enable lenders to do business with more Associations than their previous underwriting guidelines would permit if Associations contract with us as part of the loan package. This product, along with other variations on our contracts with Associations in various states, remains under development, however, and there is no assurance that we will ultimately launch this product or any other variation on our contracts with Associations in any state.

### **Industry Overview**

According to the Community Association Institute ("CAI"), as of January 2016, 65 million people lived in 328,500 Associations in the United States. As a percentage, homeowners associations accounted for between 51-55% of the total and condominium associations accounted for between 42-45% of the total, with cooperatives comprising the balance. As of December 2016, Florida had nearly eight million residents living in more than 47,000 community associations. Assuming the national distribution of property types exists in Florida, Florida has approximately 24,000 homeowners associations and 20,000 condominium associations. During the fiscal year ended December 31, 2017, we contracted with approximately 500 community associations. We believe opportunity remains abundant in our other geographic markets.

Associations typically address delinquencies by paying lawyers or collection agencies to recover amounts owed. While Associations seek recovery of delinquent amounts, budgets go underfunded causing the need to cut services or raise assessments further. The real estate downturn in 2008 made delinquency issues an acute problem for a large number of Associations. We were organized in 2008 to immediately address the financial problems faced by Associations as a result of delinquent unit owners.

According to the CAI, as of December 2016, in Florida where we have primarily operated, Associations annually assess their residents \$9 billion and nationwide, annual assessments by Associations are \$65 billion. We believe we are the largest purchaser of delinquent Accounts in Florida, with total purchases of approximately \$309 million over a ten-year period. The balance of delinquent Accounts are serviced by lawyers, collection companies, our competitors, or not serviced at all. We believe we offer Associations a better financial solution to Account delinquencies and that Associations will increasingly turn to us and our products as a solution to handle Account delinquencies.

### **Our Strategy**

Our primary objective is to utilize our competitive strengths, including our proprietary technology and our management's experience and expertise in buying and collecting Association Accounts, to grow our business in Florida and in other states by identifying,

evaluating, pricing, and acquiring Association Accounts and maximizing collections of such Accounts in a cost efficient manner. The principal elements of our strategy and competitive advantage are as follows:

- Capitalizing on our brand and existing strategic relationships to identify and acquire Association Accounts. We market our “We Buy Problems” and “You Are Always Better off with LM Funding” brands primarily through trade shows throughout Florida and, to a lesser extent, at national events. Participation in these shows and events has enabled us to form strategic relationships throughout the Association services industry and has served to provide a positive reputation in the industry. We leverage our brand and strategic relationships with law firms and Associations to identify and purchase Accounts.
- Partnering with Associations’ advisors such as law firms, management companies, accountants, Association lenders, and others to efficiently identify and acquire Accounts on a national basis. The point of purchase for Accounts is at the individual Association board of directors level; therefore, establishing and maintaining relationships with the advisors of those boards is important to our business strategy. Our strategic relationships with Association boards’ advisors provide us with opportunities to meet with Association boards on favorable terms and help us to gain their trust and confidence.
- Providing our proprietary software to our partner law firms in order to cost effectively track, control, and collect purchased Accounts and maintain low fixed overhead. Our proprietary software provides a competitive advantage that enables law firms’ lawyers to efficiently handle approximately 1,000 accounts at a time with a high degree of uniformity and accuracy based upon historical caseload per lawyer of Business Law Group, P.A., one of our partner law firms. This enables our law firms to operate more efficiently and profitably, while simultaneously enabling us to cost effectively track and control our Accounts on a real-time basis.
- Utilizing increased access to capital and lines of credit to expand our product offerings nationally. As a specialty finance company, capital is our inventory. Access to capital has always determined the speed of our growth and the amount of upfront funding we can provide with our products. We believe that increased access to capital will enable us to pursue more opportunities to buy Accounts and to develop a wider array of specialty finance products.
- Extending secured commercial loans as a means to acquiring large blocks of Accounts. We intend to pursue the extension of secured loans to commercial partners who, as a condition of such loans, would be required to drive large blocks of accounts to us. Banks, management companies, law firms, and large Associations control large blocks of Accounts that we may be able to acquire if we help meet their capital needs.
- Pursuing acquisitions of providers in the Association Account servicing industry. A number of smaller collection companies continue to operate in the community association market. Some have funded Accounts that we can acquire. Others have customer relationships which can serve as a valuable platform for selling our products. We will continue to explore opportunities to expand our footprint in both the states in which we operate and by looking to make strategic acquisitions in states we wish to expand to.

## **Employees**

As of April 12, 2018, we had 11 employees, of which 10 are full-time.

## **Corporate Information**

LM Funding, LLC, our wholly-owned subsidiary, was originally organized in January 2008 as a Florida limited liability company. In preparation for our initial public offering in October 2015, we were incorporated in Delaware on April 20, 2015. Upon completion of our initial public offering, we became the holding company of LM Funding, LLC. All of our business is conducted through LM Funding, LLC and its subsidiaries.

## **Item 1A. Risk Factors.**

*You should carefully consider each of the risks described below, together with all of the other information contained in this Annual Report on Form 10-K, before making an investment decision with respect to our securities. If any of the following risks actually occur, our business, financial condition, results of operations, or cash flow could be materially and adversely affected and you may lose all or part of your investment.*

### **Risks Relating to Our Business**

#### ***Our quarterly operating results may fluctuate and cause our stock price to decline.***

Because of the nature of our business, our quarterly operating results may fluctuate, which may adversely affect the market price of our common stock. Our results may fluctuate as a result of the following factors:

- (i) the timing and amount of collections on our Account portfolio;
- (ii) our inability to identify and acquire additional Accounts;
- (iii) a decline in the value of our Account portfolio recoveries;
- (iv) increases in operating expenses associated with the growth of our operations; and
- (v) general, economic and real estate market conditions.

#### ***We may not be able to purchase Accounts at favorable prices, or on sufficiently favorable terms, or at all.***

Our success depends upon the continued availability of Association Accounts. The availability of Accounts at favorable prices and on terms acceptable to us depends on a number of factors outside our control, including:

- (i) the status of the economy and real estate market in markets which we have operations may become so strong that delinquent Accounts do not occur in sufficient quantities to efficiently acquire them;
- (ii) the perceived need of Associations to sell their Accounts to us as opposed to taking other measures to solve budget problems such as increasing assessments; and
- (iii) competitive pressures from law firms, collections agencies, and others to produce more revenue for Associations than we can provide through the purchase of Accounts.

In addition, our ability to purchase Accounts, in particular with respect to our original product, is reliant on state statutes allowing for a Super Lien Amount to protect our principal investment; any change of those statutes and elimination of the priority of the Super Lien Amount, particularly in Florida, could have an adverse effect on our ability to purchase Accounts. If we were unable to purchase Accounts at favorable prices or on terms acceptable to us, or at all, it would likely have a material adverse effect on our financial condition and results of operations.

#### ***We may not be successful at acquiring and collecting Accounts in other states profitably.***

Our business strategy is dependent upon expanding our operations into other states and we have purchased and intend to continue to purchase Accounts in states in which we have little or no operating history. We may not be successful in acquiring any Accounts in these new markets and our limited experience in these markets may impair our ability to profitably or successfully collect the Accounts. This may cause us to overpay for these Accounts and consequently, fail to generate a profit from these Accounts. Our inability to acquire or profitably collect on Accounts in these states could have a material adverse effect on our financial condition and results of operations as we expand our business operations.

#### ***We may not be able to recover sufficient amounts on our Accounts to recover charges to the Accounts for interest and late fees necessary to fund our operations.***

We acquire and collect on the delinquent receivables of Associations. Since Account debtors are third parties that we have little to no information about, we cannot predict when any given Account will pay off or how much it will yield. In order to operate profitably over the long term, we must continually purchase and collect on a sufficient volume of Accounts to generate revenue that exceeds our costs.

***We are subject to intense competition seeking to provide a collection solution to Associations for delinquent Accounts.***

Lawyers, collection agencies, and other direct and indirect competitors vying to collect on Accounts all propose to solve the problem delinquent Accounts pose to Associations. Additionally, Associations and their management companies sometimes try to solve their delinquent Account problems in house, without the assistance of third-party collection agencies. An Account that an Association attempts to collect through any of these other options is an Account we cannot purchase and collect. We compete on the basis of reputation, industry experience, performance and financing dollars. Some of these competitors have greater contacts with Associations, greater financial resources and access to capital, more personnel, wider geographic presence and other resources than we have. In addition, we expect the entry of new competitors in the future given the relatively new nature of the market in which we operate. Aggressive pricing by our competitors could raise the price of acquiring and purchasing Accounts above levels that we are willing to pay, which could reduce the number of Accounts suitable for us to purchase or if purchased by us, reduce the profits, if any, generated by such Accounts. If we are unable to purchase Accounts at favorable prices or at all, the revenues generated by us and our earnings could be materially reduced.

***We are dependent upon third-party law firms to service our Accounts.***

Although we utilize our proprietary software and in-house staff to track, monitor, and direct the collection of our Accounts, we depend upon third-party law firms to perform the collection work. As a result, we are dependent upon the efforts of our third-party law firms, particularly Business Law Group, P.A. ("BLG") to service and collect our Accounts. As of December 31, 2017, BLG was responsible for servicing over 98% of our Accounts. Our revenues and profitability could be materially affected if:

- (i) our agreements with the third-party law firms we use are terminated and we are not able to secure replacement law firms or direct payments from account debtors to our replacement law firms;
- (ii) our relationships with our law firms adversely change;
- (iii) our law firms fail to adequately perform their obligations; or
- (iv) internal changes at such law firms occur, such as loss of staff who service us.

***The potential inability to refinance our current indebtedness when due could raise substantial doubt about our ability to continue as a going concern.***

As of April 12, 2018, we had an aggregate of \$500,000 in senior secured convertible debt obligations that will become due within a year. Although we have a history of successfully refinancing our debt obligations, there is no assurance that we will be able to refinance our current indebtedness on a timely basis in view of recent operating losses, pending litigation, market conditions, and/or other reasons that we cannot currently foresee. Inability to refinance these debt obligations when due could raise substantial doubt about our ability to continue as a going concern. In the event that we are unable to refinance our indebtedness when due, our intent is to generate liquidity through the monetization of owned real estate assets, which we believe, in combination with recent expense cuts and new sales programs that are resulting in increases in Account acquisitions for 2018, will mitigate the risks to our liquidity associated with any inability to refinance our indebtedness. However, we cannot predict, with certainty, the outcome of our actions to generate liquidity, including the availability of additional debt financing, or whether such other actions would generate the expected liquidity as currently planned or needed. Additionally, a failure to generate additional liquidity could negatively impact our ability to acquire new Accounts.

***If we are unable to access external sources of financing, we may not be able to fund and grow our operations.***

We depend upon loans from external sources from time to time to fund and expand our operations. Our ability to grow our business is dependent on our access to additional financing and capital resources. The failure to obtain financing and capital as needed would limit our ability to purchase Accounts and achieve our growth plans.

***We may incur substantial indebtedness from time to time in connection with the purchase of Accounts and could be subject to risks associated with incurring such indebtedness, including:***

- (i) we could be required to dedicate a portion of our cash flows from operations to pay debt service costs and, as a result, we would have less funds available for operations, future acquisitions of Accounts, and other purposes;
- (ii) it may be more difficult and expensive to obtain additional funds through financings, if such funds are available at all;
- (iii) we could be more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and
- (iv) if we default under any of our existing credit facilities or if our creditors demand payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

***We have pledged substantially all of our assets to secure our borrowings.***

Our existing indebtedness is, and any future indebtedness we incur may be, secured by substantially all of our assets. If we default under the indebtedness secured by our assets, the secured creditor could declare all of the indebtedness then outstanding to be immediately due and payable. If we were unable to pay such amounts, our assets would be available to the secured creditor to satisfy our obligations to the secured creditor.

***We are subject to loan covenants that may restrict our ability to operate our business.***

Our current credit facilities impose certain restrictive covenants and future credit facilities may include restrictive covenants, including financial covenants, that restrict our ability to operate our business. Our existing credit facilities restrict us from undertaking additional indebtedness, a sale of substantially all of our assets, a merger, or other type of business consolidation. Failure to satisfy any of these covenants could result in all or any of the following:

- (i) acceleration of the payment of our outstanding indebtedness;
- (ii) cross defaults to and acceleration of the payment under other financing arrangements;
- (iii) our inability to borrow additional amounts under our existing financing arrangements; and
- (iv) our inability to secure financing on favorable terms or at all from alternative sources.

***The Rodgers family has significant influence over our company, substantially reducing the influence of our other stockholders.***

As of December 31, 2017, Bruce M. Rodgers, our Chairman and Chief Executive Officer and his family, including trusts or custodial accounts of minor children of each of Mr. Rodgers and his wife Carolinn Gould, beneficially own, in the aggregate, 36% of our outstanding shares of common stock. As a result, the Rodgers family is able to significantly influence the actions that require stockholder approval, including the election of a majority of our directors and the approval of mergers, sales of assets or other corporate transactions or matters submitted for stockholder approval. As a result, our other stockholders may have little or no influence over matters submitted for stockholder approval. In addition, the Rodgers family's influence could deter or preclude any unsolicited acquisition of us and consequently materially adversely affect the price of our common stock.

***We may encounter difficulties managing changes in our business including cyclical growth and declines, which could disrupt our operations, and there is no assurance that any such growth (if experienced) can be sustained.***

From time to time since our inception, we have experienced periods of significant growth and declines. Although there is no assurance that we will again experience periods of significant growth or continued declines in the future, if we do, there can be no assurance that we will be able to manage our changing operations effectively or that we will be able to maintain or accelerate our growth, and any failure to do so could adversely affect our ability to generate revenues and control expenses. Future growth will depend upon a number of factors, including:

- (i) the effective and timely initiation and development of relationships with law firms, management companies, accounting firms and other trusted advisors of Associations willing to sell Accounts;
- (ii) our ability to continue to develop our proprietary software for use in other markets and with different products;
- (iii) our ability to maintain the collection of Accounts efficiently;
- (iv) the recruitment, motivation and retention of qualified personnel both in our principal office and in new markets;
- (v) our ability to successfully implement our business strategy in states outside of the state of Florida; and
- (vi) our successful implementation of enhancements to our operational and financial systems.

Due to our limited financial resources and the limited experience and size of our management team, we may not be able to effectively manage the growth of our business. Significant growth may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business strategy or disrupt our operations.

***Government regulations may limit our ability to recover and enforce the collection of our Accounts.***

Federal, state and municipal laws, rules, regulations and ordinances may limit our ability to recover and enforce our rights with respect to the Accounts acquired by us. These laws include, but are not limited to, the following federal statutes and regulations promulgated thereunder and comparable statutes in states where account debtors reside and/or located:

- (i) the Fair Debt Collection Practices Act;
- (ii) the Federal Trade Commission Act;
- (iii) the Truth-In-Lending Act;



- (iv) the Fair Credit Billing Act;
- (v) the Dodd-Frank Act;
- (vi) the Equal Credit Opportunity Act; and
- (vii) the Fair Credit Reporting Act.

We may be precluded from collecting Accounts we purchase where the Association or its prior legal counsel, management company, or collection agency failed to comply with applicable laws in charging the account debtor or prosecuting the collection of the Account. Laws relating to the collection of consumer debt also directly apply to our business. Our failure to comply with any laws applicable to us, including state licensing laws, could limit our ability to recover our Accounts and could subject us to fines and penalties, which could reduce our revenues.

***We may become regulated under the Consumer Financial Protection Bureau, or CFPB, and have not developed compliance standards for such oversight.***

The Dodd-Frank Wall Street Reform and Consumer Protection Act (2010), or Dodd-Frank Act, represents a comprehensive overhaul of the financial services industry within the U.S. The Dodd-Frank Act allows consumers free access to their credit score if their score negatively affects them in a financial transaction or a hiring decision, and also gives consumers access to credit score disclosures as part of an adverse action and risk-based pricing notice. Title X of the Dodd-Frank Act establishes the Bureau of Consumer Financial Protection, or CFPB, within the Federal Reserve Board, and requires the CFPB and other federal agencies to implement many new and significant rules and regulations. Significant portions of the Dodd-Frank Act related to the CFPB became effective on July 21, 2011. The CFPB has broad powers to promulgate, administer and enforce consumer financial regulations, including those applicable to us and possibly our funded Associations. Under the Dodd-Frank Act, the CFPB is the principal supervisor and enforcer of federal consumer financial protection laws with respect to nondepository institutions, or “nonbanks”, including, without limitation, any “covered person” who is a “larger participant” in a market for other consumer financial products or services. We do not know if our unique business model makes us a covered person.

The CFPB has started to exercise authority to define unfair, deceptive or abusive acts and practices and to require reports and conduct examinations of these entities for purposes of (i) assessing compliance with federal consumer financial protection laws; (ii) obtaining information about the activities and compliance systems or procedures of such entities; and (iii) detecting and assessing risks to consumers and to markets for consumer financial products and services. The exercise of this supervisory authority must be risk-based, meaning that the CFPB will identify nonbanks for examination based on the risk they pose to consumers, including consideration of the entity’s asset size, transaction volume, risk to consumers, existing oversight by state authorities and any other factors that the CFPB determines to be relevant. When a nonbank is in violation of federal consumer financial protection laws, including the CFPB’s own rules, the CFPB may pursue administrative proceedings or litigation to enforce those laws and rules. In these proceedings, the CFPB can obtain cease and desist orders, which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief, and monetary penalties ranging from \$5,000 per day for ordinary violations of federal consumer financial protection laws to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. Also, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations under Title X, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the kind of cease and desist orders available to the CFPB (but not for civil penalties). If the CFPB or one or more state officials believe that we have committed a violation of the foregoing laws, they could exercise their enforcement powers in a manner that could have a material adverse effect on us.

At this time, we cannot predict the extent to which the Dodd-Frank Act or the resulting rules and regulations, including those of the CFPB, will impact the U.S. economy and our products and services. Compliance with these new laws and regulations may require changes in the way we conduct our business and could result in additional compliance costs, which could be significant and could adversely impact our results of operations, financial condition or liquidity.

***Current and new laws may adversely affect our ability to collect our Accounts, which could adversely affect our revenues and earnings.***

Because our Accounts are generally originated and collected pursuant to a variety of federal and state laws by a variety of third parties and may involve consumers in all 50 states, the District of Columbia and Puerto Rico, there can be no assurance that all Associations and their management companies, legal counsel, collections agencies and others have at all times been in compliance with all applicable laws relating to the collection of Accounts. Additionally, there can be no assurance that we or our law firms have been or will continue to be at all times in compliance with all applicable laws. Failure to comply with applicable laws could materially adversely affect our ability to collect our Accounts and could subject us to increased costs, fines, and penalties. Furthermore, changes in state law regarding the lien priority status of delinquent Association assessments could materially and adversely affect our business.

***Class action suits and other litigation could divert our management's attention from operating our business, increase our expenses, and otherwise harm our business.***

Certain originators and servicers involved in consumer credit collection and related businesses have been subject to class actions and other litigation. Claims include failure to comply with applicable laws and regulations such as usury and improper or deceptive origination and collection practices. From time to time we are a party to such litigation, and as a result, our management's attention may be diverted from our everyday business activities and implementing our business strategy, and our results of operations and financial condition could be materially adversely affected by, among other things, legal expenses and challenges to our business model in connection with such litigation.

We are a defendant in an action entitled *Solaris at Brickell Bay Condominium Association, Inc. v. LM Funding, LLC*, which was brought before the Circuit Court of the Eleventh Judicial Circuit, Miami-Dade Civil Division on July 31, 2014. On August 4, 2017, an order by the court was entered on Plaintiff's Motion for Preliminary Approval of Class Action Settlement Agreement. In the order, the motion of the Plaintiff, Solaris at Brickell Bay Condominium Association, Inc., individually and on behalf of the certified plaintiff class ("Plaintiffs"), for approval of the Class Action Settlement Agreement (the "Settlement Agreement") with Defendant LM Funding, LLC was granted. LMF, despite its belief that it is not liable for the claims asserted and that it has good defenses thereto, nevertheless agreed to enter into this Agreement in order to: (1) avoid any further expense, inconvenience, and distraction of burdensome and protracted litigation and its consequential negative financial effects to LM Funding, LLC operations; (2) obtain the releases, orders, and final judgment contemplated by the Settlement Agreement; and (3) put to rest and terminate with finality all claims that had been or could have been asserted against LM Funding, LLC by the Plaintiffs arising from the facts alleged in the lawsuit. Pursuant to the agreement subsequently reached between counsel, all required actions and deadlines set forth in the Settlement Agreement are currently stayed. On March 1, 2018, a continuation of the abatement was granted until April 2, 2018. As of December 31, 2017, the Company had accrued costs of \$505,000 as part of the Settlement Agreement. The settlement amount was contingent upon the Company obtaining sufficient financing within the allotted timeframe of the Settlement Agreement. On April 2, 2018, the Plaintiffs withdrew from the Settlement Agreement. The Company will pursue certain legal remedies to defend itself against the allegations.

***Any future acquisitions that we make may prove unsuccessful or strain or divert our resources.***

We may seek to grow through acquisitions of related businesses. Such acquisitions present risks that could materially adversely affect our business and financial performance, including:

- (i) the diversion of our management's attention from our everyday business activities;
- (ii) the assimilation of the operations and personnel of the acquired business;
- (iii) the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired business; and
- (iv) the need to expand our management, administration and operational systems to accommodate such acquired business.

If we make such acquisitions we cannot predict whether:

- (i) we will be able to successfully integrate the operations of any new businesses into our business;
- (ii) we will realize any anticipated benefits of completed acquisitions; or
- (iii) there will be substantial unanticipated costs associated with such acquisitions.

In addition, future acquisitions by us may result in potentially dilutive issuances of our equity securities, the incurrence of additional debt, and the recognition of significant charges for depreciation and amortization related to goodwill and other intangible assets.

Although we have no definitive plans or intentions to make acquisitions of related businesses, we continuously evaluate such potential acquisitions. However, we have not reached any agreement or arrangement with respect to any particular acquisition and we may not be able to complete any acquisitions on favorable terms or at all.

***Our investments in other businesses and entry into new business ventures may adversely affect our operations.***

We have made and may continue to make investments in companies or commence operations in businesses and industries that are not identical to those with which we have historically been successful. If these investments or arrangements are not successful, our earnings could be materially adversely affected by increased expenses and decreased revenues.

***If our technology and software systems are not operational, our operations could be disrupted and our ability to successfully acquire and collect Accounts could be adversely affected.***

Our success depends in part on our proprietary software. We must record and process significant amounts of data quickly and accurately to properly track, monitor and collect our Accounts. Any failure of our information systems and their backup systems would interrupt our operations. We may not have adequate backup arrangements for all of our operations and we may incur significant losses if an outage occurs. In addition, we rely on third-party law firms who also may be adversely affected in the event of an outage in which the third-party servicer does not have adequate backup arrangements. Any interruption in our operations or our third-party law firms' operations could have an adverse effect on our results of operations and financial condition.

***Our organizational documents and Delaware law may make it harder for us to be acquired without the consent and cooperation of our Board of Directors and management.***

Certain provisions of our organizational documents and Delaware law may deter or prevent a takeover attempt, including a takeover attempt in which the potential purchaser offers to pay a per share price greater than the current market price of our common stock. Under the terms of our certificate of incorporation, our Board of Directors has the authority, without further action by our stockholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. In addition, our directors serve staggered terms of one to three years each and, as such, at any given annual meeting of our stockholders, only a portion of our Board of Directors may be considered for election, which may prevent our stockholders from replacing a majority of our Board of Directors at certain annual meetings and may entrench our management and discourage unsolicited stockholder proposals. The ability to issue shares of preferred stock could tend to discourage takeover or acquisition proposals not supported by our current Board of Directors.

***Future sales of our common stock may depress our stock price.***

Sales of a substantial number of shares of our common stock in the public market could cause a decrease in the market price of our common stock. We had 6,253,189 shares of common stock issued and outstanding as of December 31, 2017. We may issue additional shares in connection with our business and may grant stock options to our employees, officers, directors and consultants under our stock option plans or warrants to third parties. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

#### **Risks Relating to the Accounts**

***Insolvency of BLG could have a material adverse effect on our financial condition, results of operations and cash flows.***

Our primary Account servicer, BLG, deposits collections on the Accounts in its Interest on Lawyers Trust Account ("IOLTA Trust Account") and then distributes the proceeds to itself, us and the Associations pursuant to the terms of the purchase agreements with the Associations and applicable law. We do not have a perfected security interest in the amounts BLG collects on the Accounts while such amounts are held in the IOLTA Trust Account. BLG has agreed to promptly remit to us all amounts collected on the Accounts that are owed to us. If, however, BLG were to become subject to any insolvency law and a creditor or trustee-in-bankruptcy of BLG were to take the position that proceeds of the Accounts held in BLG's IOLTA Trust Account should be treated as assets of BLG, an Association or another third party, delays in payments from collections on the Accounts held by BLG could occur or reductions in the amounts of payments to be remitted by BLG to us could result, which could adversely affect our financial condition, results of operations and cash flows.

***Associations do not make any guarantee with respect to the validity, enforceability or collectability of the Accounts acquired by us.***

Associations do not make any representations, warranties or covenants with respect to the validity, enforceability or collectability of Accounts in their assignments of Accounts to us. If an Account proves to be invalid, unenforceable or otherwise generally uncollectible, we will not have any recourse against the respective Association. If a significant number of our Accounts are later held to be invalid, unenforceable or are otherwise uncollectible, our financial condition, results of operations and cash flows could be adversely affected.

***The vast majority of our Accounts are located in Florida, and any adverse conditions affecting Florida could have a material adverse effect on our financial condition and results of operations.***

Our primary business relates to revenues from Accounts purchased by us, which are almost all based in Florida, and our primary source of revenue consists of payments made by condominium and home owners to satisfy the liens against their condominiums and homes. As of December 31, 2017 and December 31, 2016, Florida represented 100% and 99%, respectively, of our Accounts. An

economic recession, adverse market conditions in Florida, and/or significant property damage caused by hurricanes, tornadoes or other inclement weather could adversely affect the ability of these condominium and home owners to satisfy the liens against their condominiums and homes, which could, in turn, have a material adverse effect on our financial condition and results of operations.

***Foreclosure on an Association's lien may not result in the Company recouping the amount that we invested in the related Account.***

All of the Accounts purchased by us are in default. The Accounts are secured by liens held by Associations, which we have an option to foreclose upon on behalf of the Associations. Should we foreclose upon such a lien on behalf of an Association, we are generally entitled pursuant to our contractual arrangements with the Association to have the Association quitclaim its interests in the condominium unit or home to us. In the event that any Association quitclaims its interests in a condominium unit or home to us, we will be relying on the short-term rental prospects, to the extent permitted under bylaws and rules applicable to the Association, and value of its interest in the underlying property, which value may be affected by numerous risks, including:

- (i) changes in general or local economic conditions;
- (ii) neighborhood values;
- (iii) interest rates;
- (iv) real estate tax rates and other operating expenses;
- (v) the possibility of overbuilding of similar properties and of the inability to obtain or maintain full occupancy of the properties;
- (vi) governmental rules and fiscal policies;
- (vii) acts of God; and
- (viii) other factors which are beyond our control.

It is possible that as a result of a decrease in the value of the property or any of the other factors referred to in this paragraph, the amount realized from the sale of such property after taking title through a lien foreclosure may be less than our total investment in the Account. If this occurs with regard to a substantial number of Accounts, the amount expected to be realized from the Accounts will decrease and our financial condition and results of operations could be harmed.

***If Account debtors or their agents make payments on the Accounts to or negotiate reductions in the Accounts with an Association, it could adversely affect our financial condition, results of operations and cash flows.***

From time to time account debtors and/or their agents may make payments on the Accounts directly to the Association or its management company. Our sole recourse in this instance is to recover these misapplied payments through set-offs of payments later collected for that Association by our third-party law firms. A significant number of misapplied or reduced payments could hinder our cash flows and adversely affect our financial condition and results of operations.

***Account debtors are subject to a variety of factors that may adversely affect their payment ability.***

Collections on the Accounts have varied and may in the future vary greatly in both timing and amount from the payments actually due on the Accounts due to a variety of economic, social and other factors. Failures by account debtors to timely pay off their Accounts could adversely affect our financial condition, results of operations and cash flows.

***Defaults on the Accounts could harm our financial condition, results of operations and cash flows.***

We take assignments of the lien foreclosure rights of Associations against delinquent units owned by account debtors who are responsible for payment of the Accounts. The payoff of the Accounts is dependent upon the ability and willingness of the condominium and home owners to pay such obligations. If an owner fails to pay off the Account relating to his, her or its unit or home, only net amounts, if any, recovered will be available with respect to that Account. Foreclosures by holders of first mortgages generally result in our receipt of reduced recoveries from Accounts. In addition, foreclosure actions by any holder of a tax lien may result in us receiving no recovery from an Account to the extent excess proceeds from such tax lien foreclosure are insufficient to provide for payment to us. If, at any time, (i) we experience an increase in mortgage foreclosures or tax lien foreclosures or (ii) we experience a decrease in owner payments, our financial condition, results of operations and cash flows could be adversely affected.

***We depend on the skill and diligence of third parties to collect the Accounts.***

Because the collection of Accounts requires special skill and diligence, any failure of BLG, or any other law firm utilized by us, to diligently collect the Accounts could adversely affect our financial condition, results of operations and cash flows.

***The payoff amounts received by us from Accounts may be adversely affected due to a variety of factors beyond our control.***

Several factors may reduce the amount that can be collected on any individual Account. The delinquent assessments that are the subject of the Accounts and related charges are included within an Association's claim of lien under the applicable statute. In Florida, Association liens are recorded in the official county records and hold first priority status with respect to a first mortgage holder for an amount equal to the Super Lien Amount. Associations have assigned to us the right to direct law firms to collect on the liens and foreclose, subject to the terms and conditions of the purchase agreements between each Association and us.

Each Account presents a separate risk as to the creditworthiness of the debtor obligated to pay the Account, which, in general, is the owner of the unit or home when the Account was incurred and subsequent owners. For instance, if the debtor has incurred a property tax lien, a sale related to such lien could result in our complete loss of the Account. Also, a holder of a first mortgage taking title through a foreclosure proceeding in which the Association is named as a defendant must only pay the Super Lien Amount in a state with a super lien statute. Although we purchase Accounts at a discount to the outstanding balance and the owner remains personally liable for any deficiency, we may decide that it is not cost-effective to pursue such a deficiency. As a result, the purchase or ownership of a significant number of Accounts which result in payment of only the Super Lien Amount or less where no statute specifying a Super Lien Amount applies, could adversely affect our financial condition and results of operations.

***The liens securing the Accounts we own may not be superior to all liens on the related units and homes.***

Although the liens of the Associations securing the Accounts may be superior in right of payment to some of the other liens on a condominium unit or home, they may not be superior to all liens on that condominium unit or home. For instance, a lien relating to delinquent property taxes would be superior in right of payment to the liens securing the Accounts. In addition, if an Association fails to assert the priority of its lien in a foreclosure action, the Association may inadvertently waive the priority of its lien. In the event that there is a lien of superior priority on a unit or home relating to one of the Accounts, the Association's lien might be extinguished in the event that such superior liens are foreclosed. In most instances, the unit or home owner will be liable for the payment of such Account and the ultimate payment would depend on the creditworthiness of such owner. In the case of a tax lien foreclosure, an owner taking title through foreclosure would not be liable for the payment of obligations that existed prior to the foreclosure sale. The purchase or ownership of a significant number of Accounts that are the subject of foreclosure by a superior lien could adversely affect our financial condition, results of operations and cash flows.

***We may not choose to pursue a foreclosure action against condominium and home owners who are delinquent in paying off the Accounts relating to their units or homes.***

Although we have the right to pursue a foreclosure action against a unit or home owner who is delinquent in paying off the Account relating to his or her unit or home, we may not choose to do so as the cost of such litigation may be prohibitive, especially when pursuing an individual claim against a single unit or home owner. Our choice not to foreclose on a unit or home may delay our ability to collect on the Account. If we decide not to pursue foreclosure against a significant number of Accounts, it could adversely affect our financial condition, results of operations and cash flows.

***The holding period for our Accounts from purchase to payoff is indeterminate.***

It can take our third-party law firms anywhere from three months to four years or longer to collect on an Account. Approximately 81% of our Accounts were purchased prior to 2014, with some being purchased as early as 2008. Due to various factors, including those discussed above, we cannot project the payoff date for any Account. This indeterminate holding period reduces our liquidity and ability to fund our operations. If our ability to collect on a material number of Accounts was significantly delayed, it could adversely affect our cash flows and ability to fund our operations.

***Our business model and related accounting treatment may result in acceleration of expense recognition before the corresponding revenues can be recognized.***

As we expand our business, we may incur significant upfront costs relating to the acquisition of Accounts. Under United States generally accepted accounting principles ("GAAP") such amounts may be required to be recognized in the period that they are expended. However, the corresponding revenue stream relating to the acquisition of such Accounts will not be recognized until future dates. Therefore, we may experience reduced earnings in earlier periods until such time as the revenue stream relating to the acquisition of such Accounts may be recognized.

## **Risks Relating to our Securities**

### ***Future sales of our common stock by our affiliates or other stockholders may depress our stock price.***

Sales of a substantial number of shares of our common stock in the public market could cause a decrease in the market price of our common stock. We had authorized 10,000,000 and 5,000,000 shares of common stock and preferred stock, respectively as of December 31, 2017 and December 31, 2016.

We had 6,253,189 and 3,300,000 shares of common stock issued and outstanding as of December 31, 2017 and December 31, 2016, respectively. In addition, pursuant to our 2015 Omnibus Incentive Plan, options to purchase 112,904 and 215,368 respectively, shares of our common stock were outstanding as of December 31, 2017 and December 31, 2016, of which 62,904 and 94,500, respectively were exercisable.

There were 1,200,000 warrants issued and outstanding as of December 31, 2017 and December 31, 2016. On April 2, 2018 we issued warrants to purchase 400,000 shares of our common stock in conjunction with a \$500,000 senior secured indebtedness transaction.

We may issue additional shares in connection with our business and may grant additional stock options or restricted shares to our employees, officers, directors and consultants under our present or future equity compensation plans or we may issue warrants to third parties outside of such plans. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

### ***The market price and trading volume of our units, shares of common stock and warrants may be volatile, and you may not be able to resell your shares of common stock or warrants (as the case may be) at or above the price you paid for them.***

Our securities may trade at prices significantly below the price you paid for it, in which case, holders of our securities may experience difficulty in reselling, or an inability to sell, our securities. In addition, when the market price of a company's equity drops significantly, equity holders often institute securities class action lawsuits against the company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources away from the day-to-day operations of our business.

### ***Effective December 26, 2017, we are no longer a "controlled company" within the meaning of the rules of The NASDAQ Capital Market and, as a result, we no longer qualify for, or are able to rely on, exemptions from certain corporate governance requirements.***

The entities controlled by Bruce M. Rodgers, our Chairman and Chief Executive Officer, and Carrollinn Gould, our Vice President-General Manager and director, historically controlled a majority of the voting power of our common stock. As a result, until December 26, 2017, we were a "controlled company" within the meaning of the corporate governance standards of The NASDAQ Capital Market.

Because we are no longer a controlled company effective December 26, 2017, we will have to transition into compliance with the following NASDAQ requirements (subject to certain phase-in periods under the Nasdaq rules):

- the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

***Securities analysts may not initiate coverage of our securities or may issue negative reports, which may adversely affect the trading price of our securities.***

We cannot assure you that securities analysts will cover our company. As of December 31, 2017, no securities analyst covers our company. If securities analysts do not cover our company, this lack of coverage may adversely affect the trading price of our securities. In the event that securities analysts begin to cover our company, the trading market for our securities will rely in part on the research and reports that such securities analysts publish about us and our business. If one or more of the analysts who cover our company downgrades our securities, the trading price of our securities may decline. If one or more of these analysts then ceases to cover our company, we could lose visibility in the market, which, in turn, could also cause the trading price of our securities to decline. Further, because of our small market capitalization, it may be difficult for us to attract securities analysts to cover our company, which could significantly and adversely affect the trading price of our securities.

***If we do not maintain an effective registration statement, you may not be able to exercise the warrants in a cash exercise.***

For you to be able to exercise the warrants, the resale of the shares of common stock to be issued to you upon exercise of the warrants must be covered by an effective and current registration statement. We cannot guarantee that we will continue to maintain a current registration statement relating to the resale of the shares of common stock underlying the warrants. In such circumstances, you would be unable to exercise the warrants in a cash exercise and will be required to engage in a cashless exercise in which a number of warrant shares equal to the fair market value of the exercised shares will be withheld. In those circumstances, we may, but are not required to, redeem the warrants by payment in cash. Consequently, there is a possibility that you will never be able to exercise the warrants and receive the underlying shares of common stock. This potential inability to exercise the warrants in a cash exercise, our right to cancel the warrants under certain circumstances, and the possibility that we may redeem the warrants for nominal value, may have an adverse effect on demand for the warrants and the prices that can be obtained from reselling them.

***We are an “emerging growth company” and the reduced disclosure requirements applicable to emerging growth companies may make our securities less attractive to investors.***

We are an “emerging growth company,” or EGC, as defined in the JOBS Act. We will remain an EGC until the earlier of: (i) the last day of the fiscal year in which we have total annual gross revenues of \$1 billion or more; (ii) the last day of the fiscal year following the fifth anniversary of the date of our initial public stock offering; (iii) the date on which we have issued more than \$1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC, which means the first day of the year following the first year in which the market value of our common stock that is held by non-affiliates exceeds \$700 million as of June 30. For so long as we remain an EGC, we are permitted to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations” disclosure;
- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation;
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved; and
- the ability to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies.

We may choose to take advantage of some or all of the available exemptions. We have taken advantage of reduced reporting burdens in this report. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock. We cannot predict whether investors will find our warrants or common stock less attractive if we rely on certain or all of these exemptions. If some investors find our warrants or common stock less attractive as a result, there may be a less active trading market for our warrants or common stock and the price of our warrants or common stock may be more volatile.

**Item 1B. Unresolved Staff Comments.**

**None.**

**Item 2. Properties.**

Our executive and administrative offices are located in Tampa, Florida, where we lease approximately 11,000 square feet of general office space for approximately \$28,000 per month, plus utilities. The lease was renewed March 2, 2014 and expires on July 31, 2019. We sublease to a third party approximately 2,800 square feet for \$5,900 per month.

We believe that our existing facilities are adequate for our current needs.

**Item 3. 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.

We are a defendant in an action entitled *Solaris at Brickell Bay Condominium Association, Inc. v. LM Funding, LLC*, which was brought before the Circuit Court of the Eleventh Judicial Circuit, Miami-Dade Civil Division on July 31, 2014. On August 4, 2017, an order by the court was entered on Plaintiff's Motion for Preliminary Approval of Class Action Settlement Agreement. In the order, the motion of the Plaintiff, Solaris at Brickell Bay Condominium Association, Inc., individually and on behalf of the certified plaintiff class ("Plaintiffs"), for approval of the Class Action Settlement Agreement (the "Settlement Agreement") with Defendant LM Funding, LLC was granted. LMF, despite its belief that it is not liable for the claims asserted and that it has good defenses thereto, nevertheless agreed to enter into this Agreement in order to: (1) avoid any further expense, inconvenience, and distraction of burdensome and protracted litigation and its consequential negative financial effects to LM Funding, LLC operations; (2) obtain the releases, orders, and final judgment contemplated by the Settlement Agreement; and (3) put to rest and terminate with finality all claims that had been or could have been asserted against LM Funding, LLC by the Plaintiffs arising from the facts alleged in the lawsuit. Pursuant to the agreement subsequently reached between counsel, all required actions and deadlines set forth in the Settlement Agreement are currently stayed. On March 1, 2018, a continuation of the abatement was granted until April 2, 2018. As of December 31, 2017, the Company had accrued costs of \$505,000 as part of the Settlement Agreement. The settlement amount was contingent upon the Company obtaining sufficient financing within the allotted timeframe of the Settlement Agreement. On April 2, 2018, the Plaintiffs withdrew from the Settlement Agreement. The Company will pursue certain legal remedies to defend itself against the allegations.

**Item 4. Mine Safety Disclosures.**

None



## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

Following our initial public offering, our units, consisting of one share of our common stock and one warrant to purchase one share of our common stock, were quoted on the NASDAQ Capital Market under the symbol "LMFAU" until they ceased trading on December 7, 2015.

Effective December 8, 2015, our common stock and common stock warrants became separately quoted on the NASDAQ Capital Market under the symbols "LMFA" and "LMFAW," respectively. On December 31, 2017 there was 1 holder of record of our common stock and 1 holder of record of our common stock warrants.

The following table sets forth the quarterly high and low sales prices for the common stock and common stock warrants as reported by the Nasdaq Stock Market for the periods indicated:

	<u>Common Stock</u>		<u>Common Stock Warrants</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<b>2017</b>				
First Quarter	\$ 4.49	3.87	0.46	0.04
Second Quarter	\$ 4.62	3.75	0.30	0.12
Third Quarter	\$ 4.48	1.11	0.18	0.05
Fourth Quarter	\$ 6.65	1.24	0.30	0.03
<b>2016</b>				
First Quarter	\$ 9.89	7.40	1.98	0.36
Second Quarter	\$ 9.50	7.76	1.10	0.32
Third Quarter	\$ 8.92	6.33	1.04	0.30
Fourth Quarter	\$ 8.07	4.02	1.00	0.17

#### Dividends

The Company did not declare any dividends for the fiscal years 2017 and 2016. Future dividend payments will be at the discretion of our Board of Directors and will depend upon our financial condition, operating results, capital requirements and any other factors our Board of Directors deems relevant. In addition, our agreements with our lender may, from time to time, restrict our ability to pay dividends. Currently there are such restrictions under our agreements with our lender.

#### Securities Authorized for Issuance Under Equity Compensation Plans

See "Equity Compensation Plan Information" in Part III, Item 12 of this Annual Report on Form 10-K.

#### Recent Sales of Unregistered Securities

None.

#### Purchases of Equity Securities by the Issuer

None.

#### Use of Proceeds from Initial Public Offering

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 were 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 December 31, 2017, we have used the \$9.7 million of the net proceeds for various purposes including repurchase of non-controlling interest (\$.25 million), repayment of debt (\$3.0 million), debt interest payments (\$1.0 million), funding of our original product (\$.15 million), funding of our New Neighbor Guaranty program (\$0.56 million) and real estate owned investments (\$0.54 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.

#### **Item 6. Selected Financial Data**

Not applicable

#### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

##### **Forward-Looking Statements**

This Annual Report on Form 10-K 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 Annual Report on Form 10-K, 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, competition to acquire such receivables, dependent upon third party law firms to service our accounts, ability to obtain funds to purchase receivables, ability to manage growth or declines in the business, changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables, the impact of class action suits and other litigation, keeping software systems updated to operate our business, our ability to employ and retain qualified employees, our ability to establish and maintain internal accounting controls, 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 "Risk Factors" in this report.

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

##### **Overview**

We are a specialty finance company that provides 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.

### **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**

The Year Ended December 31, 2017 compared with the Year Ended December 31, 2016

#### **Revenues**

During the year ended December 31, 2017, total revenues decreased by \$0.5 million, or 10.4%, to \$4.4 million from \$4.9 million in the year ended December 31, 2016. The decrease is due in part to a decrease in interest, administrative and late fees collected during the year offset in part by increased rental revenue of \$0.4 million.

The decrease in interest, administrative and late fees was the result of a decrease in the average revenue collected per unit. The average revenue per unit decreased to \$3,400 for the year ended December 31, 2017 compared with \$4,700 for the year ended December 31, 2016. However, there was an 11% increase in payoffs as the Company recorded approximately 1,063 payoff occurrences for the year ended December 31, 2017 compared with 959 payoff occurrences for the year ended December 31, 2016. "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 increase in the number of payoffs was partially offset by a decrease in revenue per unit.

We saw an increase in rental revenue for the year ended December 31, 2017 of \$0.4 million to \$0.7 million from \$0.3 million for the year ended December 31, 2016. This was due to improving the utilizing of our rental base in 2017. There were 68 rental units in the portfolio as December 31, 2017 compared with 67 rental units as of December 31, 2016.

## Operating Expenses

During the year ended December 31, 2017, operating expenses decreased \$0.1 million, or 1.5%, to \$7.9 million from \$8.0 million for the year ended December 31, 2016. The decrease in operating expenses can be attributed to various factors including the reduction in staffing costs of \$1.1 million resulting from the fact that we had fewer employees in 2017 than we did in 2016, lower settlement costs of \$0.4 million, reduced stock compensation costs of \$0.2 million and reduced travel expenses of \$0.1 million offset in part by the bad debt allowance for related parties of \$1.4 million and increases in professional fees of \$0.3 million due in part to litigation relating to the Settlement Agreement listed within Item 1. Item 3. Legal Proceedings of this Annual Report on Form 10-K.

Legal fees (*excluding fees paid pursuant to our service agreement with BLG*), for the year ended December 31, 2017 were approximately \$1.3 million compared with approximately \$1.0 million for the year ended December 31, 2016 due in part to the class action lawsuit. In the ordinary course of our business, we are involved in numerous legal proceedings. We regularly initiate collection lawsuits, using our network of third party law firms, against debtors. In addition, debtors occasionally initiate litigation against us. Legal fees for BLG for the year ended December 31, 2107 were \$1.1 million compared to \$1.1 million for the year ended December 31, 2016. See Note 10. Related Party Transactions for further discussion regarding the service agreements with BLG.

## Interest Expense

During the year ended December 31, 2017, interest expense was relatively flat at \$0.6 million compared to \$0.6 million for the year ended December 31, 2016.

The Company was able to repay most of its indebtedness through a stock for debt exchange in December 2017. As a result of that exchange, we accelerated the amortization of the remaining debt issuance costs of \$0.1 million. The amortization of debt issuance costs is being reported as interest expense under ASU 2015-03 (ASC 835-30-45-3).

## Loss on Retirement of Debt

During the year ended December 31, 2017, the Company incurred approximately \$604,000 loss on the settlement of its debt upon the issuance of approximately 2.9 million shares for \$4.7 million in principal, accrued interest and late fees.

## Loss on Litigation

During the year ended December 31, 2017, the Company accrued costs of \$505,000 as part of the Settlement Agreement entered into in connection with the Solaris at Brickell Bay Condominium Association, Inc. v. LM Funding case. See "Part I. Item 3. Legal Proceedings" of this Annual Report on Form 10-K for additional information.

## Income Tax Provision (Benefit)

During the year ended December 31, 2017, the income tax provision was \$3.4 million due to the Company recording a valuation allowance as compared to a \$1.3 million income tax benefit for the year ended December 31, 2016.

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 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 is necessary based on the more-likely-than-not threshold noted above. The Company therefore recorded a valuation allowance of approximately of \$3.4 million for the year ended December 31, 2017.

## Net Loss

During the year ended December 31, 2017, the Company generated a net loss of \$8.6 million as compared to a net loss of \$2.4 million for the year ended December 31, 2016 for the reasons mentioned above.

## **Liquidity and Capital Resources**

### **General**

As of December 31, 2017, we had cash and cash equivalents of \$0.6 million compared with \$2.3 million at December 31, 2016. The decrease in cash is due to uses of cash in operating activities and repayment of indebtedness. The decrease was partially offset by an increase in cash provided by investing activities in the amount of \$0.9 million due primarily from proceeds of \$0.5 million from the sale of real estate assets held for sale.

### **Cash from Operations**

Net cash used in operations was \$2.1 million during the year ended December 31, 2017 compared with \$3.4 during the year ended December 31, 2016. This change was primarily driven by a \$1.1 million reduction in staff costs and payroll, a \$0.4 million reduction in other operating expenses including legal fees and increased rental revenue of \$0.4 million offset in part by a reduction in all other revenue of \$0.8 million.

### **Cash from Investing Activities**

For the year ended December 31, 2017, cash generated from our net finance receivables fell by \$0.5 million. This was due to the Company not collecting as much on Accounts than what was invested for the period as compared to the prior year.

Our primary business relies on our ability to invest in accounts, and during the year ended December 31, 2017, this balance decreased compared with the year ended December 31, 2016. This balance has been in consistent decline since 2012. This balance is very susceptible to housing market fluctuations.

### **Cash from Financing Activities**

At December 31, 2017, indebtedness of the Company was \$0.1 million compared with \$5.2 million at December 31, 2016. During the year ended December 31, 2017, the Company settled its primary senior secured debt by issuing 2.9 million shares for \$4.7 million in principal, accrued interest and late fees. The Company also used \$0.8 million to repay another outstanding loan to a financial institution.

In addition, during the year ended December 31, 2017, the Company's related party balance decreased \$1.7 million primarily as a result of a partial repayment in the amount of \$0.2 million and a write-off of the remaining balance of \$1.4 million. See Note 10. Related Party Transactions for further information regarding the Company's related party receivable balance and new service agreement. See Note 13. Management's Plans for further discussion management's assessment of liquidity.

The Company is obligated to pay Associations \$276,000 over the next 12 months for those units that are managed by us.. We are also committed to pay \$461,000 to Associaitons under the New Neighbor program over the next 48 months.

## Outstanding Debt

Debt of the Company consisted of the following:

	<u>Year ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Financing agreement with FlatIron capital that is unsecured. Down payment of \$16,500 was required upfront and equal installment payments of \$9,610 to be made over a 10 month period. The note matures May 31, 2018. Annualized interest is 5.25%	\$ 39,028	\$ -
Promissory note issued to a financial institution, bearing interest at 8%, interest payable monthly, and principal payments due quarterly. Secured by all of the Company's rights, title, interest, claims, and demands associated with certain condominium units held in LMF SPE #2, LLC and all cash held in LMF SPE #2, LLC. Accrued interest is due monthly beginning January 29, 2015. Installment of principal is due quarterly. Note was to mature on April 30, 2018 and could be prepaid at any time without penalty. Principal balance for this promissory note was \$4,540,274, as of December 31, 2016. Unamortized debt issuance costs were \$96,896, as of December 31, 2016.	-	4,443,378
Promissory note issued to a financial institution, bearing interest at 6% plus one month Libor, principal payments of \$60,000 per month plus interest due through maturity on February 1, 2018. This loan is collateralized by all of the accounts receivable, contract rights, and lien rights arising from or relating to collection of Association payments made by the Company relating to certain accounts as well as all deposit accounts and cash of LMF October 2010 Fund, LLC. LM Funding, LLC and its members guaranteed this loan. Principal balance for this promissory note was \$720,000, as of December 31, 2016. Unamortized debt issuance costs were \$2,500, as of December 31, 2016.	-	717,500
	<u>\$ 39,028</u>	<u>\$ 5,160,878</u>

- (1) The Company settled the promissory note by issuing 2,953,189 common shares for all of the outstanding principal, accrued interest and late fees during the month of December 2017.

Minimum required principal payments on the Company's debt as of December 31, 2017 are as follows :

Years Ending	
December 31,	
2018	\$ 39,028
2019	-
	<u>\$ 39,028</u>

## Recent Capital Raising Transaction

On April 2, 2018, the Company entered into a Securities Purchase Agreement (the "SPA") with a New York-based family office ("Investor") pursuant to which the Company issued to Investor a Senior Convertible Promissory Note ("Note") in the original principal amount of \$500,000 in exchange for a purchase price of \$500,000. The maturity date of the Note is six months after the date of issuance (subject to acceleration upon an event of default). Investor may at any time on or after the maturity date convert all or any part of the outstanding and unpaid principal amount and accrued and unpaid interest of the Note into fully paid and non-assessable shares of the Company's common stock, par value \$0.001 per share ("Common Stock"), at a conversion price equal to 85% of the lowest daily volume weighted average price of the Common Stock in the 10 trading days immediately prior to conversion. The Note carries a 10.5% interest rate, with accrued but unpaid interest being payable on the Note's maturity date. Investor was also issued pursuant to the SPA five-year warrants exercisable at the closing per share bid price on April 2, 2018 to purchase 400,000 shares of the Company's common stock (the "Warrants").

Also on April 2, 2018, the Company entered into a Common Stock Purchase Agreement ("Purchase Agreement") with Investor relating to the purchase by Investor from the Company up to \$5,000,000 of the Company's Common Stock. The Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein, Investor has committed to purchase up to \$5,000,000

worth of the Company's Common Stock ("Purchase Shares") over a 2-year period beginning on the date on which a registration statement relating to the resale of the Purchase Shares (the "Registration Statement") is first declared effective by the U.S. Securities and Exchange Commission (the "Commission").

The Purchase Agreement requires the Company to issue to the Investor as consideration for the Investor entering into this Purchase Agreement such number of shares of Common Stock that would have a value equivalent to \$200,000 calculated using the average of volume weighted average price for the Common Stock during normal trading hours during the three business day period immediately preceding the date of issuance of such shares.

#### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

None

#### **Item 8. Financial Statements and Supplementary Data.**

The Financial Statements of the Company, the Notes thereto and the Report of Independent Registered Public Accounting Firm thereon required by this Item 8 begin on page F-1 of this Annual Report on Form 10-K located immediately following the signature page.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None

#### **Item 9A. Controls and Procedures.**

##### *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 Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Annual Report. 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.

Based on management's evaluation (in accordance with Exchange Act Rule 13a-15(b)), our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2017, due to the weakness in internal control over financial reporting described below, our disclosure controls and procedures are not designed at a reasonable assurance level or effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As discussed below, we plan on increasing the size of our accounting staff at the appropriate time for our business and its size to ameliorate our auditor's concern that the Company does not effectively segregate certain accounting duties, which we believe would resolve the material weakness in internal control over financial reporting and similarly improve disclosure controls and procedures, but there can be no assurances as to the timing of any such action or that the Company will be able to do so.

##### *Management's Annual Report on Internal Control Over Financial Reporting.*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. Based on that assessment, our management determined that, as of December 31, 2017, the Company's internal control over financial reporting was not effective for the purposes for which it is intended. Specifically, management's determination was based on the following material weaknesses which existed as of December 31, 2017.

During 2017, the number of full time employees at the Company declined from 19 to 10. The Company did not effectively segregate certain accounting duties due to the small size of its remaining 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 December 31, 2017, and that there was a material weakness as identified in this Annual Report, we believe that our consolidated financial statements contained in this Annual Report fairly present our financial position, results of operations and cash flows for the years covered hereby in all material respects.

This Annual Report does not include an attestation report by MaloneBailey LLP, our independent registered public accounting firm, regarding internal control over financial reporting. As a smaller reporting company, our management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Commission that permit us to provide only management's report in this Annual Report.

#### *Changes in Control Over Financial Reporting.*

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes. There were no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Although we plan to increase the size of our accounting staff at the appropriate time for our business and its size to ameliorate our auditor's concern that the Company does not effectively segregate certain accounting duties, there can be no assurances as to the timing of any such action or that the Company will be able to do so.

#### **Item 9B. Other Information.**

None

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance.**

##### **The Directors**

Set forth below is a summary of the background and experience of each director. There is no family relationship among any of the directors and/or executive officers of the company except as follows: Mr. Bruce M. Rodgers, our Chairman, Chief Executive Officer and President, and Ms. Carollinn Gould, our Vice President—General Manager, Secretary, and director, have been married since 2004 and Joel E. Rodgers, Sr. is the father of Bruce M. Rodgers and the father-in-law of Carollinn Gould.

##### *Class I Directors (Terms expiring in 2019)*

**Bruce M. Rodgers.** Mr. Rodgers, age 54, serves as the Chairman of the Board of Directors, Chief Executive Officer and President of the company. Prior to that Mr. Rodgers owned Business Law Group, P.A. ("BLG") and served as counsel to the founders of LM Funding, LLC ("LMF"). Mr. Rodgers was instrumental in developing the company's business model prior to inception. Mr. Rodgers transferred his interest in BLG to attorneys within the firm by means of redemption of such interest in BLG prior to the company going public in 2015. Mr. Rodgers is a former business transactions attorney and was an associate of Macfarlane, Ferguson, & McMullen, P.A. from 1991 to 1995 and a partner from 1995-1998 and was an equity partner of Foley & Lardner LLP from 1998 to 2003. Originally from Bowling Green, Kentucky, Mr. Rodgers holds an engineering degree from Vanderbilt University (1985) and a Juris Doctor, with honors, from the University of Florida (1991). Mr. Rodgers also served as an officer in the United States Navy from 1985-1989 rising to the rank of Lieutenant, Surface Warfare Officer. Mr. Rodgers is a member of the Florida Bar and holds an AV-Preeminent rating from Martindale Hubbell.



Mr. Rodgers brings to the Board of Directors considerable experience in business, management, and law, and because of those experiences and his education, he possesses analytical and legal skills which are considered of importance to the operations of the company, the oversight of its performance and the evaluation of its future growth opportunities. Furthermore, his performance as Chief Executive Officer has indicated an in-depth understanding of the company's business.

**Carollinn Gould.** Ms. Gould, age 54, co-founded LMF in January 2008, and currently serves as Vice President—General Manager, Secretary and a director of the company. Prior to joining LMF, Ms. Gould owned and operated a recruiting company specializing in the placement of financial services personnel. Prior to that, Ms. Gould worked at Outback Steakhouse (NYSE: OSI) (“OSI”) where she opened the first restaurant in 1989 and finished her career at OSI in 2006 as shared services controller for over 1,000 restaurants. Ms. Gould holds a Bachelor's Degree in Business Management from Nova Southeastern University.

As a co-founder of LMF, Ms. Gould brings to our Board of Directors an encyclopedia of knowledge regarding LMF's growth, operations, and procedures. Since inception, Ms. Gould has controlled all bank accounts of the company and managed its internal control systems. Ms. Gould also brings public company audit experience from her duties as controller at OSI as well as a wealth of personnel management and human resources skills.

*Class II Directors (Terms expiring in 2020)*

**Douglas I. McCree.** Mr. McCree, age 52, has served as a director of the company since its initial public offering in October 2015. Mr. McCree has been with First Housing Development Corporation of Florida (“First Housing”) since 2000 and has served as its Chief Executive Officer since 2004. From 1987 through 2000, Mr. McCree held various positions with Bank of America, N.A. including Senior Vice President—Affordable Housing Lending. Mr. McCree serves on numerous professional and civic boards. He received a B.S. from Vanderbilt University majoring in economics. Mr. McCree brings to the Board of Directors many years of banking experience and a strong perspective on public company operational requirements from his experience as Chief Executive Officer of First Housing.

**Joel E. Rodgers, Sr.** Mr. Rodgers, age 80, has served as a director of the company since its initial public offering in October 2015. Mr. Rodgers has been Vice President of Allied Signal, Inc. (1987-1992) and CEO of Baron Blakeslee, Inc. (1985-1987). Since 1995 Mr. Rodgers has served as a part-time Professor at Nova Southeastern University teaching finance, statistics, marketing, operations, and strategy. He has published numerous articles dealing with empowerment and corporate leadership. Mr. Rodgers represented the United States State Department in China, Mexico and Brazil in negotiations regarding the Montreal Protocol which dealt with limiting fluorocarbon discharge. Mr. Rodgers' civic work extends to service on the library, hospital, and municipal utility boards of Bowling Green, Kentucky. Mr. Rodgers holds a Doctorate of Business Administration from Nova Southeastern University, a Masters of Business Administration from University of Kentucky, a B.S. in Mechanical Engineering from University of New Mexico and was a University of Illinois PhD candidate. He brings to our Board of Directors a lifetime of management, finance and marketing experience as well as an academic career of study in each.

*Class III Directors (Terms expiring in 2018)*

**C. Birge Sigety.** Mr. Sigety, age 65, has served as a director of the company since its initial public offering in October 2015. Mr. Sigety is currently CEO of Bison Investments, Inc., a private investment fund he started in 1996. Prior to that, Mr. Sigety was CEO of Professional Medical Products, Inc., a privately held company with over \$165 million in sales, nine manufacturing plants, and 2200 employees doing business throughout the United States and in 40 other countries. Mr. Sigety has participated in a number of start-up companies in the banking, real estate, and medical device industries. Mr. Sigety holds a B.A. in English Literature from Bates College. Mr. Sigety brings to our Board of Directors an insight regarding all stages of development of companies and has experience growing companies from the start-up stage to international prominence. Mr. Sigety also brings to our Board of Directors a financial background in public and private capital markets.

**Martin A. Traber.** Mr. Traber, age 72, has served as a director of the company since its initial public offering in October 2015. From 1994 until 2016, Mr. Traber was a partner of Foley & Lardner LLP, in Tampa, Florida, representing clients in securities law matters and corporate transactions from 2017 to present, Mr. Traber has served as Chairman of Skyway Capital markets, LLC. Mr. Traber is a founder of NorthStar Bank in Tampa, Florida and from 2007 to 2011 served as a member of the Board of Directors of that institution. Mr. Traber served on the Board of Directors of JHS Capital Holdings, Tampa, Florida and on the Advisory Board of Platinum Bank, Tampa, Florida. From 2012 to 2013, he served on the Board of Directors of Exeter Trust Company, Portsmouth, New Hampshire. Mr. Traber holds a Bachelor of Arts and a Juris Doctor from Indiana University.

Mr. Traber currently serves as a director on the Board of Directors of HCI Group, Inc., a New York Stock Exchange listed company headquartered in Tampa, Florida, primarily engaged in the homeowners' insurance business (NYSE: HCI) (“HCI”). Mr. Traber has served on the Board of Directors of HCI since its inception.

Mr. Traber brings considerable legal, financial and business experience to the Board of Directors. He has counseled and observed numerous businesses in a wide range of industries. The knowledge gained from his observations and his knowledge and experience in business transactions and securities law are considered important in monitoring the company's performance and when we consider and pursue business acquisitions and financial transactions. As a corporate and securities lawyer, Mr. Traber has a fundamental understanding of governance principles and business ethics. His knowledge of other businesses and industries are useful in determining management and director compensation.

**Andrew L. Graham.** Mr. Graham, age 58, has served as a director of the company since its initial public offering in October 2015. Since June 2008, Mr. Graham has served as Vice President, General Counsel and Secretary of HCI Group, Inc. (NYSE:HCI). From 1999 to 2007, Mr. Graham served in various capacities, including as General Counsel, for Trinsic, Inc. (previously named Z-Tel Technologies, Inc.), a publicly-held provider of communications services headquartered in Tampa, Florida. Since 2011, Mr. Graham has served on the Internal Audit Committee of Hillsborough County, Florida. From 2007 to 2011, he served on the Board of Trustees of Hillsborough Community College, a state institution serving over 45,000 students annually. Mr. Graham holds a Bachelor of Science, major in Accounting, from Florida State University and a Juris Doctor, as well as a Master of Laws (L.L.M.) in Taxation, from the University of Florida College of Law. Mr. Graham was licensed in Florida as a Certified Public Accountant from 1982 to 2001. As a Certified Public Accountant, he audited, reviewed and compiled financial statements and prepared tax returns. Mr. Graham's experience serving as general counsel to publicly-held companies brings to our Board of Directors a comprehensive understanding of public company operations, financial reporting, disclosure, and corporate governance, as well as perspective regarding potential acquisitions. With his accounting education and experience, he also brings a sophisticated understanding of accounting principles, auditing standards, internal accounting control and financial presentation and analysis.

#### *Arrangements as to Selection and Nomination of Directors*

We are aware of no arrangements as to the selection and nomination of directors.

#### **Audit Committee**

The company has a separately-designated standing audit committee established in accordance with the Securities and Exchange Act of 1934. The audit committee is composed of three members: Andrew Graham, its chairman, C. Birge Sigety and Douglas I. McCree. The Board of Directors has determined that Mr. Graham is an audit committee financial expert.

#### **Executive Officers**

The following table provides information with respect to our executive officers as of April 2, 2018:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Bruce M. Rodgers	54	Chairman, Chief Executive Office and President
Richard Russell	57	Chief Financial Officer
Ryan Duran	33	Vice-President of Operations

**Bruce M. Rodgers.** See biography above.

**Richard Russell.** Mr. Russell, age 57, has served as Chief Financial Officer of the company since November 2017. Since 2016 Mr. Russell provided financial and accounting consulting services with a focus on technical and external reporting, internal auditing, mergers & acquisitions, risk management and interim CFO and controller services. Mr. Russell also served as Chief Financial Officer for Mission Health from 2013 to 2016 and before that, Mr. Russell served in a variety of roles for Cott Corporation from 2007 to 2013 including Senior Director Finance, Senior Director of Internal Auditing and Assistant Corporate Controller. Mr. Russell's extensive professional experience with public companies includes his position as Director of Financial Reporting and Internal Controls for Quality Distribution and as Danka's Director of Reporting from 2001 – 2004. Mr. Russell also holds the following positions: Chief Executive Officer and Chief Financial Officer of Omega Brands Inc. which is an inactive public shell company and Chief Financial Officer of Affinitas Life which is an emerging senior care private company. Mr. Russell earned his bachelor of science in accounting and a master's in tax accounting from the University of Alabama, a bachelor of arts in international studies from the University of South Florida and a master's in business administration from the University of Tampa.

**Ryan Duran.** Mr. Duran, age 33, currently serves as Vice President of Operations of the company and joined the Company in March 2015. Prior to joining the Company, Mr. Duran served as Operations Manager of Business Law Group, since 2008. Mr. Duran holds a Bachelor's Degree in Real Estate and Finance from Florida State University.

## Arrangements as to Selection and Nomination of Officers

We are aware of no arrangements as to the selection or appointment of executive officers.

## Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3, 4, and 5 filed for the year 2017, we believe that all our directors, officers, and 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them. In addition, all such forms were filed timely.

## Code of Ethics

We have adopted a code of ethics applicable to all employees and directors, including our Chief Executive Officer and Chief Financial Officer. We have posted the text of our code of ethics to our internet web site: [www.lmfunding.com](http://www.lmfunding.com) by clicking “Investors” at the top and then “Corporate Governance” and then the appropriate “Code of Ethics”. We intend to disclose any change to or waiver from our code of ethics by posting such change or waiver to our internet web site within the same section as described above.

## Item 11. Executive Compensation.

### Summary Compensation Table

The following table provides summary information concerning compensation for services rendered in all capacities awarded to, earned by or paid to our named executive officers during the years ended December 31, 2017 and 2016. The table does not include compensation for 2016 for each named executive officer if such officer was not employed by the company in 2016.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$)(4)	Total (\$)
Bruce Rodgers	2017	\$ 269,500	\$ —	\$ —	\$ —	\$ 1,593	\$ 271,093
Chairman and CEO	2016	370,832	—	—	—	3,797	374,629
Richard Russell	2017	9,691	—	—	5,800 (1)	1,177	16,668
Chief Financial Officer	2016	—	—	—	—	—	—
Ryan Duran	2017	101,385	108	—	—	7,062	108,556
Vice President of Operations	2016	80,769	—	—	—	—	80,769
Stephen Weclaw (2)	2017	96,923	—	—	—	9,416	106,339
Former Chief Financial Officer	2016	187,351	—	—	35,512 (2)	20,433	243,296
R. Dean Akers (3)	2017	140,000	—	—	—	21,624	161,624
Former COO	2016	183,628	—	—	25,000 (3)	23,921	233,549

- (1) Includes an option to purchase 25,000 shares of common stock granted to Mr. Russell on November 29, 2017. The option has an exercise price of \$12.50 per share and expires on November 29, 2027. The option vests fully in three equal annual installments on November 29, 2018, November 29, 2019 and November 29, 2020.
- (2) Mr. Weclaw resigned from the Company effective August 21, 2017. The Option Award includes an option to purchase 25,600 shares of common stock granted to Mr. Weclaw on January 4, 2016. The option has an exercise price of \$12.50 per share and expires on January 3, 2026. The option vests fully in three equal annual installments on January 3, 2017, January 3, 2018 and January 3, 2019.
- (3) Mr. Akers resigned from the Company effective February 28, 2018. The Option Award includes an option to purchase 25,000 shares of common stock granted to Mr. Akers on May 10, 2016. The option has an exercise price of \$12.50 per share and expires on May 9, 2026. The option vests fully in three equal annual installments on May 9, 2017, May 9, 2018 and May 9, 2019.
- (4) These amounts consist of:
  - health insurance premiums paid by the company in excess of non-executive contribution

- auto allowance

Name	Year	Health Insurance Premiums (\$)	Auto Allowance (\$)	Total (\$)
Bruce Rodgers	2017	\$ 1,593	\$ —	\$ 1,593
	2016	3,797	—	3,797
Richard Russell	2017	1,177	—	1,177
	2016	—	—	—
Ryan Duran	2016	7,062	—	7,062
	2016	—	—	—
Stephen Weclaw	2017	9,416	—	9,416
	2016	20,433	—	20,433
R. Dean Akers	2016	14,124	7,500	21,624
	2016	16,721	7,200	23,921

### Employment Agreements

Certain executives' compensation and other arrangements are set forth in employment agreements. These employment agreements are described below.

**Bruce M. Rodgers.** On October 22, 2015, we entered into an employment agreement with Mr. Bruce M. Rodgers, our Chief Executive Officer. A cost-cutting initiative was implemented by the company on August 31, 2016. The employment agreement was subsequently amended to reduced Mr. Rodgers' annual compensation to \$269,500.00. The employment agreement states that he may be granted annual bonuses at the discretion of the Board of Directors. Mr. Rodgers is entitled to participate in all of our pension, life insurance, health insurance, disability insurance and other benefit plans on the same basis as our other employee officers participate. The term of Mr. Rodgers' agreement is for three years and is automatically renewed each year unless terminated for "cause", as defined in the employment agreement. He will receive the base salary and benefits due under the employment agreement for the remainder of the term if terminated "without cause", as defined in the employment agreement, or such base salary shall be paid for the remainder of the term to his estate if his employment is terminated due to his death. Mr. Rodgers' employment agreement contains certain non-competition covenants and confidentiality provisions.

**Richard Russell.** On November 29, 2017, we entered into an employment agreement with Mr. Richard Russell, our Chief Financial Officer. Under the terms of the Employment Agreement between the Company and Mr. Russell, Mr. Russell will serve as Chief Financial Officer of the Company. Mr. Russell is to receive a base salary of \$180,000 per year, subject to possible merit increases. In addition, Mr. Russell is eligible to receive an annual bonus and long term incentive awards as determined by the Company's Board of Directors and is eligible to participate in any equity incentive plan, stock option plan, or similar plan adopted by the Company.

On the Effective Date, Mr. Russell also received stock options to purchase 25,000 shares of the Company's common stock under the Company's 2015 Omnibus Incentive Plan ("Plan") at a price equal to \$12.50 per share. These stock options vest over a three-year period in equal annual installments beginning on the one-year anniversary of the Effective Date. Additional grants under the Plan may be made to Mr. Russell based upon an evaluation of his performance by the Company's Board of Directors.

**Ryan Duran.** In March 2015 we entered into an employment agreement with Mr. Ryan Duran, our Vice President of Operations. Effective March 1, 2018, Mr. Duran's current compensation was increased to \$130,000.

On January 1, 2016, Mr. Duran was awarded an option grant for 4,333 shares at an exercise price of \$10.00 per share. This option grant was fully vested upon issuance.

## Outstanding Equity Awards at 2017 Fiscal Year-End

The following table provides information on exercisable and unexercisable options and unvested stock awards held by the named executive officers on December 31, 2017.

Name	Option Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Bruce Rodgers	—	—	\$ —	—
Richard Russell	—	25,000	\$ 12.50	11/29/2027
R. Dean Akers	17,067	8,533 (1)	\$ 12.50	5/9/2026
Ryan Duran	4,333	—	\$ 10.00	1/2/2026

(1) One third of the options vest on May 9, 2017 which is within 60 days of the record date.

## Director Compensation

The compensation of our non-employee directors is determined by the Board of Directors which solicits a recommendation from the compensation committee.

Directors who are employees of the company do not receive any additional compensation for their service as directors. During 2017, the company's non-employee directors were not awarded any fees.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

### Equity Compensation Plan Information

The table below sets forth information with respect to shares of common stock that may be issued under our 2015 Omnibus Incentive Plan, as of December 31, 2017:

Plan Category	Equity Compensation Plan Information		
	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	112,904	\$ 11.11	487,096
Equity compensation plans not approved by security holders	—	\$ —	—

## Ownership of Securities

The following table sets forth information regarding the beneficial ownership of our common stock as of April 2, 2018 by:

- each person who is known by us to beneficially own more than 5% of our outstanding common stock,
- each of our directors and named executive officers, and
- all directors and executive officers as a group.

The number and percentage of shares beneficially owned are based on 6,253,189 common shares outstanding as of April 2, 2018. Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of more than 5% of our common stock. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, which generally require that the individual have voting or investment power with respect to the shares. In computing the number of shares beneficially owned by an individual listed below and the percentage ownership of that individual, shares underlying options, warrants and convertible securities held by each individual that are exercisable or convertible within 60 days of April 2, 2018, are deemed owned and outstanding, but are not deemed outstanding for computing the percentage ownership of any other individual. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all individuals listed have sole voting and investment power for all shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is LM Funding America, Inc., 302 Knights Run Avenue, Suite 1000, Tampa, Florida 33602.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage
<b>5% Stockholders:</b>		
Bruce M. Rodgers Revocable Trust (1)	1,161,832	18.39%
Carol Linn Gould Revocable Trust (1)	1,161,832	18.39%
<b>Executive Officers and Directors</b>		
Bruce M. Rodgers (2)	2,384,344	37.31%
Carollinn Gould (2)	2,384,344	37.31%
Douglas I. McCree (3)	13,334	*
Joel E. Rodgers, Sr. (4)	5,334	*
C. Birge Sigety (5)	44,934	*
Martin A. Traber (6)	24,334	*
Andrew L. Graham (7)	11,134	*
Ryan Duran (8)	4,333	*
Richard Russell (9)	-	*
<b>All Executive Officers and Directors as a Group (8 individuals)</b>	<b>2,487,747</b>	<b>38.54%</b>

\* Represents less than 1% of beneficial ownership

(1) Includes 2,191,244 shares of common stock and 132,420 shares of common stock issuable upon the exercise of warrants held by the two revocable trusts. Bruce M. Rodgers, Carollinn Gould and their family, including trusts or custodial accounts of minor children of each of Mr. Rodgers and Ms. Gould, own 100% of the outstanding membership interests of each trust.

- (2) Includes 2,323,664 shares beneficially owned by Bruce M. Rodgers Revocable Trust and Carol Linn Gould Revocable Trust, 44,176 shares beneficially owned by BRR Holding, LLC, 15,504 shares beneficially owned by Bruce M. Rodgers IRA, and 1,000 shares beneficially owned by Carollinn Gould IRA, of which 132,420 shares in the case of Bruce M. Rodgers Revocable Trust and Carol Linn Gould Revocable Trust, 1,500 shares in the case of BRR Holding, LLC and 3,900 shares in the case of Bruce M. Rodgers IRA are issuable upon the exercise of warrants to purchase shares of common stock. Bruce M. Rodgers is the sole Trustee of the Bruce M. Rodgers Revocable Trust and Carollinn Gould is the sole Trustee of the Carol Linn Gould Revocable Trust. Bruce M. Rodgers, Carollinn Gould and their family, including trusts or custodial accounts of minor children of each of Mr. Rodgers and Ms. Gould owns 100% of the outstanding membership interests of BRR Holding, LLC, and therefore Mr. Rodgers and Ms. Gould may be deemed to have shared voting and investment power for all 2,367,840 shares owned by both Trusts and BRR Holding, LLC.
- (3) Includes 5,000 shares of common stock, 5,000 shares of common stock issuable upon the exercise of warrants at an exercise price of \$12.50 and 3,334 shares of common stock issuable upon the exercise of options at an exercise price of \$10.00 that are currently exercisable or become exercisable within 60 days after April 2, 2018. This amount excludes 1,666 options that are not exercisable 60 days after the record date of April 2, 2018.
- (4) Includes 1,000 shares of common stock, 1,000 shares of common stock issuable upon the exercise of warrants at an exercise price of \$12.50, and 3,334 shares of common stock issuable upon the exercise of options at an exercise price of \$10.00 that are currently exercisable or become exercisable within 60 days after April 2, 2018. This amount excludes 1,666 options that are not exercisable 60 days after the record date of April 2, 2018.
- (5) Includes 20,800 shares of common stock (10,000 shares of common stock owned directly and 10,800 shares of common stock owned indirectly via a Trust), 20,800 shares of common stock issuable upon the exercise of warrants (10,000 owned directly and 10,800 owned indirectly via a Trust) at an exercise price of \$10.00 3,334 shares of common stock issuable upon the exercise of options at an exercise price of \$10.00 that are currently exercisable or become exercisable within 60 days after April 2, 2018. This amount excludes 1,666 options that are not exercisable 60 days after the record date of April 2, 2018.
- (6) Includes 11,000 shares of common stock, 10,000 shares of common stock issuable upon the exercise of warrants at an exercise price of \$12.50, and 3,334 shares of common stock issuable upon the exercise of options at an exercise price of \$10.00 that are currently exercisable or become exercisable within 60 days after April 2, 2018. This amount excludes 1,666 options that are not exercisable 60 days after the record date of April 2, 2018.
- (7) Includes 1,000 shares of common stock, 6,000 shares of common stock issuable upon the exercise of warrants at an exercise price of \$12.50, and 3,334 shares of common stock issuable upon the exercise of options at an exercise price of \$10.00 that are currently exercisable or become exercisable within 60 days after April 2, 2018. This amount excludes 1,666 options that are not exercisable 60 days after the record date of April 2, 2018.
- (8) Includes 4,333 shares of common stock issuable upon the exercise of options at an exercise price of \$10.00 that are currently exercisable or become exercisable within 60 days after April 2, 2018.
- (9) Excludes 25,000 shares of common stock issuable upon the exercise of options at an exercise price of \$12.50 that are not exercisable 60 days after the record date of April 2, 2018.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

#### ***Transactions with Related Persons***

LMF has engaged BLG on behalf of many of its Association clients to service and collect the accounts and to distribute the proceeds as required by Florida law and the provisions of the purchase agreements between LMF and the Associations. In addition, Ms. Gould entered an employment agreement to work part-time for LMF. Ms. Gould's employment agreement with LMF permits her to also work as General Manager of Business Law Group, P.A. which pays her additional compensation of \$150,000 per year.

One of our directors, Martin A. Traber, is a former partner at the law firm of Foley & Lardner LLP retiring in 2016. Since our inception in 2015, the firm has provided legal representation to us. During 2017 and 2016, Foley & Lardner LLP billed us approximately \$50,000 and \$68,000, respectively, which represents less than 1% of Foley & Lardner's fee revenue. These services were provided on an arm's-length basis, and paid for at fair market value. We believe that such services were performed on terms at least as favorable to us as those that would have been realized in transactions with unaffiliated entities or individuals.

#### **Director Independence**

Based upon recommendations of our nominating and governance committee, the Board of Directors has determined that current directors Messrs. McCree, Graham, Sigety and Traber are "independent directors" meeting the independence tests set forth by NASDAQ Stock Market and Rule 10A-3(b)(i) under the Exchange Act, including having no material relationship with the company (either directly or as a

partner, shareholder or officer of an organization that has a relationship with the company). In the case of Mr. Traber, the Board of Directors considered his previous role as a partner of Foley & Lardner LLP, which provides legal services to the company, and determined that the fees received by the law firm from us amount to less than 1% of the firm's total revenue and also



considered Mr. Traber’s personal financial substance, his other sources of income and his lack of dependence upon legal fees from the company.

In addition, the members of the audit committee are considered to be “independent directors” pursuant to the definition contained in Rule 5605(a)(2) of the NASDAQ and the criteria for independence set forth in Rule 10A-3(b)(1) of the Commission, and the members of the compensation committee (C. Birge Sigety, Douglas I. McCree and Martin A. Traber) have been determined to be “independent” within the meaning of the Commission and NASDAQ regulations.

**Item 14. Principal Accounting Fees and Services.**

The following table sets forth the aggregate fees for services related to the years ended December 31, 2017 and 2016 provided by Malone Bailey, LLP and Skoda Minotti & Co. Certified Public Accountants, our principal accountants:

	<u>2017</u>	<u>2016</u>
Audit Fees – Malone Bailey, LLP (1)	\$ 85,000	\$ -
Audit Fees – Skoda Minotti & Co. Certified Public Accountants	45,000	195,000
All Other Fees (3)	12,500	15,975
<b>Total</b>	<b>\$ 142,500</b>	<b>\$ 210,975</b>

(1) Audit Fees represent fees billed for professional services rendered for the audit of our annual financial statements.

(2) Audit Fees represent fees billed for professional services rendered for the audit of our annual financial statements and review of our quarterly financial statements included in our quarterly reports on Form 10-Q.

(3) All Other Fees represent fees billed for services provided to us not otherwise included in the category above

**Pre-Approval Policies**

All auditing services and non-auditing services are pre-approved by the audit committee. The audit committee has delegated this authority to the chairman of the audit committee for situations when pre-approval by the full audit committee is inconvenient. Any decisions by the chairman of the audit committee must be disclosed at the next audit committee meeting.

## PART IV

### **Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as a part of this report:

1. *Financial Statements*. See the Index to Consolidated Financial Statements on page F-1.
2. *Exhibits*. See Item 15(b) below.

(b) *Exhibits*. The exhibits listed on the Exhibit Index, which appears at the end of this report, are filed as part of, or are incorporated by reference into, this report.

(c) *Financial Statement Schedule*. See Item 15(a)(1) above.

### **Item 16. Form 10-K Summary.**

None.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<a href="#"><u>Report of Independent Registered Public Accounting Firms</u></a>	F-2
<a href="#"><u>Consolidated Balance Sheets as of December 31, 2017 and 2016</u></a>	F-4
<a href="#"><u>Consolidated Statements of Operations for the Years ended December 31, 2017 and 2016</u></a>	F-5
<a href="#"><u>Consolidated Statements of Changes in Stockholders' Equity for the Years ended December 31, 2017 and 2016</u></a>	F-6
<a href="#"><u>Consolidated Statements of Cash Flows for the Years ended December 31, 2017 and 2016</u></a>	F-7
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	F-8

## Report of Independent Registered Public Accounting Firm

To the shareholders and board of directors of  
LM Funding America, Inc.

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheet of LM Funding America, Inc. and its subsidiaries (collectively, the "Company") as of December 31, 2017, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ *MaloneBailey, LLP*

[www.malonebailey.com](http://www.malonebailey.com)

We have served as the Company's auditor since 2018.

Houston, Texas

April 16, 2018

## Report of Independent Registered Public Accounting Firm

To the Board of Directors of  
LM Funding America, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of LM Funding America, Inc. and Subsidiaries (collectively the "Company") as of December 31, 2016, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LM Funding America, Inc. and Subsidiaries at December 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ SKODA MINOTTI & CO.

Tampa, Florida  
March 31, 2017

**LM FUNDING AMERICA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Cash	\$ 590,394	\$ 2,268,180
Finance receivables:		
Original product (Note 2)	637,937	1,035,832
Special product - New Neighbor Guaranty program, net of allowance for credit losses of (Note 3)	339,471	491,597
Due from related party (Note 10)	—	1,661,360
Prepaid expenses and other assets	101,339	170,774
Fixed assets, net	69,505	109,938
Real estate assets owned (Note 5)	196,707	734,727
Other assets	32,964	32,964
Deferred tax asset (Note 8)	—	3,509,401
Total assets	<u>\$ 1,968,317</u>	<u>\$ 10,014,773</u>
<b>Liabilities and stockholders' equity</b>		
Notes payable (Note 6)		
Principal amount	\$ 39,028	\$ 5,260,274
Less unamortized debt issuance costs	-	(99,396)
Total notes payable less unamortized debt issuance costs	39,028	5,160,878
Accounts payable and accrued expenses	477,953	493,691
Accrued loss litigation settlement	505,000	-
Deferred tax liability	-	77,865
Other liabilities and obligations	49,353	112,881
Total liabilities	<u>1,071,334</u>	<u>5,845,315</u>
Stockholders' equity (Note 9)		
Common stock, par value \$.001; 10,000,000 shares authorized; 6,253,189 and 3,300,000 shares issued and outstanding as of December 31, 2017 and December 31, 2016, respectively	6,253	3,300
Additional paid-in capital	11,908,455	6,556,704
Accumulated deficit	(11,017,725)	(2,390,546)
Total stockholders' equity	<u>896,983</u>	<u>4,169,458</u>
Total liabilities and stockholders' equity	<u>\$ 1,968,317</u>	<u>\$ 10,014,773</u>

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

**LM FUNDING AMERICA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
Interest on delinquent association fees	\$ 2,935,517	\$ 3,640,233
Administrative and late fees	259,653	383,773
Recoveries in excess of cost - special product	172,884	143,106
Underwriting fees and other revenues	286,435	385,683
Rental revenue	737,490	347,040
Total revenues	<u>4,391,979</u>	<u>4,899,835</u>
<b>Operating expenses</b>		
Staff costs & payroll	1,887,830	3,220,005
Professional fees	2,459,888	2,105,143
Settlement costs with associations	269,576	654,750
Selling, general and administrative	762,268	1,080,130
Real estate management and disposal	551,708	499,647
Depreciation and amortization	95,447	72,114
Collection costs	228,763	292,791
Bad debt allowance - related party	1,408,589	-
Provision for credit losses	141,286	-
Other operating	58,377	62,004
Total operating expenses	<u>7,863,732</u>	<u>7,986,584</u>
<b>Operating loss</b>	<b>(3,471,753)</b>	<b>(3,086,749)</b>
Loss on litigation	(505,000)	-
Loss on settlement of debt exchange	(604,779)	-
Interest expense	(614,111)	(594,600)
Total other expenses	<u>(1,723,890)</u>	<u>(594,600)</u>
<b>Loss before income taxes</b>	<b>(5,195,643)</b>	<b>(3,681,349)</b>
Income tax (reduction) benefit	3,431,536	(1,310,959)
Net loss to common stockholders	<u>\$ (8,627,179)</u>	<u>\$ (2,370,390)</u>
<b>Loss per share attributable to the stockholders of LM Funding America, Inc.</b>		
Basic	\$ (2.57)	\$ (0.72)
Diluted	\$ (2.57)	\$ (0.72)
<b>Weighted average number of common shares outstanding</b>		
Basic	3,359,963	3,300,000
Diluted	3,359,963	3,300,000

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

**LM FUNDING AMERICA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECMEBER 31, 2017 AND 2016**

	Common Stock		Additional paid- in capital	Accumulated Deficit	Total Equity
	Shares	Amount			
Balance - December 31, 2015	3,300,000	\$ 3,300	\$ 6,281,322	\$ (20,156)	\$ 6,264,466
Stock option expense	-	-	275,382	-	275,382
Net loss	-	-	-	(2,370,390)	(2,370,390)
Balance - December 31, 2016	3,300,000	3,300	6,556,704	(2,390,546)	4,169,458
Stock issuance for settlement of debt	2,953,189	2,953	5,322,686	-	5,325,639
Stock option expense	-	-	29,065	-	29,065
Net loss	-	-	-	(8,627,179)	(8,627,179)
Balance - December 31, 2017	6,253,189	\$ 6,253	\$ 11,908,455	\$ (11,017,725)	\$ 896,983

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



**LM FUNDING AMERICA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years ended December 31,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Interest on delinquent association fees	\$ 2,935,517	\$ 3,577,745
Administrative and late fees	259,653	375,259
Recoveries in excess of cost - special product	172,884	126,818
Underwriting and origination fees	286,435	386,657
Rental revenue	737,490	347,040
Staff costs and payroll	(1,835,608)	(2,944,625)
Other operating expenses	(4,285,510)	(4,725,496)
Interest paid	(334,130)	(496,037)
Net cash used in operating activities	<u>(2,063,269)</u>	<u>(3,352,639)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net collections of finance receivables - original product	256,610	498,734
Net collections of finance receivables - special product	152,126	215,136
Capital expenditures	(8,673)	(267,960)
Payments for real estate assets owned	491,677	(98,417)
Net cash provided by investing activities	<u>891,740</u>	<u>347,493</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from borrowings	—	—
Principal repayments	(759,028)	(2,469,331)
(Advances) repayments to related party	252,771	(1,255,141)
Net cash used in financing activities	<u>(506,257)</u>	<u>(3,724,472)</u>
NET DECREASE IN CASH	(1,677,786)	(6,729,618)
CASH - BEGINNING OF YEAR	2,268,180	8,997,798
CASH - END OF YEAR	<u>\$ 590,394</u>	<u>\$ 2,268,180</u>

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

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS DECEMBER 31, 2017 AND 2016

**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 is 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”).

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. All significant intercompany balances have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements have been prepared by the Company, pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). The Company prepares its consolidated financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”).

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.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

*Accounting Standards Codification* (“ASC”) 605-10-25-1 of the Financial Accounting Standards Board (“FASB”) states revenues are realized or realizable when related assets received or held are readily convertible into known amounts of cash. In those cases where there is no reasonable basis for estimating the “known amount” of cash to be collected, the cash basis or cost recovery method of recognizing revenues may be used. 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 has determined that the known amount of cash to be realized or realizable on its revenue generating activities cannot be reasonably estimated and as such, classifies its finance receivables as nonaccrual and recognizes revenues in the accompanying statements of income on the cash basis or cost recovery method in accordance with ASC 310-10, *Receivables*. 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.

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 accrue at December 31, 2017 an allowance for credit losses for this program of \$194,000 and recorded a provision for credit losses of \$141,286 (net of deferred origination fees of \$52,714 recognized prior to 2015 and reversed in the current year). There was no allowance for credit losses at December 31, 2016.

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. During 2015 the Company purchased credit insurance covering all funded amounts in excess of a deductible amount (equal to six months of delinquent assessments). Recoveries under this credit insurance program for the year ended December 31, 2016 were approximately \$95,000. This insurance product was not renewed and only claims filed related to foreclosures occurring on or before January 28, 2016 will be covered under this policy. The

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Company estimated an allowance for credit losses for this program of \$51,230 and \$125,000 as of December 31, 2017 and December 31, 2016 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 uncollectibility 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.

#### 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 December 31, 2017 and 2016, capitalized real estate costs, net of accumulated depreciation, were \$196,707 and \$734,727, respectively. During the years ended December 31, 2017 and 2016, depreciation expense was \$46,342 and \$27,297, respectively.

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 includes 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

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

years. As of December 31, 2017 and December 31, 2016, capitalized software costs, net of accumulated amortization, was \$45,210 and \$68,470, respectively. Amortization expense for capitalized software costs for the periods ended December 31, 2017 and December 31, 2016 was \$23,259.

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. Unamortized debt issue costs of \$0 at December 31, 2017 and \$99,396 at December 31, 2016 are presented in the accompanying condensed consolidated balance sheets 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.

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 year ended December 31, 2017 and 2016 were \$269,576 and \$654,750, respectively. 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 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 is necessary based on the more-likely-than-not threshold noted above. The Company recorded a valuation allowance of approximately of \$3,620,000 during the year ended December 31, 2017 equal to its deferred tax asset as of December 31, 2017. The valuation allowance was subsequently reduced to reflect the decrease in deferred tax assets resulting from the tax act of 2017.

Prior to the initial public offering in October 2015, the taxable earnings of the Predecessor were included in the tax returns of its members (separate limited liability companies) and taxed depending on personal tax situations. In connection with the initial public offering, the members contributed ownership interests to the Company (a newly form C-Corporation) and all earnings subsequent to that date (October 23, 2015) are subject to taxes and reflected in the Company's consolidated financial statements.

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. 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:

	For the years ended December 31	
	2017	2016
Stock Options	112,904	215,368
Stock Warrants	1,200,000	1,200,000

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. See Note 11.

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 year ended December 31, 2017 and 2016, 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 \$135,000, 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.

*Credit Losses* – 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.

*Settlement of Debt* – the Company settled \$4,721,000 of principal, accrued interest and other charges by issuing 2,953,189 common shares.  
*Financing of Insurance Premium* – the Company financed the purchase of various insurance policies using a \$78,000 financing agreement.

***Recently Adopted Accounting Pronouncements***

In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for share-based payment award transactions.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

This ASU requires that all excess tax benefits and tax deficiencies be recognized as income tax expense or benefit on the income statement and that excess tax benefits be classified as an operating activity in the cash flow statement. While this new standard allows an entity to account for forfeitures as they occur, the Company elected to continue the current U.S. GAAP practice of estimating forfeitures when calculating stock-based compensation expense. This ASU became effective for the Company on January 1, 2017 and the adoption of this standard did not have a significant impact on the Company's consolidated financial statements and related disclosures.

*Debt Issue Costs* - In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). The amended guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015. Debt issue costs deducted from the carrying amount of the related debt liability in the accompanying consolidated balance sheets were \$0 and \$99,396 as of December 31, 2017 and 2016.

***Recent Accounting Pronouncements Not Yet Adopted***

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting," which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting pursuant to Topic 718. ASU 2017-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The amendments in this update are required to be applied prospectively to an award modified on or after the adoption date. This standard becomes effective for the Company as of January 1, 2018. The impact this standard will have on the Company's consolidated financial statements and related disclosures will be dependent on the terms and conditions of any modifications made to share-based awards after January 1, 2018.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." This ASU creates a single, comprehensive revenue recognition model for all contracts with customers. The model is based on changes in contract assets (rights to receive consideration) and liabilities (obligations to provide a good or service). Revenue will be recognized based on the satisfaction of performance obligations, which occurs when control of a good or service transfers to a customer and enhanced disclosures will be required regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Either a retrospective or cumulative effect transition method, referred to as the modified retrospective method, is permitted. The Company expects the impact from the adoption of this standard is expected to be immaterial and the Company anticipates the impact will be immaterial to the consolidated financial statements for the full fiscal year 2018. The Company will adopt ASU 2014-09 on January 1, 2018 using the modified retrospective method by recognizing the cumulative effect of initially applying the new standard as an increase to the opening balance of retained earnings. The impact from the cumulative effect adjustment is expected to be immaterial and the Company anticipates the impact will be immaterial to the consolidated financial statements for the full fiscal year 2018.

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 is currently evaluating the impact that the adoption of this ASU will have on its consolidated financial statements and related disclosures.

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.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Subsequent Events**

The Company has evaluated subsequent events through the date which the consolidated financial statements were issued. Other than events described in Note 14, there were no material subsequent events that required recognition in these consolidated financial statements.

**Note 2. 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 December 31, based on the year of funding are approximately as follows:

	<u>2017</u>	<u>2016</u>
Funded during the current year	\$ 118,000	80,000
1-2 years outstanding	38,000	31,000
2-3 years outstanding	12,000	37,000
3-4 years outstanding	24,000	144,000
Greater than 4 years outstanding	640,000	744,000
	<u>832,000</u>	<u>1,036,000</u>
Reserve for credit losses	(194,000)	-
	<u>\$ 638,000</u>	<u>\$ 1,036,000</u>
Number of active units with delinquent assessments	1,162	1,490
Amount of outstanding interest and late fees on active units	\$ 14,600,000	\$ 18,000,000

**Note 3. 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, 2017, maximum future contingent payments under these arrangements was approximately \$461,000. In prior years, the Company had mitigated the credit risk for these transactions by insuring the payment of a portion of uncollected assessments paid by the Company during 2016 and 2015, (See Note 4 below).

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

	<u>2017</u>	<u>2016</u>
Finance receivables, net	\$ 339,000	\$ 492,000
Delinquent assessments	1,200,000	1,636,000
Accrued interest and late fees	728,000	1,045,000
Number of active units with delinquent assessments	97	152

**Note 4. New Neighbor Guaranty (NNG) Allowance for Credit Losses**

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



LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

under Florida statute and as such no allowance is recorded. Recoverability of the Company's NNG Product was, in prior years, considered to be generally assured by the purchase of credit insurance. The coverage was not renewed and only claims filed related to foreclosures occurring on or before January 28, 2016 will be covered under the insurance policy.

As a result of the insurance policy not being renewed, credit losses on the NNG product were estimated by the Company based on analyzing the investment in each unit as of December 31, 2015 and comparing that balance to the average payout for completed units for the past 12 months. The Company performed an alternative analysis based on a calculation of historical loss experience using insurance recoveries during 2016 and 2015. The allowance for losses based on these analyses, had a remaining balance of \$51,000 and \$125,000 as of December 31, 2017 and 2016, respectively.

**Note 5. Real Estate Assets Owned**

Real estate assets owned as reported in the accompanying consolidated balance sheets consist of the fair market value less cost to dispose for those foreclosed units acquired free and clear of any mortgage or other liens plus costs incurred by the Company in excess of original funding on units. Real estate assets owned (free and clear of any mortgage) at December 31, 2017, and 2016, were approximately \$196,700 and \$734,700 respectively, consisting of two and fifteen units respectively, at these dates. The Company acquired one and four new unencumbered units, net of disposals during 2017 and 2016 that were capitalized at fair value less cost to dispose of approximately \$0 and \$57,000, respectively. The fair market value of each unit was first applied to recover the Company's investment with any remaining proceeds applied next to interest, late fees, legal fees, collection costs, and payable to the association. Any excess proceeds still remaining were recognized as a gain.

Most units are quitclaimed to the Company without the Company incurring additional cost and are subject to mortgage. Total units within the real estate portfolio at December 31, 2017 and 2016 as a result of foreclosure action were, including those discussed above, 66 and 67, respectively. During 2017 and 2016, the Company sold eighteen and four units, respectively, and realized proceeds of approximately \$797,000 and \$105,000, respectively. Any proceeds collected are first applied to recover the Company's investment 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 gain on sale of real estate assets. If the future proceeds collected are lower than the Company's carrying value, then a loss is recognized on the sale. There was no significant gain or loss on the disposal of real estate assets during 2017 or 2016. Rental revenues collected in 2017 and 2016 were approximately \$737,000 (net of cost recovery of \$73,000) and \$347,000, respectively (net of cost recovery of \$128,000).

As mentioned above, upon a unit being quitclaim decided to the Company, the Company becomes responsible for current association assessments. The monthly contingent obligation for assessments due on these units to associations as of December 31, 2017 and 2016 approximates \$23,000 and \$23,000, respectively.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 6. Long-Term Debt and Other Financing Arrangements**

	Year ended December 31,	
	2017	2016
Financing agreement with FlatIron capital that is unsecured. Down payment of \$16,500 was required upfront and equal installment payments of \$9,610 to be made over a 10 month period. The note matures May 31, 2018. Annualized interest is 5.25%	\$ 39,028	\$ -
Promissory note issued to a financial institution, bearing interest at 8%, interest payable monthly, and principal payments due quarterly. Secured by all of the Company's rights, title, interest, claims, and demands associated with certain condominium units held in LMF SPE #2, LLC and all cash held in LMF SPE #2, LLC. Accrued interest is due monthly beginning January 29, 2015. Installment of principal is due quarterly. Note was to mature on April 30, 2018 and could be prepaid at any time without penalty. Principal balance for this promissory note was \$4,540,274, as of December 31, 2016. Unamortized debt issuance costs were \$96,896, as of December 31, 2016. (1)	-	4,443,378
Promissory note issued to a financial institution, bearing interest at 6% plus one month Libor, principal payments of \$60,000 per month plus interest due through maturity on February 1, 2018. This loan is collateralized by all of the accounts receivable, contract rights, and lien rights arising from or relating to collection of Association payments made by the Company relating to certain accounts as well as all deposit accounts and cash of LMF October 2010 Fund, LLC. LM Funding, LLC and its members guaranteed this loan. Principal balance for this promissory note was \$720,000, as of December 31, 2016. Unamortized debt issuance costs were \$2,500, as of December 31, 2016.	-	717,500
	\$ 39,028	\$ 5,160,878

(1) The Company settled the promissory note by issuing 2,953,189 shares for approximately \$4.7 million of the outstanding principal, accrued interest and late fees during the month of December 2017.

Minimum required principal payments on the Company's debt as of December 31, 2017 are as follows :

Years Ending December 31,	
2018	\$ 39,028
2019	-
	\$ 39,028

**Note 7. Commitments and Contingencies**

**Leases**

The Company leases its office under an operating lease beginning March 1, 2014 and ending July 31, 2019

Future minimum lease payments due under this lease as of December 31, 2017 are as follows:

Years Ending December 31,	
2018	\$ 364,000
2019	216,000
	\$ 580,000

The Company shares this space and the related costs associated with this operating lease with a related party (see Note 10) that also performs legal services associated with the collection of delinquent assessments. The Company entered into a sub-lease with an

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

unrelated party that generates \$71,000 of annual rental income. Net rent expense recognized in 2017 and 2016 approximated \$161,000 and \$170,000, respectively.

### 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.

We are a defendant in an action entitled *Solaris at Brickell Bay Condominium Association, Inc. v. LM Funding, LLC*, which was brought before the Circuit Court of the Eleventh Judicial Circuit, Miami-Dade Civil Division on July 31, 2014. On August 4, 2017, an order by the court was entered on Plaintiff's Motion for Preliminary Approval of Class Action Settlement Agreement. In the order, the motion of the Plaintiff, Solaris at Brickell Bay Condominium Association, Inc., individually and on behalf of the certified plaintiff class ("Plaintiffs"), for approval of the Class Action Settlement Agreement (the "Settlement Agreement") with Defendant LM Funding, LLC was granted. LMF, despite its belief that it is not liable for the claims asserted and that it has good defenses thereto, nevertheless agreed to enter into this Agreement in order to: (1) avoid any further expense, inconvenience, and distraction of burdensome and protracted litigation and its consequential negative financial effects to LM Funding, LLC operations; (2) obtain the releases, orders, and final judgment contemplated by the Settlement Agreement; and (3) put to rest and terminate with finality all claims that had been or could have been asserted against LM Funding, LLC by the Plaintiffs arising from the facts alleged in the lawsuit. Pursuant to the agreement subsequently reached between counsel, all required actions and deadlines set forth in the Settlement Agreement are currently stayed. On March 1, 2018 a continuation of the abatement was granted until April 2, 2018. As of December 31, 2017, the Company had accrued costs of \$505,000 as part of the Settlement Agreement. The settlement amount was contingent upon the Company obtaining sufficient financing within the allotted timeframe of the Settlement Agreement. On April 2, 2018, the Plaintiffs withdrew from the Settlement Agreement. The Company will pursue certain legal remedies to defend itself against the allegations.

### Note 8. Income Taxes

Prior to the initial public offering in October 2015, the earnings of the Predecessor, which was a limited liability company taxed as a partnership, were taxable to its members. In connection with the contribution of membership interests to the Company (a C-Corporation formed in 2015), the net income or loss of the Company after the initial public offering is taxable to the Company and reflected in the accompanying consolidated financial statements.

The Company performs an evaluation of the realizability of its deferred tax assets on a quarterly basis. The Company considers all positive and negative evidence available in determining the potential of realizing deferred tax assets, including the scheduled reversal of temporary differences, recent and projected future taxable income and prudent and feasible tax planning strategies. The estimates and assumptions used by the Company in computing the income taxes reflected in the accompanying consolidated financial statements could differ from the actual results reflected in the income tax returns filed during the subsequent year. Adjustments are recorded based on filed returns when finalized or the related adjustments are identified.

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 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 is necessary based on the more-likely-than-not threshold noted above. The Company recorded a valuation allowance of approximately of \$3,620,000 during the year ended December 31, 2017 equal to its deferred tax asset as of December 31, 2017. The valuation allowance was subsequently reduced to reflect the decrease in deferred tax assets resulting from the tax act of 2017.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Significant components of the tax expense (benefit) recognized in the accompanying consolidated statements of operations for the period December 31, 2016 to December 31, 2017) are as follows:

	<b>Year Ended December 31, 2017</b>	<b>Year Ended December 31, 2016</b>
Current tax benefit		
Federal	\$(1,690,948)	\$(1,402,230)
State	(220,735)	(81,611)
Total current tax benefit	(1,911,683)	(1,483,841)
Deferred tax expense	(31,974)	172,882
Rate change adjustment	1,754,830	-
Valuation allowance (expense)	3,620,363	-
Income tax (reduction) benefit	<u>\$ 3,431,536</u>	<u>\$(1,310,959)</u>

The reconciliation of the income tax computed at the combined federal and state statutory rate of 37.6% to the income tax benefit is as follows:

	<b>Year Ended December 31,</b>		<b>Year Ended December 31,</b>	
	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
Benefit on net loss	\$(1,955,120)	37.6 %	\$(1,385,291)	37.6 %
Non deductible expenses	11,464	(0.2)%	48,375	(1.3)%
Rate change adjustment	1,754,830	(33.8)%	-	0.0 %
Valuation allowance (expense)	3,620,363	(69.7)%	-	0.0 %
Other items	-	0.0 %	25,957	0.7 %
Tax benefit/effective rate	<u>\$ 3,431,536</u>	<u>(66.1)%</u>	<u>\$(1,310,959)</u>	<u>37.0 %</u>

The significant components of the Company's deferred tax liabilities and assets as of December 31, 2017 and December 31, 2016 are as follows:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Deferred tax liabilities:		
Tax expense for debt issuance costs	\$ -	\$ 37,403.00
Tax expense for internally developed software	15,871	25,752
Tax depreciation in excess of book	8,921	14,710
Total deferred tax liabilities	<u>24,792</u>	<u>77,865</u>
Deferred tax assets:		
Loss carryforwards	2,393,172	1,641,485
Step up in basis at contribution to C-Corp	1,024,590	1,584,758
Stock option expense	80,778	108,994
Step up in basis - purchase of non-controlling interest	63,890	96,583
Allowance for credit losses	62,154	47,038
Accrued liabilities	20,571	30,543
Total deferred tax asset	<u>3,645,155</u>	<u>3,509,401</u>
Valuation allowance	<u>(3,620,363)</u>	-
Net deferred tax asset	<u>\$ -</u>	<u>\$ 3,431,536</u>

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As discussed above, the Predecessor effected a transaction resulting in the contribution of member interests to the Company (a newly formed C-Corporation). This transaction was recorded at the carryover basis of the Predecessor for both tax and financial reporting purposes. In accordance with ASC 740-10-45-19, *Income Taxes*, the Company accounted for the tax effect of the difference in tax basis and book basis assets and liabilities at contribution date as a direct consequence of a change in tax status. As such, the Company recognized a net deferred tax asset for the tax effect of those basis differences equal to \$91,068 with a corresponding increase in tax benefit. As a result of various equity transactions prior to the incorporation, the former members of the Predecessor recognized taxable gains associated with redemption consideration and/or deficit capital accounts totaling approximately \$5.25 million. In accordance with ASC 740-20-45-11, the Company accounted for the tax effect of the step up in income tax basis related to these transactions with or among shareholders and recognized a deferred tax asset and corresponding increase in equity of approximately \$1.97 million. Federal net operating loss carryforwards of approximately \$512,000 related to 2015, \$3,850,000 related to 2016 and \$5,196,000 related to 2017 will expire in 2035, 2036 and 2037, respectively. The Company's federal and state tax returns for the 2015 through 2017 tax years generally remain subject to examination by U.S. and various state authorities.

## **Note 9. Stockholders' Equity**

### **Stock Issuance**

The Company settled \$4,720,860 of principal, accrued interest and other charges by issuing 2,953,189 common shares with a fair value of \$5,325,639 which resulted in a \$604,779 loss on settlement of debt.

### **Stock Warrants**

On October 23, 2015 the Company issued warrants that allowed for the right to purchase 1,200,000 shares of common stock at an exercise price of \$10.00 per share. These warrants have weighted average price of \$10.00 and weighted average remaining life of 2.94 and 3.94 as of December 31, 2017 and 2016. These warrants expire in the year 2020. The aggregate intrinsic value of the outstanding common stock warrants as of December 31, 2017 and 2016 was \$0 and \$0 respectively.

### **Stock Options**

The 2015 Omnibus Incentive Plan provides for the issuance of stock options, stock appreciation rights, performance shares, performance units, restricted stock, restricted stock units, shares of our common stock, dividend equivalent units, incentive cash awards or other awards based on our common stock. Awards may be granted alone or in addition to, in tandem with, or (subject to the 2015 Omnibus Incentive Plan's prohibitions on repricing) in substitution for any other award (or any other award granted under another plan of ours or of any of our affiliates).

On October 22, 2015 the Company granted to the former President of the Company pursuant to his employment contract 94,500 stock options with an exercise price of \$10.00. These stock options vested immediately upon the termination of the former president in 2016. The maximum term of an option is 10 years from the date of grant.

On January 4, 2016 the Company granted a total of 84,600 stock options to our employees at an exercise price of \$12.50 per share. These awards will vest evenly over a three year period. The maximum term of an option is 10 years from the date of grant. The grant date fair value of the options granted was \$1.27. Total expense to be recognized for the remaining 24,200 employee options is approximately \$24,200.

On January 4, 2016 the company granted a total of 37,904 stock options to consultants of the company at an exercise prices of \$12.50 per share. These awards vest immediately upon acceptance of agreement. The maximum term of an option is 10 years from the date of grant. The grant date fair value of the options granted was \$0.70. Total expense to be recognized for the consultant options was approximately \$26,000.

On January 4, 2016 the Company granted a total of 25,000 stock options to non-employee directors at an exercise price of \$10.00 per share. These awards will vest evenly over a three year period. The maximum term of an option is 10 years from the date of grant. The grant date fair value of the options granted was \$1.90. Total expense to be recognized for the director options is approximately \$48,000.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On May 10, 2016 the Company granted a total of 25,000 stock options to an employee at an exercise price of \$12.50 per share. These awards will vest evenly over a three year period. The maximum term of an option is 10 years from the date of grant. The Grand date fair value of the options was \$1.08. Total expense to be recognized for the employee options is approximately \$27,000.

On November 29, 2017 the Company granted a total of 25,000 stock options to an employee at an exercise price of \$12.50 per share. These awards will vest evenly over a three year period. The maximum term of an option is 10 years from the date of grant. The Grand date fair value of the options was \$0.29. Total expense to be recognized for the employee options is approximately \$5,800.

The Black-Scholes pricing model was used to determine the fair value of the stock options granted by the Company. The Company recognizes this value as an expense over the period in which the stock options vest. The weighted average grant date fair value of the options granted was \$0.29 and \$2.36, respectively for awards granted in the years ended December 31, 2017 and 2016. Compensation expense recognized from the vesting of stock options was approximately \$29,000 and \$275,000, respectively for the years ended December 31, 2017 and 2016. The remaining unrecognized compensation cost associated with unvested stock options as of December 31, 2017 and 2016 is approximately \$37,000 and \$89,000, respectively. At December 31, 2017, the stock options had a remaining life of approximately 8 years.

The aggregate intrinsic value of the outstanding common stock options as of December 31, 2017 and 2016 was \$0 and \$0 respectively.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The model requires the use of subjective assumptions. Expected volatility was based on the historical volatility of another public company with a similar business model and comparable market share as the Company. The expected life (in years) was determined using historical data to estimate options exercise patterns. The Company does not expect to pay any dividends for the foreseeable future thus zero was in the calculation. The risk-free interest rate was based on the rate for US Treasury bonds commensurate with the expected term of the granted options. Significant assumptions used in the option-pricing model to fair value options granted were as follows:

	2016			
	Employees	Consultants	Board of Directors	Employee
Risk-free rate	1.90 %	1.73 %	1.90 %	1.36 %
Expected life	6 years	5 years	6 years	6 years
Expected volatility	25.13 %	20.61 %	25.13 %	25.82 %
Expected dividend	—	—	—	—
				2017
Risk-free rate				2.27 %
Expected life				6 years
Expected volatility				50.00 %
Expected dividend				—

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the stock option plan activity during 2017 and 2016:

	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options Outstanding at Beginning of the year	215,368	\$ 11.38	94,500	\$ 10.00
Granted	25,000	12.50	172,504	12.14
Exercised	-	-	-	-
Adjustment	7,936	12.50		
Forfeited	<u>(135,400)</u>	<u>12.50</u>	<u>(51,636)</u>	<u>12.50</u>
Options Outstanding at End of Year	<u>112,904</u>	<u>\$ 11.11</u>	<u>215,368</u>	<u>\$ 11.38</u>
Options Exercisable at End of Year	<u>62,904</u>	<u>\$ 10.33</u>	<u>94,500</u>	<u>\$ 10.00</u>

**Note 10. Related Party Transactions**

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 per month 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 collected from property owners and paid to BLG for 2017 and 2016 were approximately \$1,136,000 and \$1,129,000, respectively. As of December 31, 2017 and 2016, receivables from property owners for charges ultimately payable to BLG approximate \$3,657,000 and \$6,005,000, respectively.

Under the related party agreement with BLG in effect during 2016 and 2017, 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 are accounted for as a reduction in expense incurred. The Company incurred expenses related to these types of costs of \$560,000 and \$609,000, during 2017 and 2016, respectively. Recoveries during 2017 and 2016 related to those costs were approximately \$331,000 and \$316,000, respectively.

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.

The Company assessed the collectability of the amount due from BLG and concluded that even though BLG had repaid \$252,771 during the year, it did not have the ability to repay the remaining balance and as such took a reserve of approximately \$1.4 million for

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the balance due as of December 31, 2017. Amounts receivable from BLG as of December 31, 2017 and 2016 were approximately \$0 and \$1,661,000, respectively.

LMF has engaged BLG on behalf of many of its Association clients to service and collect the accounts and to distribute the proceeds as required by Florida law and the provisions of the purchase agreements between LMF and the Associations. In addition, Ms. Gould entered an employment agreement to work part-time for LMF. Ms. Gould's employment agreement with LMF permits her to also work as General Manager of Business Law Group, P.A. which pays her additional compensation of \$150,000 per year.

**Note 11. Fair Value of Financial Instruments**

The Company estimates that the fair value of its financial assets and liabilities approximate carrying value except for its finance receivables. FASB ASC 820, Fair Value Measurements and Disclosures defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to classify its fair value estimates based on the "Level" of reliability of data inputs used in those estimates. Under this guidance, financial instruments are categorized within the fair value hierarchy as follows:

Level 1 inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be assessed at the measurement date.

Level 2 inputs – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs – Unobservable inputs significant to the fair value estimate that are supported by little or no market pricing and are based on the Company's estimates and assumptions that presumably market participants would use.

The Company considers the data inputs used to estimate the fair value of its finance receivables to fall within Level 3 of the fair value hierarchy. Fair value measurements as noted below are based on the income approach using a discount rate of 7.95% and 8.45% for finance receivables at December 31, 2017 and 2016, respectively. The recovery period as of both dates was assumed to be 8.5 years. The carrying amount and estimated fair value of finance receivables at December 31 are as follows:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Finance receivables:</b>				
Original product	\$ 638,000	\$ 5,705,000	\$ 1,036,000	\$ 7,920,000
Special product, net of allowance (1)	340,000	890,000	492,000	975,000

(1) New Neighbor Guaranty program



LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 12. Reconciliation of Net Income To Cash Used In Operating Activities**

	2017	2016
Net loss	\$ (8,627,179)	\$ (2,370,390)
Adjustments to reconcile net loss to cash used in operating activities		
Stock compensation expense	29,065	275,380
Non cash operating revenue	-	(95,033)
Amortization of debt issuance cost	99,396	98,564
Interest settled with common shares	180,585	
Depreciation and amortization	95,447	72,114
Reserve for uncollectible related party receivables	1,408,589	
Credit loss reserves, net	88,571	
Loss on settlement of debt	604,779	
Loss on litigation	505,000	
Write-off of deferred tax asset, net	3,431,536	(1,310,959)
Change in operating assets and liabilities:		
Decrease (increase) in prepaid expenses and other assets	147,491	(52,376)
Increase (decrease) in accounts payable and accrued expenses	(15,735)	26,908
Increase (decrease) in other liabilities and obligations	(10,814)	3,153
Total cash used in operating activities	<u>\$ (2,063,269)</u>	<u>\$ (3,352,639)</u>

**Note 13. Management's Plans**

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 2 years (2016 and 2017) with cumulative losses of approximately \$11 million as the result of declining revenues and high expenses due to a number of factors. These losses resulted in the usage of all cash proceeds from its initial public offering in 2015.

The Company started a number of initiatives in 2017 which included cost saving initiatives, a focus on collections and a resolve to settle its outstanding debt. The Company initiated a reduction in its workforce from 2017 through 2018 which resulted in the workforce decreasing from 19 full time employees to 10 full time employees, a reduction in marketing expenses and a reduction in other controllable expenses.

The Company was also able to settle the \$4,720,860 promissory note that had been due in April 2018 along with accrued interest and other costs with its primary creditor in exchange for 2,953,189 common shares and repay its other outstanding promissory note of \$717,500 during the twelve months ended December 31, 2017. The Company was then able to increase its working capital by obtaining a \$500,000 senior secured convertible note to provide sufficient working capital until it's able to fulfil all of the obligations required pursuant to its \$5 million equity line. (see Note 14 Subsequent Events). The new financing arrangement will provide the Company with sufficient liquidity for it to operate for the next 12 months.

The Company will also continue to explore ways to unlock 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.

Between the cost saving initiatives, a focus on collections, the settlement of its debt obligations and the generation of additional working capital through the use of new financing should avoid any substantial doubt about the Company's ability to continue as a going concern as defined by ASU 2014-05.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We believe that the actions discussed above mitigate the substantial doubt raised by our recent operating losses and satisfy our estimated liquidity needs 12 months from the issuance of the financial statements. 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. Additionally, a failure to generate additional liquidity could negatively impact our ability to acquire units.

**Note 14. Subsequent Events**

On April 2, 2018, the “Company entered into a Securities Purchase Agreement (the “SPA”) with a New York-based family office (“Investor”) pursuant to which the Company issued to Investor a Senior Convertible Promissory Note (“Note”) in the original principal amount of \$500,000 in exchange for a purchase price of \$500,000. The maturity date of the Note is six months after the date of issuance (subject to acceleration upon an event of default). Investor may at any time on or after the maturity date convert all or any part of the outstanding and unpaid principal amount and accrued and unpaid interest of the Note into fully paid and non-assessable shares of the Company’s common stock, par value \$0.001 per share (“Common Stock”), at a conversion price equal to 85% of the lowest daily volume weighted average price of the Common Stock in the 10 trading days immediately prior to conversion. The Note carries a 10.5% interest rate, with accrued but unpaid interest being payable on the Note’s maturity date. Investor was also issued pursuant to the SPA five-year warrants exercisable at the closing per share bid price on April 2, 2018 to purchase 400,000 shares of the Company’s common stock (the “Warrants”).

Also on April 2, 2018, the Company entered into a Common Stock Purchase Agreement (“Purchase Agreement”) with Investor relating to the purchase by Investor from the Company up to \$5,000,000 of the Company’s Common Stock. The Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein, Investor has committed to purchase up to \$5,000,000 worth of the Company’s Common Stock (“Purchase Shares”) over a 2-year period beginning on the date on which a registration statement relating to the resale of the Purchase Shares (the “Registration Statement”) is first declared effective by the U.S. Securities and Exchange Commission (the “Commission”).

The Purchase Agreement requires the Company to issue to the Investor as consideration for the Investor entering into the Purchase Agreement such number of shares of Common Stock that would have a value equivalent to \$200,000 calculated using the average of volume weighted average price for the Common Stock during normal trading hours during the three business day period immediately preceding the date of issuance of such shares.

The issuance of the securities to the Investor under the Purchase Agreement and SPA is exempt from registration under the Securities Act, pursuant to the exemption for transactions by an issuer not involving any public offering under Section 4(a)(2) of the Securities Act of 1933, as amended (the “1933 Act”), and/or Rule 506 of Regulation D promulgated under the 1933 Act. The Company made this determination based on the representations of Investor that Investor is an “accredited investor” within the meaning of Rule 501 of Regulation D under the 1933 Act and has access to information about the Company and its investment.

As contemplated by the Purchase Agreement, on April 2, 2018, the Company entered into registration rights agreement with the Investor (the “Registration Rights Agreement”). The Registration Rights Agreement requires that an initial registration statement for the Purchase Shares be filed pursuant by the twentieth business day after the date of the Company’s filing of its annual report for the fiscal year ended December 31, 2017 on Form 10-K (the “Filing Deadline”). The Registration Rights Agreement requires the Company to use its commercially reasonable efforts to cause the Registration Statement to become effective as promptly thereafter as practicable but in any event not later than (i) with respect to the Initial Registration Statement, the earlier of the (A) 45th calendar day after the Filing Deadline of the Initial Registration Statement (or, in the event of a review by the Commission, the 90th calendar day following the date of the Registration Rights Agreement) and (B) 5th Business Day after the date the Company is notified (orally or in writing, whichever is earlier) by the Commission that such Registration Statement will not be reviewed or will not be subject to further review and (ii) with respect to any additional Registration Statements that may be required to be filed by the Company pursuant to the Registration Rights Agreement, the earlier of the (A) 45th calendar day following the date on which the Company was required to file such additional Registration Statement (or, in the event of a review by the SEC, the 90th calendar day following the date on which such additional Registration Statement is required to be filed hereunder); and (B) 5th Business Day after the date the Company is notified (orally or in writing, whichever is earlier) by the Commission that such Registration Statement will not be reviewed or will not be subject to further review.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

If the Company fails to meet the Filing Deadline or the above effectiveness deadlines, subject to certain terms provided for in the Registration Rights Agreement, the Company will be required to pay liquidated damages to the Investor. The Registration Rights Agreement also provides for customary indemnification and contribution provisions.

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Exhibit Index**

Exhibit Number	Description
2.1	<a href="#"><u>Contribution Agreement, dated October 21, 2015, by and between CGR63, LLC, BRR Holding, LLC and LM Funding America, Inc. (incorporated by reference from Exhibit 2.1 to the Form 8-K filed on October 23, 2015)</u></a>
3.1	<a href="#"><u>Certificate of Incorporation of LM Funding America, Inc., as amended. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (Amendment No. 2) filed on August 27, 2015 (Registration No. 333-205232))</u></a>
3.2	<a href="#"><u>By-Laws of LM Funding America, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
4.1	<a href="#"><u>Form of Warrant Agreement. (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
4.2	<a href="#"><u>Form of Common Stock Certificate. (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1 (Amendment No. 2) filed on August 27, 2015 (Registration No. 333-205232))</u></a>
4.3	<a href="#"><u>Senior Convertible Promissory Note, dated March 29, 2018. (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on April 3, 2018)</u></a>
4.4	<a href="#"><u>Warrant to Purchase Common Shares, dated April 2, 2018, between the Company and Esousa Holdings LLC. (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on April 3, 2018)</u></a>
10.1#	<a href="#"><u>Employment Agreement, dated October 22, 2015, by and between Bruce M. Rodgers and LM Funding America, Inc. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on October 23, 2015)</u></a>
10.2#	<a href="#"><u>Employment Agreement, dated October 22, 2015, by and between Carollinn Gould and LM Funding America, Inc. (incorporated by reference to Exhibit 10.2 to the Form 8-K filed on October 23, 2015)</u></a>
10.3#	<a href="#"><u>Employment Agreement, dated October 22, 2015, by and between Sean Galaris and LM Funding America, Inc. (incorporated by reference to Exhibit 10.3 to the Form 8-K filed on October 23, 2015)</u></a>
10.4#	<a href="#"><u>Employment Agreement, dated January 4, 2016, by and between the Company and Steve Weclaw. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on January 7, 2016)</u></a>
10.5#	<a href="#"><u>Employment Agreement, dated January 4, 2016, by and between the Company and Aaron L. Gordon. (incorporated by reference to Exhibit 10.2 to the Form 8-K filed on January 7, 2016)</u></a>
10.6#	<a href="#"><u>LM Funding America, Inc. 2015 Omnibus Incentive Plan. (incorporated by reference to Exhibit 10.4 to the Form 8-K filed on October 23, 2015)</u></a>
10.7#	<a href="#"><u>Form of LM Funding America, Inc. 2015 Omnibus Incentive Plan Stock Option Award Agreement. (incorporated by reference to Exhibit 10.5 to the Form 8-K filed on October 23, 2015)</u></a>
10.8#	<a href="#"><u>Form of LM Funding America, Inc. 2015 Omnibus Incentive Plan Restricted Stock Award Agreement. (incorporated by reference to Exhibit 10.6 to the Form 8-K filed on October 23, 2015)</u></a>
10.9	<a href="#"><u>Services Agreement, dated April 15, 2015, between LM Funding, LLC and Business Law Group, P.A. (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
10.10	<a href="#"><u>Software License Agreement, dated April 15, 2015, between LM Funding, LLC and Business Law Group, P.A. (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
10.11	<a href="#"><u>Assessment Recovery Indemnity (ARI) Policy for Community Associations, dated December 1, 2012, in favor of LM Funding, LLC and issued by Security National Insurance Company, a member of AmTrust North America, an AmTrust Financial Company. (incorporated by reference to Exhibit 10.9 to the Form of Association Receivables Purchase Agreement. (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
10.12	<a href="#"><u>Form of Association Receivables Purchase Agreement. (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exhibit Number	Description
10.13	<a href="#"><u>Form of Escrow Agreement among SunTrust Bank, N.A., International Assets Advisory, LLC and LM Funding America, Inc. (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
10.14	<a href="#"><u>Form of Selected Dealer Agreement between International Assets Advisory, LLC and the members of the selling group. (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
10.15	<a href="#"><u>Credit Agreement, dated December 30, 2014, among LMF SPE#2, LLC, as borrower, LM Funding, LLC, CGR63, LLC and LM Funding Management, LLC, as guarantors, and Heartland Bank, as lender. (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
10.16	<a href="#"><u>Irrevocable Continuing Guaranty Agreement, dated December 30, 2014, by LM Funding, LLC, CGR63, LLC and LM Funding Management, LLC in favor of Heartland Bank. (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
10.17	<a href="#"><u>Pledge Agreement, dated December 30, 2014, by LM Funding, LLC and CRE Funding, LLC in favor of Heartland Bank. (incorporated by reference to Exhibit 10.15 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
10.18	<a href="#"><u>Form of Lock-Up Agreement. (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
10.19	<a href="#"><u>Errors and Omissions Agreement, dated June 25, 2015, by LMF October 2010 Fund, LLC in favor of IBERIABANK. (incorporated by reference to Exhibit 10.17 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
10.20	<a href="#"><u>Business Loan Agreement (Asset Based), dated June 25, 2015, between LMF October 2010 Fund, LLC and IBERIABANK. (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
10.21	<a href="#"><u>Commercial Guaranty, dated June 25, 2015, by Carollinn Gould in favor of IBERIABANK. (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
10.22	<a href="#"><u>Commercial Guaranty, dated June 25, 2015, by Bruce Rodgers in favor of IBERIABANK. (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
10.23	<a href="#"><u>Commercial Security Agreement, dated June 25, 2015, by LMF October 2010 Fund, LLC in favor of IBERIABANK. (incorporated by reference to Exhibit 10.21 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
10.24	<a href="#"><u>Promissory Note, dated June 25, 2015, by LMF October 2010 Fund, LLC in favor of IBERIABANK. (incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))</u></a>
10.25#	<a href="#"><u>Form of Indemnification Agreement entered into between LM Funding America, Inc. and its directors and officers. (incorporated by reference to Exhibit 10.21 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))</u></a>
10.26#	<a href="#"><u>Employment Agreement, dated May 10, 2016, by and between the Company and R. Dean Akers. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 11, 2016)</u></a>
10.27#	<a href="#"><u>Amendment to Employment Agreement of Bruce M. Rodgers, dated August 30, 2016, by and between the Company and Bruce M. Rodgers. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on August 31, 2016)</u></a>
10.28#	<a href="#"><u>Amendment to Employment Agreement of Carollinn Gould, dated August 30, 2016, by and between the Company and Carollinn Gould. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on August 31, 2016)</u></a>
10.29#	<a href="#"><u>Amendment to Employment Agreement of R. Dean Akers, dated August 30, 2016, by and between the Company and R. Dean Akers. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on August 31, 2016)</u></a>

LM FUNDING AMERICA, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Exhibit Number	Description
10.30#	<a href="#"><u>Amendment to Employment Agreement of Steve Weclaw, dated August 30, 2016, by and between the Company and Steve Weclaw. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on August 31, 2016)</u></a>
10.31#	<a href="#"><u>Amendment to Employment Agreement of Aaron Gordon, dated August 30, 2016, by and between the Company and Aaron Gordon. (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on August 31, 2016)</u></a>
10.32#	<a href="#"><u>Employment Offer, dated November 16, 2017 and effective November 29, 2017, by and between the Company and Richard Russell. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 1, 2017)</u></a>
10.33#	<a href="#"><u>Securities Purchase Agreement, dated March 29, 2018, between the Company and Esousa Holdings LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on April 3, 2018)</u></a>
10.34#	<a href="#"><u>Registration Rights Agreement, dated March 29, 2018, between the Company and Esousa Holdings LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on April 3, 2018)</u></a>
10.35#	<a href="#"><u>Common Stock Purchase Agreement, dated March 29, 2018, between the Company and Esousa Holdings,LLC. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on April 3, 2018)</u></a>
10.36	<a href="#"><u>First Amendment to Credit Agreement, dated March 31, 2017 and effective March 15, 2017, among LMF SPE#2, LLC, as borrower, LM Funding, LLC, and LM Funding Management, LLC, as guarantors, and Heartland Bank, as lender. (incorporated by reference to Exhibit 10.32 to the Annual Report on Form 10-K filed on April 4, 2017)</u></a>
10.37	<a href="#"><u>Irrevocable Continuing Guaranty Agreement, dated March 31, 2017 and effective as of March 15, 2017, by the Company in favor of Heartland Bank. (incorporated by reference to Exhibit 10.33 to the Annual Report on Form 10-K filed on April 4, 2017)</u></a>
10.38	<a href="#"><u>Pledge Agreement, dated March 31, 2017 and effective as of March 15, 2017, by the Company in favor of Heartland Bank. (incorporated by reference to Exhibit 10.34 to the Annual Report on Form 10-K filed on April 4, 2017)</u></a>
10.39	<a href="#"><u>First Amendment to Pledge Agreement, dated March 31, 2017, effective as of March 15, 2017, by LM Funding, LLC in favor of Heartland Bank. (incorporated by reference to Exhibit 10.35 to the Annual Report on Form 10-K filed on April 4, 2017)</u></a>
10.40	<a href="#"><u>Master Exchange Agreement, dated December 11, 2017, by and between the Company and Esousa Holdings LLC. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 12, 2017)</u></a>
10.41	<a href="#"><u>Form of Warrant to Purchase Common Stock. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 12, 2017)</u></a>
21.1*	<a href="#"><u>Subsidiaries of the registrant.</u></a>
31.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

# Indicates a management contract or compensatory arrangement.

\* Filed herewith.



SUBSIDIARIES OF LM FUNDING AMERICA, INC.

Except as indicated below, all of the following subsidiaries are 100% owned by LM Funding, LLC, a Florida limited liability company:

<b>NAME OF SUBSIDIARY</b>	<b>JURISDICTION OF ORGANIZATION</b>
LM Funding, LLC (1)	Florida
LM Funding, LLC (1)	Florida
LMF October 2010 Fund, LLC	Florida
REO Holdings Management, LLC (2)	Florida
LM Funding of Colorado, LLC	Colorado
LM Funding of Washington, LLC	Washington
LMF SPE#2, LLC	Florida
LM Funding of Illinois, LLC	Illinois
LM Financial Partners, LLC	Florida
Central Florida Office Ventures, LLC	Florida
Data Investigative Services, LLC	Florida
Diligent Association Title, LLC	Florida

(1) Owned 100% by LM Funding America, Inc.

(2) REO Holdings Management owns a number of single purpose LLC entities for owning various properties



**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-K 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.

April 17, 2018

/s/ Bruce Rodgers

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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-K 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.

April 17, 2018

/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 Annual Report on Form 10-K of the Company for the annual period ended December 31, 2017 as filed with the Securities and Exchange Commission on April 17, 2018 (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.

April 17, 2018

/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.

**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 Financial Officer of LM Funding America, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-K of the Company for the annual period ended December 31, 2017 as filed with the Securities and Exchange Commission on April 17, 2018 (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.

April 17, 2018

/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.