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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 16, 2019

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

Delaware
(State or other jurisdiction of
incorporation)

001-37605
(Commission File Number)

47-3844457
(IRS Employer Identification
No.)

302 Knights Run Avenue, Suite 1000
Tampa, Florida 33602
(Address of principal executive offices, including zip code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). Emerging growth company

If an emerging growth company, indicate by check mark if 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.

EXPLANATORY NOTE

On January 17, 2019, LM Funding America, Inc. (the “Company”) filed with the Securities and Exchange Commission a Current Report on Form 8-K (the “Initial 8-K”) to disclose that it had completed the acquisition of all of the outstanding stock of IIU Inc., a Virginia corporation (“IIU”). This Form 8-K/A amends the Initial 8-K to include the historical audited and unaudited financial statements of IIU required by Items 9.01(a) of Form 8-K that were excluded from the Initial 8-K in reliance on the instructions to such items.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(a) The audited financial statements of IIU for the year ended December 31, 2018 and December 31, 2018 are filed herewith as Exhibit 99.2.

(b) The unaudited pro forma condensed combined financial information for the Company, after giving effect to the IIU acquisition, will be filed as Exhibit 99.3 upon the filing of the Company’s consolidated 2018 financial statements by an amendment hereto.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(d) Exhibits

| Exhibit Number | Description |
|---------------------------|--|
| 2.1(1) | <u>Stock Purchase Agreement, dated as of January 16, 2019, between the Company, Craven House North America, LLC, and IIU, Inc.*</u> |
| 10.1(1) | <u>Convertible Promissory Note of the Company, dated January 16, 2019, in the original principal amount of \$3,581,982.16</u> |
| 99.1(1) | <u>Press Release issued January 17, 2019</u> |
| 99.2 | <u>Audited Financial Statements of IIU Inc. for the years ended December 31, 2018 and 2017.</u> |
| 99.3(2) | <u>Unaudited Pro Forma Consolidated Balance Sheet of the Company as of the Year Ended December 31, 2018 and 2017 and Notes to the Unaudited Pro Forma Consolidated Financial Statements, all giving effect to the acquisition by the Company of IIU.</u> |

*The schedules (and similar attachments) to this exhibit have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. The registrant agrees to furnish a supplemental copy of any omitted schedule (or similar attachment) to the Securities and Exchange Commission upon request.

(1) Incorporated by reference to the Company’s Initial 8-K.

(2) To be filed by amendment.

Forward-Looking Statements

This Current Report on Form 8-K may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainty. Words such as “anticipate,” “estimate,” “expect,” “intend,” “plan,” and “project” and other similar words and expressions are intended to signify forward-looking statements. Forward-looking statements are not guarantees of future results and conditions but rather are subject to various risks and uncertainties. Such statements are based on management’s current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Investors are cautioned that there can be no assurance actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors. Please refer to the risks detailed from time to time in the reports we file with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2017, as well as other filings on Form 10-Q and periodic filings on Form 8-K, for additional factors that could cause actual results to differ materially from those stated or implied by such forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, unless required by law.

SIGNATURE

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

LM Funding America, Inc.

/s/ Richard Russell

By: Richard Russell
Chief Financial Officer

Date: March 29, 2019

**IIU Inc Financial Statements
For the Year Ended 2017,
Five Months Ended May 2018 and Seven Months
Ended December 2018**

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | |
|--|-----|
| Report of Independent Registered Public Accounting Firm | F-2 |
| Consolidated Balance Sheets as of December 31, 2018 (Successor) and December 31, 2017 (Predecessor) | F-3 |
| Consolidated Statements of Operations for the Five Months Ended May 31, 2018 (Successor), Seven Months Ended December 31, 2018 (Predecessor) and Twelve Months Ended December 31, 2017 (Predecessor) | F-4 |
| Consolidated Statements of Changes in Stockholders' Equity for the Five Month Ended May 31, 2018 (Successor) and for the Seven Months ended December 31, 2018 (Predecessor) and the year end December 30, 2017 (Successor) | F-5 |
| Consolidated Statements of Cash Flows for the Five Months Ended May 31, 2018 (Successor), Seven Months Ended December 31, 2018 (Predecessor) and Twelve Months Ended December 31, 2017 (Predecessor) | F-6 |
| Notes to Consolidated Financial Statements | F-7 |

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of IIU Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of IIU Inc. and its subsidiaries (collectively, the “Company” or “Successor”) as of December 31, 2018, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for the seven months ended December 31, 2018 and the related notes (collectively referred to as the “financial statements”). We have also audited the accompanying balance sheet of Wallach & Company, Inc. (the “Predecessor”) as of December 31, 2017 and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for the five months ended May 31, 2018 and the year ended December 31, 2017, 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, 2018 and the Predecessor as of December 31, 2017, and the results of their operations and their cash flows for the seven months ended December 31, 2018 and the five months ended May 31, 2018 and the year ended December 31, 2017, 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 audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. 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 audits 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 audits provide a reasonable basis for our opinion.

/s/ MaloneBailey, LLP

www.malonebailey.com

We have served as the Company's auditor since 2019.

Houston, Texas

March 29, 2019

IIU INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | Successor As of December 31, 2018 | Predecessor As of December 31, 2017 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | 60,354 | 444,274 |
| Marketable securities (Note 2) | - | 705,163 |
| Prepaid expenses and other current assets | 2,516 | - |
| Total Current Assets | 62,870 | 1,149,437 |
| Property, plant and equipment, net (Note 4) | 17,090 | 21,917 |
| Goodwill | 2,504,159 | - |
| Other assets | 763 | - |
| Total Assets | \$ 2,584,882 | \$ 1,171,354 |
| Liabilities and Stockholder's Equity | | |
| Liabilities | | |
| Accounts payable | \$ 6,437 | \$ 18,151 |
| Accrued expenses | 62,455 | 94,690 |
| Deferred revenue | 1,989 | 25,445 |
| Other current liabilities | 11,754 | - |
| Related party convertible debt (Note 5) | 1,500,000 | - |
| Current debt (Note 5) | 92,244 | - |
| Current liabilities | 1,674,879 | 138,286 |
| Long-term debt (Note 5) | 606,435 | - |
| Income tax payable | 28,426 | 1,450 |
| Total liabilities | 2,309,740 | 139,736 |
| Stockholders' Equity | | |
| Common stock, \$0.01 par value, 100,000 shares authorized; 1,000 shares issued and outstanding at December 31, 2018 and 1,000 shares at December 31, 2017 | 10 | - |
| Additional paid-in capital | 200,000 | - |
| Retained earnings | 75,132 | 1,031,618 |
| Total equity | 275,142 | 1,031,618 |
| Total Liabilities and Stockholder's Equity | \$ 2,584,882 | \$ 1,171,354 |

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

IJU INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Successor Seven Months Ended | Predecessor Five Months Ended | Predecessor Twelve Months Year Ended |
|---|---|--|---|
| | December 31, 2018 | May 31, 2018 | December 31, 2017 |
| Revenue | | | |
| Net Commissions | \$ 411,735 | \$ 257,091 | \$ 800,808 |
| Operating expenses | | | |
| Depreciation | 929 | 2,448 | 1,980 |
| Staff costs and payroll | 107,391 | 139,923 | 369,940 |
| General, administrative and sales costs | 158,007 | 92,167 | 264,577 |
| Total operating expenses | <u>266,327</u> | <u>234,538</u> | <u>636,497</u> |
| Operating income | 145,408 | 22,553 | 164,311 |
| Interest expense | (31,783) | - | (52) |
| Other income (expense) | (1,602) | 24,852 | 46,035 |
| Investment income | 132 | 32,630 | 151,279 |
| Total other income (expense) | <u>(33,253)</u> | <u>57,482</u> | <u>197,262</u> |
| Net income before taxes | 112,155 | 80,035 | 361,573 |
| Income tax provision | (28,426) | - | - |
| Net income | <u>\$ 83,729</u> | <u>\$ 80,035</u> | <u>\$ 361,573</u> |

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

IIU INC. AND SUBSIDIARIE
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the year ended December 31, 2017 and five months ended May 31, 2018 (Predecessor) and for the seven months ended December 31, 2018
(Successor)

| PREDECESSOR | Common Stock | | Additional Paid-In Capital | Accumulated Earnings | Total Stockholders' Equity |
|---|--------------|--------|----------------------------------|-------------------------|----------------------------------|
| | Shares | Amount | | | |
| Balance, December 31, 2016 | 1,000 | - | - | 1,068,714 | 1,068,714 |
| Net income FY 2017 | | | | 361,573 | 361,573 |
| Dividends | | | | (398,669) | (398,669) |
| Balance, December 31, 2017 | 1,000 | - | - | 1,031,618 | 1,031,618 |
| Net income for the five months ended May 31, 2018 | | | | 80,035 | 80,035 |
| Dividends and distributions | | | | (982,506) | (982,506) |
| Balance, May 31, 2018 | 1,000 | - | - | 129,147 | 129,147 |

| SUCCESSOR | Common Stock | | Additional Paid-In Capital | Accumulated Earnings | Total Stockholders' Equity |
|---|--------------|-----------|----------------------------------|-------------------------|----------------------------------|
| | Shares | Amount | | | |
| Balance, May 31, 2018 | 1,000 | 10 | 0 | (8,597) | (8,587) |
| Capital Contribution | | | 200,000 | - | 200,000 |
| Net income for the seven months ended December 31, 2018 | | | | 83,729 | 83,729 |
| Balance, December 31, 2018 | 1,000 | 10 | 200,000 | 75,132 | 275,142 |

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

IJU INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Successor Seven Months Ended | Predecessor Five Months Ended | Predecessor Twelve Months Year Ended |
|--|------------------------------------|----------------------------------|--|
| | December 31, 2018 | May 31, 2018 | December 31, 2017 |
| OPERATING ACTIVITIES | | | |
| Net income | \$ 83,729 | \$ 80,035 | \$ 361,573 |
| Adjustments to reconcile net income to cash operating activities | | | |
| Depreciation | 929 | 2,448 | 1,980 |
| Profit on purchased policies | (52,043) | | |
| Unrealized (gain) loss on marketable securities | | (89,636) | (91,380) |
| Changes in operating assets and liabilities | | | |
| Prepaid expenses and other assets | 2,516 | (26,180) | 13,902 |
| Accounts payable | (5,276) | (9,221) | 14,632 |
| Accrued expenses | (3,553) | 34,455 | (37,368) |
| Deferred revenue | 1,990 | 52,779 | (9,282) |
| Accrued income taxes | 28,426 | (1,450) | 1,450 |
| Net cash provided by operating activities | \$ 51,686 | \$ 43,230 | \$ 255,507 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property, plant and equipment | (11,002) | (7,447) | - |
| Sale or (purchase) of marketable securities | - | - | 4,217 |
| Purchase of a business | 125,649 | - | - |
| Net cash used in investing activities | \$ 114,647 | \$ (7,447) | \$ 4,217 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Debt borrowings - related party | 1,500,000 | - | - |
| Debt borrowings | 141,386 | - | - |
| Debt repayments | (51,321) | - | - |
| Debt repayments - related party | (2,196,153) | - | - |
| Dividends paid | - | (167,809) | (398,669) |
| Net cash generated from or (used) in financing activities | \$ (606,088) | \$ (167,809) | \$ (398,669) |
| NET DECREASE IN CASH | \$ (439,755) | \$ (132,026) | \$ (138,945) |
| CASH - BEGINNING OF YEAR | 500,109 | 444,274 | 583,219 |
| CASH - END OF YEAR | \$ 60,354 | \$ 312,248 | \$ 444,274 |
| NON-CASH TRANSACTIONS | | | |
| Distribution of automobile | - | 19,898 | - |
| Distribution of marketable securities | - | 794,799 | - |
| Reclassification of accrued interest | 4,347 | - | - |
| Contribution of capital for forgiveness of related party note | 200,000 | - | - |

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

IIU INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIVE MONTHS ENDED MAY 31, 2018 (SUCCESSOR), SEVEN MONTHS ENDED DECEMBER 31, 2018 (PREDECESSOR)
AND TWELVE MONTHS ENDED DECEMBER 31, 2017 (PREDECESSOR)

Note 1. Summary of Significant Accounting Policies

Nature of Operations

IIU Inc. (“IIU” or the “Company”) was formed as a Virginia corporation on April 30, 2018. IIU was formed for the purpose of acquiring a health insurance broker Wallach & Company (“Wallach”). IIU is the sole member of Wallach and operates and controls all of its businesses and affairs. Wallach is a Virginia corporation organized on January 19, 1993. IIU purchased all 1,000 shares representing 100% of Wallach on May 31, 2018 of which was funded through a note payable by Craven House Capital North America LLC (“Craven”) for \$2,500,000 and subsequently paid an additional \$185,000 in June 2018.

The Company is a specialty insurance brokerage company that through its U.S. subsidiary, sells global medical insurance products for international travelers, specializing in policies covering high-risk destinations, emerging markets and foreign travelers coming to the United States. All policies are fully underwritten with no claim risk remaining with IIU.

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”).

For periods after the commencement of the Purchase Agreement (May 31, 2018), the Company is referred to as the Successor and its results of operations includes, only, the results of operations from IIU and its subsidiary Wallach and Company for the seven months subsequent to May 31, 2018. For periods previous to the inception of the Purchase Agreement, the Company is referred to as the Predecessor and its results of operations includes only Wallach and Company operations. A black line separates the Predecessor and Successor financial statements to highlight the lack of comparability between these periods.

As of December 31, 2018, IIU (Successor) and December 31, 2017 (Predecessor) and for the seven months ended December 31, 2018, IIU (Successor) and five months ended May 31, 2018 (Predecessor) and the year ended December 31, 2017 (Predecessor)

Principles of Consolidation

The Successor consolidated financial statements include the accounts of IIU and its wholly-owned subsidiary Wallach. All significant intercompany balances have been eliminated in consolidation. The Predecessor only comprised Wallach and Company.

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.

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 acts as an agent in providing health travel insurance policies. As a result the Company revenue is recorded at net. The Company has determined that the known amount of cash to be realized or realizable on its revenue generating

activities can be reasonably estimated and as such, classifies its finance receivables as nonaccrual and recognizes revenues in the accompanying statements of income on the accrual basis. If a policy is not effective as of the end of a period, then the associated revenue and underwriting costs are deferred until the effective date.

Cash

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

Marketable Securities

Securities may be classified as either trading, held-to-maturity or available-for-sale. Trading securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading securities are included immediately in earnings. Management has determined that all of the marketable securities are considered trading securities. The Company has elected to value marketable securities to fair value.

Fixed Assets

The Company capitalizes all acquisitions of fixed assets in excess of \$500. Fixed assets are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Fixed assets are comprised of furniture, computer and office equipment with an assigned useful life of 3 to 5 years. Fixed assets also include capitalized software costs. Capitalized software costs include costs to develop software to be used solely to meet the Company's internal needs, consist of employee salaries and benefits and fees paid to outside consultants during the application development stage, and are amortized over their estimated useful life of 5 years.

Goodwill

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

We had goodwill of \$2.5 million on our Consolidated Balance Sheet at December 31, 2018, which represents amounts for the Wallach reporting unit. For purposes of the 2018 annual test, we elected to perform a qualitative assessment to assess whether it was more likely than not that the fair value of these reporting units exceeded their respective carrying values. In performing these assessments, management relied on a number of factors including, but not limited to, macroeconomic conditions, industry and market considerations, cost factors that would have a negative effect on earnings and cash flows, overall financial performance compared with forecasted projections in prior periods, and other relevant reporting unit events, the impact of which are all significant judgments and estimates. Based on these factors, management concluded that it was more likely than not that the fair values of Wallach reporting unit was greater than their respective carrying amounts, including goodwill, indicating no impairment.

Beneficial Conversion Features

The Company, may, from time to time issue convertible notes that may have conversion prices that create an embedded liability pursuant to accounting guidance. A beneficial conversion feature exists on the date a convertible note is issued when the fair value of the underlying common stock to which the note is convertible into is in excess of the remaining unallocated proceeds of the note after first considering the allocation of a portion of the note proceeds to the fair value of any attached equity instruments, if any related equity instruments were granted with the debt. In accordance with this guidance, the intrinsic value of the beneficial conversion feature is recorded as a debt discount with a corresponding amount to additional paid in capital. The debt discount is amortized to interest expense over the life of the note using the effective interest method. The Company determined that it has no financial instruments that meet the criteria for beneficial conversion as of December 31, 2018(Successor) nor as of December 31, 2017 (Predecessor).

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts payable and accrued expenses. The fair values of cash, cash equivalents, trading securities, , and accounts payable approximated carrying values because of the short-term nature of these instruments. Trading securities are reported at fair values. Substantially all of the fair value is determined using observed prices of publicly traded debt, level 1 in the fair value hierarchy.

Fair value measurements are determined based on the assumption that market participants would use in pricing an asset or liability. Accounting Standards Codification ("ASC") 82010 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and must be used to measure fair value whenever available.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs which reflect a reporting entity's own assumptions about the assumptions that market participants would use for pricing an asset or liability. For example, level 3 inputs would relate to forecasts of future earnings and cash flows used in a discounted future cash flows method

Income Taxes

Successor

The Company uses the liability method of accounting for income taxes under the asset and liability method prescribed under ASC 740, *Income Taxes*. The liability method measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax basis of assets and liabilities and their reported amounts on the financial statements. The resulting deferred tax assets or liabilities have been adjusted to reflect changes in tax laws as they occur. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized.

The Company expects to recognize the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a "more-likely-than-not" threshold, the amount to be recognized in the financial statements will be the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. As of December 31, 2018, the Company had no uncertain tax positions. The Company recognizes interest and penalties, if any, related to uncertain tax positions as general and administrative expenses. The Company currently has no federal tax examinations nor has it had any federal income tax penalties since its inception.

Predecessor

The Predecessor is an S corporation which distribute reports its profits and losses to its shareholders. Therefore, no provision or liability for federal income taxes has been included in the financial statements.

Related Party

ASC 850 - Related Party Disclosures requires disclosure of related party transactions and certain common control relationships. The Company discloses related party transactions and such transactions are approved by the board of directors.

Concentration Policy

The Company evaluates its concentration risk on an annual basis. All of the policies sold by the Company are underwritten by one company, which places a risk of being dependent on a sole underwriter. The Company receives a commission from the underwriter that is approximately 50% of the premium for policies sold to customers. However, the Company has been doing business with the underwriter for a long time.

Noncash Transactions

The Company:

- Repaid a related party loan of \$2,195,735.
- Craven contributed \$200,000 as additional paid in capital for the reduction of related party debt
- As part of the purchase agreement of Wallach, distributed marketable securities of \$794,799 to a shareholder of Wallach and an automobile with a value of \$19,898.

Subsequent Events

The Company has evaluated subsequent events through March 29, 2019, the date the financial statements were available to be issued and did not identify any material items other than what is identified in Footnote 9.

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)": Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) ("ASU 2016-15"), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified and applies to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. ASU 2016-15 became effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with early adoption permitted. The Company adopted ASU 2016-15 effective January 1, 2019 and determined there was no impact.

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 2019. The Company will adopt ASU 2014-09 on January 1, 2019 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.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which provides guidance for accounting for leases. Under ASU 2016-02, the Company will be required to recognize the assets and liabilities for the rights and obligations created by leased assets with initial maturities greater than one year. In July 2018, the FASB also issued ASU 2018-10 and ASU 2018-11 related to Topic 842. ASU 2018-10 narrows certain aspects of the guidance issued in the amendments within ASU 2016-02. ASU 2018-11 provides entities with an additional transition method to adopt ASU 2016-02. Under this new transition method, at the adoption date, a company shall recognize a cumulative-effect adjustment to the opening balance of retained earnings. ASU 2016-02, along with ASU 2018-10 and ASU 2018-11, will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and for private companies beginning after December 15, 2019. The Company's lease is month to month and as such will not have an impact on its' operations.

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.

Note 2. Marketable Securities Trading (Predecessor)

Trading securities which includes corporate equities, corporate bonds & notes, municipal bonds, closed end funds & exchange traded products, mutual fund and preferred securities are reported at fair values. Substantially all of the fair value is determined using observed prices of publicly traded securities, level 1 in the fair value hierarchy. The Company's trading investments are reported at fair value, with realized and unrealized gains and losses included in earnings.

The following table summarizes the quoted prices in active markets for identical assets as of December 31, 2018:

| | <u>Amount</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--------------------|----------------|----------------|----------------|----------------|
| Trading securities | \$ 705,163 | \$ 705,163 | - | - |
| Total | 705,163 | 705,163 | - | - |

The marketable securities were distributed to the sole shareholder of Wallach as part of the purchase agreement.

Note 3. Acquisition

On May 31, 2018, the Company, acquired 100% of the share capital of Wallach and Company, health insurance broker, (for the initial consideration of \$2,500,000 which was paid from Craven House Capital North American LLC ("Craven") plus an additional \$185,000 which was paid directly from the \$311,000 cash acquired from Wallach. Net cash received in the business acquisition was \$126,135. The Acquisition was funded through cash provided by IIU's sole shareholder, Craven House Capital North America LLC and was effected to expand Craven House Capital North America LLC into a growing and profitable business in the United States.

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

| | <u>May 31, 2018</u> |
|--|---------------------|
| Total purchase price | \$ 2,685,000 |
| Recognized preliminary amounts of identifiable assets acquired and (liabilities assumed), at fair value: | |
| Cash | 311,000 |
| Prepaid and other current assets | 51,000 |
| Profit on purchased policies | 52,000 |
| Property, plant and equipment | 7,000 |
| Accounts payable | (9,000) |
| Accrued expenses and other liabilities | (129,000) |
| Deferred revenue | (102,000) |
| Preliminary estimate of the fair value of assets and liabilities assumed | <u>181,000</u> |
| Goodwill | <u>\$ 2,504,000</u> |

Note 4. Fixed Assets

The following table summarizes property, plant and equipment:

| | Useful Life | Successor December 31, 2018 | Predecessor December 31, 2017 |
|--|-------------|--------------------------------|----------------------------------|
| Furniture, fixtures and equipment | 5 years | \$ 10,350 | \$ 10,350 |
| Leasehold improvements | 31.5 years | 3,317 | 3,317 |
| Automobile | 5 years | - | 3,317 |
| Software | 3 years | 9,201 | 9,201 |
| Total cost | | 22,868 | 30,195 |
| Less accumulated depreciation and amortization | | (5,778) | (14,195) |
| | | <u>\$ 17,090</u> | <u>\$ 16,000</u> |

Depreciation expense for the 7 month period ended December 31, 2018 was \$929, for 5 months May 31, 2018 it was \$2,448 and for the twelve months ended December 31, 2017 it was \$1,980.

Note 5. Convertible Related Party Loans and Other Financing Arrangements

| | Year ended December 31, | |
|---|-------------------------|---------------------|
| | 2018 Successor | 2017 Predecessor |
| Convertible senior secured promissory note issued LM Funding America Inc (a related party) , bearing interest at 3.0%, interest. Note was issued on November 2, 2018 and matures on October 27, 2019 and can be prepaid at any time without penalty. The principal and accrued interest can be converted into shares of IIU based on the fair value of IIU as determined by the Note. The note is secured by all of the assets of IIU and Wallach. | \$ 1,500,000 | \$ - |
| Promissory note issued by a financial institution, bearing interest at 5.85%, interest and principal payments due monthly of \$10,932. Note was issued on May 31, 2018 with original borrowings of \$608,000 and subsequent borrowings of \$141,000 and repayments of \$51,000. The note matures on May 30, 2025 and can be prepaid at any time without penalty. This note is secured by the Company's inventory, chattel paper, accounts, equipment and general intangible intangibles and deposit accounts. | 698,679 | - |
| Total | 2,198,679 | - |
| Less current maturities | 1,592,244 | - |
| | <u>\$ 606,435</u> | <u>\$ -</u> |

At the inception of IIU, Inc. the Company borrowed \$2.4 million from Craven to fund the acquisition of Wallach. During the period from June 1, 2018 through December 31, 2018, the Company repaid approximately \$2.2 million and \$200,000 was contributed as additional paid in capital.

The Company analyzed the conversion options in the convertible loan payables for derivative accounting consideration under ASC 815, Derivative and Hedging, and determined that the transactions do not qualify for derivative treatment. The Company then analyzed these convertible notes for Beneficial Conversion Features (BCF) and concluded there were no BCF on these loan payable convertible notes.

Minimum required principal payments on the Company's debt as of December 31, 2018 are as follows :

| Years Ending December 31, | |
|------------------------------|---------------------|
| 2019 | \$ 1,592,240 |
| 2020 | 97,760 |
| 2021 | 103,830 |
| 2022 | 110,150 |
| 2023 | 116,870 |
| After 2023 | 177,829 |
| | <u>\$ 2,198,679</u> |

Note 6. Commitments and Contingencies

Leases

The Company leases its office on a month to month basis.

Legal Proceedings

We are not currently a party to material litigation proceedings. However, we may become party to litigation in the ordinary course of business. 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.

Note 7. Income Taxes

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. The Company did not have any deferred tax assets or liabilities but did generate a \$28,426 income tax payable.

Predecessor

The Company was an S Corp through May 31, 2018 and as such there were no income tax assets or liabilities. Effective June 1, 2018, the Company converted into a regular C corporation. Accordingly, no provision for income taxes has been reflected in these financial statements for the year ended December 31, 2017 and the five month period ended May 31, 2018. The Predecessor has no unrecognized tax benefits.

Successor

Effective June 1, 2018, Wallach and Company became a regular corporation. The Company recorded the following components of tax expense (benefit for the seven months ended December 31, 2018).

Significant components of the tax expense (benefit) recognized in the accompanying consolidated statements of operations for the seven month period December 31, 2018:

| | Seven Months Ended December 31, 2018 | |
|---------------------------|---|--------|
| Current tax expense | | |
| Federal | \$ | 23,553 |
| State | | 4,873 |
| Total current tax expense | | 28,426 |
| Deferred tax expense | | - |
| Income tax expense | \$ | 26,645 |

The reconciliation of the income tax computed at the combined federal and state statutory rate of 25.4% to the income tax benefit is as follows:

| | Seven Months Ended December 31, | |
|----------------------------|--|-------------|
| | 2018 | 2018 |
| Expense on net income | \$ 28,426 | 25.3 % |
| Nondeductible expenses | - | -% |
| Other items | - | 0-% |
| Tax benefit/effective rate | \$ 28,423 | 25.3 % |

The Company's federal and state tax returns for the 2018 through 2017 tax years remain subject to examination by U.S. and various state authorities.

Note 8. Subsequent Events

On January 15, 2018, the "Company entered into a Securities Purchase Agreement (the "SPA") with LM Funding America Inc. ("LM Funding"), in which LM Funding acquired 100% of the outstanding stock of IIU from Craven House Capital North America, LLC, for a total purchase price of approximately \$5.1 million. The purchase will result in LM Funding converting the \$1.5 million note receivable from IIU into IIU shares and issuing a secured convertible note that after shareholder approval may be converted into approximately 1.5 million shares to the shareholders of IIU. The sole shareholder of IIU is Craven House Capital North America LLC who also owns approximate 20% of the outstanding shares of LM Funding.