

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-37605

LM FUNDING AMERICA, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

33602
(Zip code)

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

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

Indicate by check mark whether the registrant has submitted electronically 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

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

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

The registrant had 6.3 million shares of Common Stock, par value \$0.001 per share, outstanding as of May 1, 2018.

LM FUNDING AMERICA, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	<u>March 31, 2018</u>	<u>December 31,</u>
	<u>(Unaudited)</u>	<u>2017</u>
ASSETS		
Cash	\$ 464,908	\$ 590,394
Finance receivables:		
Original product - net (Note 2)	575,673	637,937
Special product - New Neighbor Guaranty program - net (Note 3)	338,360	339,471
Prepaid expenses and other assets	121,282	101,339
Fixed assets, net (Note 1)	58,672	69,505
Real estate assets owned (Note 1)	184,300	196,707
Other Assets	62,964	32,964
Total assets	<u>\$ 1,806,159</u>	<u>\$ 1,968,317</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable (Note 5)		
Principal amount	\$ 15,611	\$ 39,028
Accounts payable and accrued expenses	338,834	477,953
Due to related party (Note 4)	27,480	-
Accrued loss litigation settlement	505,000	505,000
Other liabilities and obligations	31,709	49,353
Total liabilities	<u>918,634</u>	<u>1,071,334</u>
Stockholders' equity:		
Common stock, par value \$.001; 10,000,000 shares authorized; 6,253,189 shares issued and outstanding	6,253	6,253
Additional paid-in capital	11,907,915	11,908,455
Accumulated deficit	(11,026,643)	(11,017,725)
Total stockholders' equity	<u>887,525</u>	<u>896,983</u>
Total liabilities and stockholders' equity	<u>\$ 1,806,159</u>	<u>\$ 1,968,317</u>

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

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

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Interest on delinquent association fees	\$ 550,862	\$ 691,648
Administrative and late fees	68,328	78,035
Recoveries in excess of cost - special product	67,537	20,939
Underwriting and other revenues	54,561	68,729
Rental revenue	222,445	164,605
Total revenues	<u>963,733</u>	<u>1,023,956</u>
Operating Expenses:		
Staff costs and payroll	402,283	513,221
Professional fees	60,942	266,650
Settlement costs with associations	15,712	65,485
Selling, general and administrative	346,713	490,677
Provision for credit losses	581	-
Real estate management and disposal	119,362	130,120
Depreciation and amortization	22,155	15,438
Collection costs	602	48,094
Other operating expenses	4,301	3,072
Total operating expenses	<u>972,651</u>	<u>1,532,757</u>
Operating loss	(8,918)	(508,801)
Interest expense	-	126,612
Loss before income taxes	(8,918)	(635,413)
Income tax benefit	-	(232,512)
Net loss	<u>\$ (8,918)</u>	<u>\$ (402,901)</u>
Loss per share:		
Basic	\$ (0.00)	\$ (0.12)
Diluted	(0.00)	(0.12)
Weighted average number of common shares outstanding:		
Basic	6,253,189	3,300,000
Diluted	6,253,189	3,300,000

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

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

	Three Months ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (8,918)	\$ (402,901)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	22,155	15,438
Stock Compensation	(540)	10,722
Amortization of debt issuance costs	-	24,641
Change in assets and liabilities		
Accounts Receivable	(1,408)	2,965
Prepaid Expenses	(18,532)	(8,534)
Other Assets	-	(880)
Accounts Payable	3,916	10,709
Accrued Expenses	(143,035)	(159,152)
Advances (repayments) to related party	27,480	(48,365)
Other Liabilities	(17,644)	(5,230)
Deferred taxes	-	(232,512)
Net cash used in operating activities	(136,526)	(793,099)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net collections of finance receivables - original product	62,264	33,163
Net collections of finance receivables - special product	1,108	46,796
Capital expenditures	-	(773)
Proceeds for real estate assets owned	1,085	20,518
Net cash provided by investing activities	64,457	99,704
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal repayments	(23,417)	(180,000)
Debt issue costs	(30,000)	-
Net cash used in financing activities	(53,417)	(180,000)
NET INCREASE (DECREASE) IN CASH	(125,486)	(873,395)
CASH - BEGINNING OF YEAR	590,394	2,268,180
CASH - END OF YEAR	\$ 464,908	\$ 1,394,785
SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION		
Cash paid for interest	\$ -	\$ 101,971
Income tax	\$ -	\$ -

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

The Company 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 accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The interim condensed consolidated financial statements as of March 31, 2018 and for the three months ended March 31, 2018 and March 31, 2017, respectively are unaudited. In the opinion of management, the interim condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to provide a fair statement of the results for the interim periods. The accompanying condensed consolidated balance sheet as of December 31, 2017, is derived from the audited consolidated financial statements presented in the Company’s Annual Report on Form 10-K for fiscal the year ended December 31, 2017.

Use of Estimates

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

Revenue Recognition

Accounting Standards Codification ("ASC") 606 of the Financial Accounting Standards Board ("FASB") states an entity needs to conclude at the inception of the contract that collectability of the consideration to which it will be entitled in exchange for the goods and services that will be transferred to the customer is probable. That is, in some circumstances, an entity may not need to assess its ability to collect all of the consideration in the contract. The Company provides funding to community associations by purchasing their rights under delinquent accounts from unpaid assessments due from property owners (the "accounts"). Collections on the accounts may vary greatly in both the timing and amount ultimately recovered compared with the total revenues earned on the accounts because of a variety of economic and social factors affecting the real estate environment in general. The Company's contract with its customers have very specific performance obligations. The Company has determined that the known amount of cash to be realized or realizable on its revenue generating activities cannot be reasonably estimated.

The Company classifies its finance receivables as nonaccrual and recognizes revenues in the accompanying statements of income on the cash basis or cost recovery method. 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 have an accrual at March 31, 2018 and December 31, 2017 for an allowance for credit losses for this program of \$192,394 and \$194,000.

Under the *New Neighbor Guaranty* program (special product), the Company funds amounts in excess of the Super Lien Amount. When evaluating the carrying value of its finance receivables, the Company looks at the likelihood of future cash flows based on historical payoffs, the fair value of the underlying real estate, the general condition of the community association in which the unit exists, and the general economic real estate environment in the local area. The Company estimated an allowance for credit losses for this program of \$51,230 as of March 31, 2018 and December 31, 2017 under ASC 450-20 related to its New Neighbor Guaranty program.

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

During the three months ended March 31, 2018 and 2017, write offs charged against the allowance for credit losses were \$1,606 and \$21,236, respectively. Any losses greater than the recorded allowance will be recognized as expenses. Under the Company's revenue recognition policies, all finance receivables (original product and special product) are classified as nonaccrual.

Real Estate Assets Owned

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

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

The Company capitalizes costs incurred to acquire real estate owned properties and any costs incurred to get the units in a condition to be rented. These costs include, but are not limited to, renovation/rehabilitation costs, legal costs, and delinquent taxes. These costs are depreciated over the estimated minimum time period the Company expects to maintain possession of the units. Costs incurred for unencumbered units are depreciated over 20 years and costs for units subject to a first mortgage are depreciated over 3 years. As of March 31, 2018 and December 31, 2017, capitalized real estate costs, net of accumulated depreciation, were \$184,300 and \$196,707, respectively.

During the three-month periods ended March 31, 2018 and 2017, depreciation expense was \$11,323 and \$5,000, 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 include capitalized software costs. Capitalized software costs include costs to develop software to be used solely to meet the Company's internal needs, consist of employee salaries and benefits and fees paid to outside consultants during the application development stage, and are amortized over their estimated useful life of 5 years. As of March 31, 2018 and December 31, 2017, capitalized software costs, net of accumulated amortization, was \$39,396 and \$45,210, respectively. Amortization expense for capitalized software costs for the periods ended March 31, 2018 and 2017 was \$5,815.

Debt Issue Costs

The Company capitalizes all debt issue costs and amortizes them on a method that approximates the effective interest method over the remaining term of the note payable. The Company 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 \$30,000 at March 31, 2018 and \$0 at December 31, 2017 are presented in the accompanying condensed consolidated balance sheets as other assets until the loan proceeds are received which at that time will be reclassified as a direct deduction from the carrying amount of that debt liability in accordance with Accounting Standards Update ("ASU") 2015-03 (see below). The Company adopted this new standard in the first quarter of fiscal 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial position and had no impact on its consolidated income or cash flows. In addition, the amortization of debt issuance costs is to be reported as interest expense under ASU 2015-03 (ASC 835-30-45-3). During the three months ended March 31, 2018 and 2017, the amortization of debt issuance costs was \$0 and \$24,641, respectively.

Settlement Costs with Associations

Community associations working with the Company will at times incur costs in connection with litigation initiated by the Company against property owners and or mortgage holders. These costs include settlement agreements whereby the community association agrees to pay some monetary compensation to the opposing party or judgments against the community associations for fees of opposing legal counsel or other damages awarded by the courts. The Company indemnifies the community association for these costs pursuant to the provisions of the agreement between the Company and the community association. Costs incurred by the Company for these indemnification obligations for the three months ended March 31, 2018 and 2017 were approximately \$15,000 and \$65,000, 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 was 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.

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:

	As of March 31,	
	2018	2017
Stock Options	96,237	215,368
Stock Warrants	1,200,000	1,200,000

On April 2, 2018 the Company issued warrants representing 400,000 shares of common stock. Those shares are not included in this calculation.

Stock-Based Compensation

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

Contingencies

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

Fair Value of Financial Instruments

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

Risks and Uncertainties

Funding amounts are secured by a priority lien position provided under Florida law (see discussion above regarding Florida Statute 718.116). However, in the event the first mortgage holder takes title to the property, the amount payable by the mortgagee to satisfy the priority lien is capped under this same statute and would generally only be sufficient to reimburse the Company for funding amounts noted above for delinquent assessments. Amounts paid by the mortgagee would not generally reimburse the Company for interest, administrative late fees and collection costs. Even though the Company does not recognize these charges as revenues until collected, its business model and long-term viability is dependent on its ability to collect these charges.

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

New Accounting Pronouncements

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 impact from the adoption of this standard was immaterial to the consolidated financial statements for the full fiscal year 2018. The Company adopted 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 and March 31, 2017 retained earnings. There was no impact from the cumulative effect adjustment for the three months ended March 31, 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 Pronouncements Not Yet Adopted

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.

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

Reclassifications

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

Subsequent Events

The Company has evaluated subsequent events through the date which the condensed consolidated financial statements were issued. Refer to Note 8. Subsequent Events, for further discussion.

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:

	March 31, 2018	December 31, 2017 (Audited)
Funded during the current year	\$ 16,000	\$ 118,000
1-2 years outstanding	91,000	38,000
2-3 years outstanding	34,000	12,000
3-4 years outstanding	11,000	24,000
Greater than 4 years outstanding	616,100	640,000
	768,100	832,000
Reserve for credit losses	(192,400)	(194,000)
	<u>\$ 575,700</u>	<u>\$ 638,000</u>
Number of active units with delinquent assessments	1,067	1,162
Amount of outstanding interest and late fees on active units	\$ 14,621,000	\$ 14,600,000

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 \$401,000. .

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

	March 31, 2018	December 31, 2017 (Audited)
Finance receivables, net	\$ 338,000	\$ 339,000
Delinquent assessments	1,169,000	1,200,000
Accrued interest and late fees	756,000	728,000
Number of active units with delinquent assessments	95	97

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

Credit losses on the NNG product were estimated by the Company based on analyzing the investment in each unit and comparing that balance to the average payout for completed units for the past 12 months. The allowance for losses based on these analyses, had a remaining balance of \$51,000 as of March 31, 2018 and December 31, 2017.

Note 4. Due to Related Party

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

performed collection work primarily on a deferred billing basis wherein the law firm receives payment for services rendered upon collection from the property owners or at amounts ultimately subject to negotiations with the Company.

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

Under the new agreement, the Company pays BLG a fixed monthly fee of \$82,000 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 paid by the Company to BLG for the three months ended March 31, 2018 and 2017, respectively were approximately \$274,000 and \$246,000, respectively. As of March 31, 2018 and December 31, 2017, receivables from property owners for charges ultimately payable to BLG approximate \$3,506,000 and \$3,657,000, respectively.

Under the related party agreement with BLG in effect during 2017 and 2018, the Company pays all costs (lien filing fees, process and serve costs) incurred in connection with the collection of amounts due from property owners. Any recovery of these collection costs is accounted for as a reduction in expense incurred. The Company incurred expenses related to these types of costs for the three months ended March 31, 2018 and 2017 were \$66,000 and \$123,000, respectively. Recoveries during the three months ended March 31, 2018 and 2017, related to those costs were approximately \$65,000 and \$75,000, 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 as of December 31, 2017 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 the balance due as of December 31, 2017. Amounts receivable from (payable to) BLG as of March 31, 2018 and December 31, 2017 were approximately \$(27,000) and \$0, respectively.

Note 5. Long-term debt and Other Financing Arrangements

	<u>March 31, 2018</u>	<u>December 31, 2017 (Audited)</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%	\$ 15,611	\$ 39,028
	<u>\$ 15,611</u>	<u>\$ 39,028</u>

Note 6. 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 a minor loss for the three month period ended March 31, 2018 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 8 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 from new financing should avoid any substantial doubt about the Company's ability to continue as a going concern as defined by ASU 2014-05.

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 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 March 31, 2018 are as follows:

Years Ending December 31,	
2018	\$ 274,000
2019	216,000
	<u>\$ 490,000</u>

The Company shares this space and the related costs associated with this operating lease with a related party (see Note 4) that also performs legal services associated with the collection of delinquent assessments. The Company's sub-lease to an unrelated party generates \$71,000 of annual rental income.

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 including the pursuit of legal fees and costs owed pursuant to the contract.

Note 8. 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.

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.

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

Forward-Looking Statements

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

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

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

Overview

We are a 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 Three Months Ended March 31, 2018 compared with the Three Months Ended March 31, 2017

Revenues

During the Three Months ended March 31, 2018, total revenues decreased by \$60 thousand, or 5.9%, to \$963.7 thousand from \$1,024 thousand in the Three Months ended March 31, 2017.

Interest on delinquent association fees for the Three Months ended March 31, 2018 decreased \$141 thousand or 20.4% as the number of payoffs decreased to 81 payoff occurrences as compared to 179 payoff occurrences for the three months ended March 31, 2017. "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. We believe the decrease in payoff occurrences is attributed to a change in the overall real estate markets where the Company operates. We believe the year over year decrease in the number of foreclosures in the Florida market has affected the number of payoff occurrences we experienced in 2017 and 2018. The decrease in revenue was partially offset by an increase in revenue per unit. The average revenue per unit per the Statement of Operations, excluding rental revenue increased to \$5,920 for the Three Months ended March 31, 2018 compared with \$4,800 for the Three Months ended March 31, 2017.

We saw an increase in rental revenue in the Three Months ended March 31, 2018 of \$57 thousand to \$222 thousand from \$165 thousand for the Three Months ended March 31, 2017. This was due to improving the utilization of our rental base in 2017 that has carried over into 2018.

Operating Expenses

During the Three Months ended March 31, 2018, operating expenses decreased \$560 thousand, or 36.5%, to \$973 thousand from \$1,533 thousand for the Three Months ended March 31, 2017. The decrease in operating expenses can be attributed to various factors, including a reduction in staffing costs of \$111 thousand resulting from fewer employees in 2018 as compared to the comparable period in 2017, reduced professional fees of \$206 thousand resulting from reduction in fees arising from corporate litigation matters and a \$144 thousand decline in selling, general and administrative costs arising from lower marketing costs, less rent expense due to a sub-lease and lower travel and entertainment costs coupled with a \$50 thousand decrease in collection.

Legal fees, excluding fees from the BLG service agreement, for the Three Months ended March 31, 2018 were approximately \$61,000 compared with approximately \$267,000 for the Three Months ended March 31, 2017. 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. The settlement costs of these lawsuits decreased by approximately \$50,000 to approximately \$16,000 compared with approximately \$66,000 for the Three Months ended March 31, 2017.

Legal fees for BLG for the Three Months ended March 31, 2018 were \$274 thousand compared to \$246 thousand for the Three Months ended March 31, 2017. See Note 5. Due From Related Party for further discussion regarding the service agreements with BLG.

Interest Expense

During the Three Months ended March 31, 2018, the Company incurred no interest as compared to \$127 thousand of interest expense for the Three Months ended March 31, 2017. This decrease reflects the payoff of the primary debt in 2017. In addition, the amortization of debt issuance costs is to be reported as interest expense under ASU 2015-03 (ASC 835-30-45-3), which is included in the interest expense amount listed above. During the Three Months ended March 31, 2017, the amortization of debt issuance costs included in interest expense was approximately \$25,000 thousand.

Net Loss

During the Three Months ended March 31, 2018, the net loss decreased to \$9 thousand as compared to \$403 thousand for the Three Months ended March 31, 2017. The decrease in the loss was primarily due to the cost savings listed above.

Liquidity and Capital Resources

General

As of March 31, 2018, we had cash and cash equivalents of \$465 thousand compared with \$590 thousand at December 31, 2017. This decrease was primarily driven by operating losses recorded in 2018, repayment of debt and accrued expenses in 2018 offset in part by the receipt of finance receivables.

Cash from Operations

Net cash used in operations was \$137 thousand during the Three Months ended March 31, 2018 compared with \$793 thousand during the Three Months ended March 31, 2017. This decline in cash was primarily driven by a reduction in the Company's net loss (before income taxes) of approximately \$9 thousand for the Three Months ended March 31, 2018 compared with a net loss of \$635 thousand during the Three Months ended March 31, 2017.

Cash from Investing Activities

For the Three Months ended March 31, 2018 we collected \$63 thousand of our finance receivables compared to \$80 thousand for the Three Months ended March 31, 2017. Our primary business relies on our ability to invest in Accounts, and during the Three Months ended March 31, 2018, the number of active Accounts has decreased compared with the Three Months ended March 31, 2017. This balance has been in consistent decline since 2012. This balance is very susceptible to housing market fluctuations in Florida.

Cash from Financing Activities

Net cash used in financing activities was \$53 thousand for the Three Months ended March 31, 2018 compared with \$180 thousand during the Three Months ended March 31, 2017. At March 31, 2018, the principal indebtedness of the Company was \$16 thousand compared with \$39 thousand at December 31, 2017 and \$5 million at March 31, 2017. For the Three Months ended March 31, 2017 the Company repaid \$23 thousand of principal repayments and \$30 thousand of debt issue costs (associated with the \$500 thousand bridge loan mentioned in footnote 7) compared to \$180 thousand principal repayments for the Three Months ended March 31, 2018.

Debt of the Company consisted of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017 (Audited)
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%	\$ 15,611	\$ 39,028
	<u>\$ 15,611</u>	<u>\$ 39,028</u>

As of March 31, 2018, minimum required principal payments on notes payable are approximately \$401,000.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are not required to make disclosures under this item.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

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

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures as of March 31, 2018. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of March 31, 2018 for the reasons discussed below. In addition, management identified the following material weaknesses in its assessment of the effectiveness of disclosure controls and procedures as of March 31, 2018:

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

A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Notwithstanding the determination that our internal control over financial reporting was not effective, as of March 31, 2018, and that there was a material weakness as identified in this Quarterly Report, we believe that our consolidated financial statements contained in this Quarterly Report fairly present our financial position, results of operations and cash flows for the years covered hereby in all material respects.

We expect to be dependent upon our Chief Financial Officer who is knowledgeable and experienced in the application of U.S. Generally Accepted Accounting Principles to maintain our disclosure controls and procedures and the preparation of our financial statements for the foreseeable future. We plan on increasing the size of our accounting staff at the appropriate time for our business and its size to ameliorate our concern that we do not effectively segregate certain accounting duties, which we believe would

resolve the material weakness in disclosure controls and procedures, but there can be no assurances as to the timing of any such action or that we will be able to do so.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the section entitled "Risk Factors" in our Annual Report Form 10-K for the fiscal year ended December 31, 2017.

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

(a) Sales of Unregistered Securities.

None.

(b) Use of Proceeds.

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

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

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

As of March 31, 2018, we have used \$9.0 million of the net proceeds, to repurchase a non-controlling interest (\$0.25 million), repay a debt (\$3.11 million), make interest payments (\$0.89 million), fund our original product (\$0.34 million), fund our New Neighbor Guaranty program (\$0.71 million) and make real estate owned investments (\$0.57 million). The remainder of the funds have been invested in accordance with our investment policy as well as used in normal operations of the Company.

(c) Repurchase of Securities.

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None

Item 6. Exhibits

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

**EXHIBIT
NUMBER****DESCRIPTION**

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

#Indicates a management contract or compensatory arrangement.

SIGNATURES

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

LM FUNDING AMERICA, INC.

Date: May 14, 2018

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

Date: May 14, 2018

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

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

I, Bruce Rodgers, certify that:

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

May 14, 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.

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

I, Richard Russell, certify that:

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

May 14, 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2018 as filed with the Securities and Exchange Commission on May 14, 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.

/s/ Bruce Rodgers

Bruce Rodgers

CEO and Chief Executive Officer

(Principal Executive Officer)

May 14, 2018

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

Written Statement of the Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Executive Officer of LM Funding America, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2018 as filed with the Securities and Exchange Commission on May 14, 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.

/s/ Richard Russell

Richard Russell

Chief Financial Officer

(Principal Financial and Accounting Officer)

May 14, 2018

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.