

**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 September 30, 2020

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)

**1200 West Platt Street
Suite 100
Tampa, FL**
(Address of principal executive offices)

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

33606
(Zip code)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The registrant had 15.4 million shares of Common Stock, par value \$0.001 per share, outstanding as of November 16, 2020.

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

| | September 30, 2020 (Unaudited) | December 31, 2019 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| Cash | \$ 12,234,506 | \$ 822,909 |
| Finance receivables: | | |
| Original product - net (Note 3) | 169,594 | 273,711 |
| Special product - New Neighbor Guaranty program, net of allowance for credit losses of (Note 4) | 95,944 | 129,272 |
| Prepaid expenses and other assets | 217,084 | 145,267 |
| Due from related party (Note 5) | - | 125,045 |
| Discontinued operations - current assets (Note 10) | <u>-</u> | <u>276,953</u> |
| Current assets | 12,717,128 | 1,773,157 |
| Fixed assets, net (Note 1) | 8,378 | 8,288 |
| Real estate assets owned (Note 1) | 20,281 | 21,084 |
| Operating lease - right of use assets (Note 8) | 185,370 | 260,260 |
| Other investments - related party (Note 1) | - | 1,500,000 |
| Goodwill (Note 2) | - | 4,039,586 |
| Other Assets | 11,122 | 11,021 |
| Discontinued operations - long-term assets, net (Note 10) | <u>-</u> | <u>27,245</u> |
| Long-term assets | 225,151 | 5,867,484 |
| Total assets | <u>\$ 12,942,279</u> | <u>\$ 7,640,641</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Note payable (Note 6) | - | 69,540 |
| Related party convertible note payable | - | 3,461,782 |
| Accounts payable and accrued expenses | 383,058 | 210,870 |
| Due to related party (Note 5) | 264,412 | - |
| Current portion of lease liability (Note 8) | 98,846 | 94,235 |
| Discontinued operations - current liabilities (Note 10) | <u>-</u> | <u>280,057</u> |
| Total current liabilities | 746,316 | 4,116,484 |
| Lease liability - long-term (Note 8) | 97,368 | 171,648 |
| Note payable - long-term (Note 6) | 339,797 | - |
| Discontinued operations - long-term liabilities (Note 10) | <u>-</u> | <u>517,584</u> |
| Long-term liabilities | 437,165 | 689,232 |
| Total liabilities | 1,183,481 | 4,805,716 |
| Stockholders' equity: | | |
| Common stock, par value \$.001; 30,000,000 shares authorized; 15,418,799 and 3,134,261 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively | 15,419 | 3,134 |
| Additional paid-in capital | 29,978,962 | 17,326,553 |
| Accumulated deficit | (18,235,583) | (14,494,762) |
| Total stockholders' equity | 11,758,798 | 2,834,925 |
| Total liabilities and stockholders' equity | <u>\$ 12,942,279</u> | <u>\$ 7,640,641</u> |

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

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|---------------------|--|-----------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenues: | | | | |
| Interest on delinquent association fees | \$ 105,592 | \$ 348,451 | \$ 495,280 | \$ 1,226,464 |
| Administrative and late fees | 19,929 | 33,690 | 78,397 | 116,497 |
| Recoveries in excess of cost - special product | 37,127 | 30,927 | 122,117 | 57,199 |
| Underwriting and other revenues | 27,651 | 49,242 | 96,815 | 164,757 |
| Rental revenue | 62,185 | 90,353 | 143,609 | 310,307 |
| Total revenues | 252,484 | 552,663 | 936,218 | 1,875,224 |
| Operating Expenses: | | | | |
| Staff costs and payroll | 2,522,481 | 318,823 | 3,151,033 | 924,154 |
| Professional fees | 385,705 | 380,307 | 1,372,281 | 1,334,380 |
| Settlement costs with associations | 17,934 | 8,825 | 29,854 | 49,003 |
| Selling, general and administrative | 96,483 | 102,027 | 251,434 | 285,430 |
| Recovery of cost from related party receivable | (100,000) | - | (300,000) | - |
| Provision for credit losses | 30,000 | 7,641 | 30,000 | 266 |
| Real estate management and disposal | 53,432 | 84,362 | 152,882 | 381,796 |
| Depreciation and amortization | (3,383) | 18,122 | 10,383 | 55,513 |
| Collection costs | 771 | (3,974) | (28,484) | (17,275) |
| Other operating expenses | 3,120 | 3,009 | 13,758 | 18,265 |
| Total operating expenses | 3,006,543 | 919,142 | 4,683,141 | 3,031,532 |
| Operating loss from continuing operations | (2,754,059) | (366,479) | (3,746,923) | (1,156,308) |
| Gain on disposal of assets | - | (6,421) | - | (6,421) |
| Interest expense | (2,300) | 23,150 | 10,326 | 76,913 |
| Loss from continuing operations before income taxes | (2,751,759) | (383,208) | (3,757,249) | (1,226,800) |
| Income tax benefit | - | - | - | - |
| Net loss from continuing operations | (2,751,759) | (383,208) | (3,757,249) | (1,226,800) |
| Gain on disposal of discontinued operations | - | - | 16,428 | - |
| Gain from operations of discontinued operations | - | 103,561 | - | 39,632 |
| Net gain/(loss) from discontinued operations | - | 103,561 | 16,428 | 39,632 |
| Net loss | \$ (2,751,759) | \$ (279,647) | \$ (3,740,821) | \$ (1,187,168) |
| Earnings/(loss) per share: | | | | |
| Basic loss per common share - continuing operations | \$ (0.28) | \$ (0.12) | \$ (0.66) | \$ (0.39) |
| Basic earnings/(loss) per common share - discontinued operations | \$ - | \$ 0.03 | \$ 0.00 | \$ 0.01 |
| Basic loss per common share - net loss | \$ (0.28) | \$ (0.09) | \$ (0.66) | \$ (0.38) |
| Diluted loss per common share - continuing operations | \$ (0.28) | \$ (0.12) | \$ (0.66) | \$ (0.39) |
| Diluted earnings/(loss) per common share - discontinued operations | \$ - | \$ 0.03 | \$ 0.00 | \$ 0.01 |
| Diluted loss per common share - net loss | \$ (0.28) | \$ (0.09) | \$ (0.66) | \$ (0.38) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 9,790,538 | 3,134,160 | 5,662,035 | 3,133,495 |
| Diluted | 9,790,538 | 3,134,160 | 5,662,035 | 3,133,495 |

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)

| | For the Nine Months Ended September 30, | |
|--|--|---------------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (3,740,821) | \$ (1,187,168) |
| Adjustments to reconcile net loss to cash used in operating activities | | |
| Depreciation and amortization | 5,919 | 51,990 |
| Right to use asset depreciation | 74,890 | 27,133 |
| Stock compensation | 135,679 | 10,366 |
| Recovery of uncollectible related party receivables | (300,000) | - |
| Gain on termination of operating lease | - | (1,421) |
| Gain on sale of fixed assets | - | (5,000) |
| Gain on disposal of discontinued operations | (16,428) | - |
| Reserve for accounts | 30,000 | - |
| Change in assets and liabilities | | |
| Prepaid expenses and other assets | 120,598 | 79,996 |
| Accounts payable and accrued expenses | 272,976 | 91,929 |
| Advances (repayments) from related party | 689,457 | (1,174) |
| Other liabilities | - | 62,580 |
| Lease liability payments | (69,669) | (23,466) |
| Deferred taxes | - | (14,200) |
| Net cash used in operating activities | (2,797,399) | (908,435) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net collections of finance receivables - original product | 74,117 | 115,769 |
| Net collections of finance receivables - special product | 33,328 | 88,046 |
| (Payments)/proceeds for real estate assets owned | (3,920) | 80,076 |
| Purchase of fixed assets | (1,286) | (13,299) |
| Proceeds from sale of fixed assets | - | 5,000 |
| Cash received from investment in note receivable - related party | 1,500,000 | - |
| Net cash received from business acquisition | (246,914) | 51,327 |
| Net cash provided by investing activities | 1,355,325 | 326,919 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings | 185,785 | - |
| Principal repayments | (108,043) | (135,149) |
| Exercise of warrants | 3,081,480 | 22,320 |
| Proceeds from stock subscription | 9,447,535 | - |
| Net cash provided by (used in) financing activities | 12,606,757 | (112,829) |
| NET INCREASE (DECREASE) IN CASH | 11,164,683 | (694,345) |
| CASH - BEGINNING OF YEAR | 1,069,823 | 3,520,753 |
| CASH - END OF YEAR | \$ 12,234,506 | \$ 2,826,408 |
| SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION | | |
| Cash paid for interest | \$ 10,326 | \$ 31,936 |
| Income taxes | \$ - | \$ - |
| SUPPLEMENTAL DISCLOSURES OF NON-CASHFLOW INFORMATION | | |
| Financing loan for purchase of fixed assets | \$ - | \$ 12,892 |
| Insurance financing | \$ 192,514 | \$ 127,490 |
| ROU asset obligation recognized | \$ - | \$ 331,477 |

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

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

For the Three and Nine Months Ended September 30, 2020 and 2019

| | Common Stock | | Additional paid- in capital | Accumulated Deficit | Total Equity |
|------------------------------|--------------|-----------|-----------------------------------|------------------------|---------------|
| | Shares | Amount | | | |
| Balance - December 31, 2018 | 3,124,961 | \$ 3,125 | \$ 17,295,408 | \$ (11,489,884) | \$ 5,808,649 |
| Warrants exercised for cash | 9,300 | 9 | 22,311 | - | 22,320 |
| Stock compensation expense | - | - | 3,500 | - | 3,500 |
| Net loss | - | - | - | (457,018) | (457,018) |
| Balance - March 31, 2019 | 3,134,261 | \$ 3,134 | \$ 17,321,219 | \$ (11,946,902) | \$ 5,377,451 |
| Stock compensation expense | - | - | 3,431 | - | 3,431 |
| Net loss | - | - | - | (450,503) | (450,503) |
| Balance - June 30, 2019 | 3,134,261 | \$ 3,134 | \$ 17,324,650 | \$ (12,397,405) | \$ 4,930,379 |
| Stock compensation expense | - | - | 3,435 | - | 3,435 |
| Net loss | - | - | - | (279,647) | (279,647) |
| Balance - September 30, 2019 | 3,134,261 | \$ 3,134 | \$ 17,328,085 | \$ (12,677,052) | \$ 4,654,167 |
| Balance - December 31, 2019 | 3,134,261 | \$ 3,134 | \$ 17,326,553 | \$ (14,494,762) | \$ 2,834,925 |
| Stock compensation expense | 186,000 | 186 | 128,661 | - | 128,847 |
| Net loss | - | - | - | (551,094) | (551,094) |
| Balance - March 31, 2020 | 3,320,261 | \$ 3,320 | \$ 17,455,214 | \$ (15,045,856) | \$ 2,412,678 |
| Common stock issued for cash | 520,838 | 521 | 1,249,479 | - | 1,250,000 |
| Warrants exercised for cash | 1,227,700 | 1,228 | 2,945,252 | - | 2,946,480 |
| Stock compensation expense | - | - | 3,397 | - | 3,397 |
| Net loss | - | - | - | (437,968) | (437,968) |
| Balance - June 30, 2020 | 5,068,799 | \$ 5,069 | \$ 21,653,342 | \$ (15,483,824) | \$ 6,174,587 |
| Common stock issued for cash | 8,500,000 | 8,500 | 8,172,035 | - | 8,180,535 |
| Warrants exercised for cash | 1,700,000 | 1,700 | 15,300 | - | 17,000 |
| Stock compensation expense | - | - | 3,435 | - | 3,435 |
| Warrants exercised for cash | 150,000 | 150 | 134,850 | - | 135,000 |
| Net loss | - | - | - | (2,751,759) | (2,751,759) |
| Balance - September 30, 2020 | 15,418,799 | \$ 15,419 | \$ 29,978,962 | \$ (18,235,583) | \$ 11,758,798 |

LM FUNDING AMERICA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

The Company acquired IIU, Inc. on January 16, 2019 (“IIU”), which provided 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 were fully underwritten with no claim risk remaining with IIU. IIU was disposed of on January 8, 2020.

We are a specialty finance company that provides funding to nonprofit community associations primarily located in the state of Florida. We offer incorporated nonprofit community associations, which we refer to as “Associations,” a variety of financial products customized to each Association’s financial needs. Our original product offering consists of providing funding to Associations by purchasing their rights under delinquent accounts that are selected by the Associations arising from unpaid Association assessments. Historically, we provided funding against such delinquent accounts, which we refer to as “Accounts,” in exchange for a portion of the proceeds collected by the Associations from the account debtors on the Accounts. In addition to our original product offering, we have started purchasing Accounts on varying terms tailored to suit each Association’s financial needs, including under our New Neighbor Guaranty™ program.

Specialty Finance Company

We purchase an Association’s right to receive a portion of the Association’s collected proceeds from owners that are not paying their assessments. After taking assignment of an Association’s right to receive a portion of the Association’s proceeds from the collection of delinquent assessments, we engage law firms to perform collection work on a deferred billing basis wherein the law firms receive payment upon collection from the account debtors or a predetermined contracted amount if payment from account debtors is less than legal fees and costs owed. Under this business model, we typically fund an amount equal to or less than the statutory minimum an Association could recover on a delinquent account for each Account, which we refer to as the “Super Lien Amount”. Upon collection of an Account, the law firm working on the Account, on behalf of the Association, generally distributes to us the funded amount, interest, and administrative late fees, with the law firm retaining legal fees and costs collected, and the Association retaining the balance of the collection. In connection with this line of business, we have developed proprietary software for servicing Accounts, which we believe enables law firms to service Accounts efficiently and profitably.

Under our New Neighbor Guaranty program, an Association will generally assign substantially all of its outstanding indebtedness and accruals on its delinquent units to us in exchange for payment by us of monthly dues on each delinquent unit. This simultaneously eliminates a substantial portion of the Association’s balance sheet bad debts and assists the Association to meet its budget by receiving guaranteed monthly payments on its delinquent units and relieving the Association from paying legal fees and costs to collect its bad debts. We believe that the combined features of the program enhance the value of the underlying real estate in an Association and the value of an Association’s delinquent receivables. We intend to leverage our proprietary software platform, as well as our industry experience and knowledge gained from our original line of business, to expand the New Neighbor Guaranty program in certain situations and to potentially develop other new products in the future.

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

Specialty Finance Products

Original Product

Our original product relies upon Florida statutory provisions that effectively protect the principal amount invested by us in each Account. In particular, Section 718.116(1), Florida Statutes, makes purchasers and sellers of a unit in an Association jointly and

severally liable for all past due assessments, interest, late fees, legal fees, and costs payable to the Association. As discussed above, the Florida Statutes grants to Associations a so-called “super lien”, which is a category of lien that is given a statutorily higher priority than all other types of liens other than property tax liens. The amount of the Association’s priority over a first mortgage holder that takes title to a property through foreclosure (or deed in lieu), referred to as the Super Lien Amount, is limited to twelve months’ past due assessments or, if less, one percent (1.0%) of the original mortgage amount. Under our contracts with Associations for our original product, we pay Associations an amount up to the Super Lien Amount for the right to receive all collected interest and late fees on Accounts purchased from the Associations.

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.

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

New Neighbor Guaranty

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

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

Recent Developments

IIU Acquisition and Disposal

On November 2, 2018, the Company invested cash by purchasing a Senior Convertible Promissory Note in the original principal amount of \$1,500,000 (the “IIU Note”) from IIU, a synergistic Virginia based travel insurance brokerage company controlled by Craven House North America, LLC (“Craven”) N.A., (whose ownership excluding unexercised warrants was approximately 20% of the Company’s outstanding stock at the time of the acquisition). The maturity date of the IIU Note was 360 dates after the date of issuance (subject to acceleration upon an event of default). The IIU Note carried a 3.0% interest rate, with accrued but unpaid interest being payable on the IIU Note’s maturity date.

On January 16, 2019, the Company entered into a Stock Purchase Agreement with Craven (the “IIU SPA”) to purchase all of the outstanding capital stock of IIU as a possible synergistic effort to diversify revenue sources that were believed to be accretive to earnings. IIU provided 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 were fully underwritten with no claim risk remaining with IIU.

The Company purchased 100% of the issued and outstanding capital stock of IIU from Craven for \$5,089,357 subject to adjustment as set forth in the IIU SPA. IIU was required to have a minimum net working capital of \$15,000 and at least \$152,000 in cash. The Company paid the purchase price under the IIU SPA at closing as follows:

- The Company cancelled all principal and accrued interest of the IIU Note, which consisted of aggregate principal indebtedness and accrued interest of \$1,507,375 as of January 16, 2019.
- The Company issued to Craven a \$3,581,982 Senior Convertible Promissory Note (the “Craven Convertible Note”) for the balance of the purchase price. At the option of Craven, the Craven Convertible Note could be paid in restricted shares of our common stock or cash. The Craven Convertible Note bore simple interest at 3% per annum. The Craven Convertible Note

was due and payable 360 days from the closing date of the IIU SPA. If repaid by the Company in restricted common stock, the outstanding principal and interest of the Craven Convertible Note would be paid by the Company by issuing to Craven a number of restricted common shares equal to the adjusted principal and accrued interest owing to Craven under the Craven Convertible Note divided by \$2.41. On the date of issuance of the Craven Convertible Note, the closing share price of the Company was \$1.42.

- Pursuant to the terms of the IIU SPA, the purchase price was subsequently reduced by \$120,200, to \$4,969,200.

On December 20, 2019, the Company loaned \$1.5 million to Craven (“Craven Secured Promissory Note”) which had an initial maturity date of April 15, 2020 and carried an interest rate of 0.5% that was to be paid monthly. The Company subsequently extended the due date of the Craven Secured Promissory Note to August 1, 2021. The Craven Secured Promissory Note was secured by, among other things, a pledge of Craven’s 640,000 shares of common stock of the Company and the assignment of the assets of Craven in favor of the Company. On June 29, 2020, the Company received from Craven \$1,503,719 as payment in full of all principal and accrued interest due from the Craven Secured Promissory Note.

On January 8, 2020, the Company entered into a Stock Purchase Agreement (“SPA”) with Craven pursuant to which the Company sold back to Craven all of the issued and outstanding shares of IIU for \$3,562,569. The purchase price was paid by Craven through the cancellation of the \$3,461,782 Craven Convertible Note plus forgiveness of \$100,787 of accrued interest. The Company originally paid \$4,969,200 for the purchase of IIU in January 2019, which included a negative \$720,386 net fair value of assets and \$5,689,586 of goodwill. As a result, goodwill was impaired by \$1.65 million. The sale of IIU resulted in a gain of \$16,428.

Specialty Health Insurance

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

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

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

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

As such, IIU is considered a discontinued operation. We did not report any activity from operations from IIU for the nine months ended September 30, 2020.

Entry into and Termination of Hanfor Share Exchange Agreement

On March 23, 2020, the Company entered into a Share Exchange Agreement, dated March 23, 2020 (the “Share Exchange Agreement”), with Hanfor (Cayman) Limited, a Cayman Islands exempted company (“Hanfor”), and BZ Industrial Limited, a British Virgin Islands business company and the sole stockholder of Hanfor (“Hanfor Owner”). The Share Exchange Agreement contemplated a business combination transaction in which Hanfor Owner would transfer and assign to the Company all of the share capital of Hanfor in exchange for a number of shares of the Company’s common stock that would result in Hanfor Owner owning 86.5% of the outstanding common stock of the Company.

Under the agreement, Hanfor Owner was required to deliver to the Company audited financial statements for Hanfor for the 2019 and 2018 fiscal years, and such audited financial statements were required to be delivered by May 31, 2020 (subject to extension to June 30, 2020 under specified circumstances). In connection with the execution of the Share Exchange Agreement, the Company and Hanfor Owner entered into a Stock Purchase Agreement, dated March 23, 2020, pursuant to which Hanfor Owner purchased from the Company an aggregate of 520,838 shares of the Company’s common stock at a price of \$2.40 per share. Hanfor Owner paid \$250,000 cash on March 23, 2020 and the Company received an additional \$1,000,000 in April 2020 at which time the Company issued the 520,838 shares.

On July 14, 2020, the Company notified Hanfor and Hanfor Owner that the Company had elected to terminate the Share Exchange Agreement due to Hanfor's inability to provide audited financial statements by June 30, 2020. Although the Company believes that it properly terminated the Share Exchange Agreement, on July 21, 2020, counsel to Hanfor Owner informed the Company that Hanfor Owner believes that the Company's termination of the Share Exchange Agreement was not effected in accordance with the terms of the Share Exchange Agreement.

In addition, on October 23, 2020, an amended Schedule 13D was filed by Xueyuan Han, the principal owner of Hanfor, with respect to his beneficial ownership of shares of common stock of the Company. In the amended Schedule 13D, Mr. Han alleged, among other things, that the Company misinterpreted the termination provisions of the Share Exchange Agreement, that Hanfor is still within a cure period under the Share Exchange Agreement, and that Hanfor is purporting to appoint a director to the Company's Board of Directors. Following the filing of the amended Schedule 13D, the Company continues to believe that its termination of the Share Exchange Agreement was proper because, among other reasons, the failure of Hanfor to provide audited financial statements by June 30, 2020, was an uncurable default under the Share Exchange Agreement. Furthermore, the Company was informed by Hanfor prior to such termination that Hanfor would be unable to provide audited financial statements for Hanfor for the foreseeable future because of ongoing legal issues in China. As a result, the Company believes that the purported appointment of Mr. Han to the Company's Board of Directors is invalid.

Nasdaq Listing

On March 27, 2020, the Company received a notification letter from the Nasdaq Listing Qualifications department of The Nasdaq Stock Market LLC ("Nasdaq") stating that the Company has not regained compliance with Nasdaq Continued Listing Rule 5550(a)(2), which requires the Company's listed securities to maintain a minimum bid price of \$1.00 per share (the "Minimum Bid Price Rule"). The notification stated that the Company's securities would be delisted from the Nasdaq Capital Market on April 7, 2020 unless the Company timely requested a hearing before a Nasdaq Hearing Panel. The Company has timely requested a hearing. However, on April 16, 2020, Nasdaq suspended any enforcement actions relating to bid price issues through June 30, 2020. On July 1, 2020, the Company received a letter from Nasdaq stating that the Company had regained compliance with the Minimum Bid Price Rule because the closing price for the Company's common stock was \$1.00 per share or greater for ten (10) consecutive business days.

Additionally, on January 3, 2020, the Company received a deficiency letter from Nasdaq, indicating that it was in violation of Listing Rules 5620(a) and 5810(c)(2)(G) by virtue of passing the applicable deadline for holding of its annual general meeting of shareholders for the financial year ended December 31, 2018. The Company resolved this issue by having its annual general meeting of shareholders on May 11, 2020.

On September 28, 2020, the Company received a notification letter from the Nasdaq Listing Qualifications department of Nasdaq stating that the Company was not in compliance with the Minimum Bid Price Rule. The notification stated that the Company's securities would be delisted from the Nasdaq Capital Market on March 29, 2021 unless the Company timely requested a hearing before a Nasdaq Hearing Panel.

If the Company is not in compliance by March 29, 2021, the Company may be afforded a second 180-calendar day period to regain compliance. To qualify, the Company would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, except for Minimum Bid Price Rule. In addition, the Company would be required to notify Nasdaq of its intention to cure the minimum bid price deficiency during the second compliance period, by effecting a reverse stock split, if necessary. If the Company does not regain compliance within the allotted 180-day compliance period and is not eligible for a second 180-day compliance period, the Company's common stock would be subject to delisting unless it requested a hearing before an independent Nasdaq Hearings Panel. A request for a hearing would stay any suspension or delisting action pending the hearing and any additional extension period granted by the Panel. The Company intends to monitor the closing bid price of the Company's common stock and consider its available options to resolve the non-compliance with the minimum bid price requirement.

Reverse Stock Split Approval

On May 11, 2020, our shareholders voted in favor of the approval of an amendment to our Certificate of Incorporation, in the event it is deemed advisable by our Board of Directors, to effect an additional reverse stock split of the Company's issued and outstanding common stock at a ratio within the range of one-for-two (1:2) and one-for-ten (1:10), as determined by the Board of Directors. However, a reverse stock split was not effected pursuant to such approval.

Registered Public Offering

On August 18, 2020, in connection with an underwritten public offering, we raised approximately \$8.2 million in net proceeds by issuing 10.2 million shares of common stock, the exercise of 1.7 million pre-funded warrants and 11.2 million warrants to purchase shares of common stock. Holders of the warrants subsequently exercised such warrants for 150,000 shares of common stock for \$135 thousand.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of LMFA and its wholly-owned subsidiaries: LM Funding, LLC; LMF October 2010 Fund, LLC; REO Management Holdings, LLC (including all 100% owned subsidiary limited liability companies); LM Funding of Colorado, LLC; LM Funding of Washington, LLC; LM Funding of Illinois, LLC; and LMF SPE #2, LLC and various single purpose limited liability corporations owned by REO Management Holdings, LLC which own various properties. It also includes IIU and its wholly-owned subsidiary, Wallach & Company for the time that the Company owned IIU. 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 September 30, 2020 and for the three and nine months ended September 30, 2020 and September 30, 2019, 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, 2019, 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, 2019.

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.

We are not presently aware of any events or circumstances arising from the COVID-19 pandemic that would require us to update our estimates or judgments or revise the carrying value of our assets or liabilities. Our estimates may change, however, as new events occur and additional information is obtained, and any such changes will be recognized in the condensed consolidated financial statements.

Revenue Recognition

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

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

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

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

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

Cash

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

Finance Receivables

Finance receivables are recorded at the amount funded or cost (by unit). The Company evaluates its finance receivables at each period end for losses that are considered probable and can be reasonably estimated in accordance with ASC 450-20. As discussed above, recoverability of funded amounts under the Company's original product is generally assured because of the protection of the Super Lien Amount. However, the Company did have an accrual at September 30, 2020 and December 31, 2019 for an allowance for credit losses for this program of \$142,027 and \$112,027.

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 \$6,564 as of September 30, 2020 and \$20,016 at December 31, 2019 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 nine months ended September 30, 2020 and 2019, write offs charged against the allowance for credit losses were \$13,452 and \$51,080, 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 September 30, 2020 and December 31, 2019, capitalized real estate costs, net of accumulated depreciation, were \$20,281 and \$21,084, respectively.

During the three and nine month period ended September 30, 2020 and 2019, depreciation expense was \$(4,990) and \$4,723 for 2020 and \$5,385 and \$17,354 for 2019, 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 September 30, 2020 and December 31, 2019, capitalized software costs, net of accumulated amortization, was nil. Amortization expense for capitalized software costs for the three and nine month period ended September 30, 2020 and 2019 was \$nil and \$nil for 2020 and \$5,814 and \$17,444 for 2019, respectively.

Right to Use Assets

The Company capitalizes all leased assets pursuant to ASU 2016-02, "Leases (Topic 842)," which requires lessees to recognize right-of-use assets and lease liability, initially measured at present value of the lease payments, on its balance sheet for leases with terms longer than 12 months and classified as either financing or operating leases. As of September 30, 2020 and December 31, 2019, right to use assets, net of accumulated amortization, was \$185,370 and \$260,260, respectively. Amortization expense for right to use assets for the three and nine month period ended September 30, 2020 and 2019 was \$23,661 and \$74,890 for 2020 and was \$22,281 and \$27,133 for 2019, respectively while the payments totaled \$69,669 for the nine months ended September 30, 2020.

Other Investments – Note Receivable - Related Party

On December 20, 2019, the Company loaned \$1.5 million to Craven ("Craven Secured Promissory Note") which had an initial maturity date of April 15, 2020 and carried an interest rate of 0.5% that was to be paid monthly. The Company subsequently extended

the due date of the Craven Secured Promissory Note to August 1, 2021 and allowed for the deferral of monthly interest payments. The Craven Secured Promissory Note was secured by, among other things, Stock Pledge of Craven's 640,000 Common Shares of the Company and the Assignment of the assets of Craven in favor of the Company. On June 29, 2020, the Company received from Craven \$1,503,719 as payment in full of all principal and accrued interest due from the Craven Secured Promissory Note.

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.

During the year ended December 31, 2019, the Company recorded goodwill of approximately \$5.7 million which represented amounts for the purchase of IIU. For purposes of the 2019 annual test, we will elect to perform a goodwill impairment analysis to assess whether it was more likely than not that the fair value of these reporting units exceeded their respective carrying values. In performing these assessments, management will rely on a number of factors including, but not limited to, macroeconomic conditions, industry and market considerations, cost factors that would have a negative effect on earnings and cash flows, overall financial performance compared with forecasted projections in prior periods, and other relevant reporting unit events, the impact of which are all significant judgments and estimates. This assessment was performed as of December 31, 2019 and showed a \$1.65 million impairment due to the sale of IIU on January 8, 2020. The balance of goodwill as of September 30, 2020 and December 31, 2019 was approximately \$0 million and \$4.0 million, respectively.

Debt Issue Costs

The Company capitalizes all debt issue costs and amortizes them on a method that approximates the effective interest method over the remaining term of the note payable. The Company did not have any unamortized debt issue costs at September 30, 2020 and at December 31, 2019. Any costs will be presented in the accompanying condensed consolidated balance sheets as other assets until the loan proceeds are received which at that time will be reclassified as a direct deduction from the carrying amount of that debt liability in accordance with Accounting Standards Update ("ASU") 2015-03 (see below). The Company adopted this new standard in the first quarter of fiscal 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial position and had no impact on its consolidated income or cash flows. In addition, the amortization of debt issuance costs is to be reported as interest expense under ASU 2015-03 (ASC 835-30-45-3).

Settlement Costs with Associations

Community associations working with the Company will at times incur costs in connection with litigation initiated by the Company against property owners and or mortgage holders. These costs include settlement agreements whereby the community association agrees to pay some monetary compensation to the opposing party or judgments against the community associations for fees of opposing legal counsel or other damages awarded by the courts. The Company indemnifies the community association for these costs pursuant to the provisions of the agreement between the Company and the community association. Costs incurred by the Company for these indemnification obligations for the three and nine months ended September 30, 2020 and 2019 were approximately \$18,000 and \$30,000 for 2020 and \$9,000 and \$49,000 for 2019, 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 2018, 2017 and 2016, the Company concluded there was not sufficient positive evidence to overcome this recent operating history. As a result, the Company believes that a valuation allowance was necessary based on the more-likely-than-not threshold noted above. During the year ended December 31, 2019, the Company decreased the valuation allowance to \$3,634,857 to reflect a change in deferred tax assets.

Loss Per Share

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

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

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

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

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

The anti-dilutive stock based compensation awards and convertible notes consisted of:

| | As of September 30, | |
|------------------|---------------------|-----------|
| | 2020 | 2019 |
| Stock Options | 19,300 | 19,300 |
| Stock Warrants | 14,790,059 | 2,879,287 |
| Convertible Note | - | 1,436,424 |

As part of its initial public offering, on October 23, 2015 the Company issued 1,200,000 warrants that allowed for the right to purchase 1,200,000 shares of common stock at an average exercise price of \$12.50 per share. Due to the Reverse Stock Split on October 16, 2018, each warrant may only purchase one-tenth of one share of common stock at \$12.50. These warrants have weighted average price of \$12.50 per share and a weighted average remaining life of .44 years and .94 years as of September 30, 2020 and December 31, 2019, respectively. These warrants expire in the year 2020. The aggregate intrinsic value of these outstanding common stock warrants as of September 30, 2020 and December 31, 2019 was \$0 and \$0, respectively. These warrants will expire on October 31, 2020.

On October 31, 2018, the Company issued warrants as part of its secondary offering that allowed for the right to purchase 2,875,000 shares of common stock at an exercise price of \$2.40 per share. These warrants expire in the year 2023. During the twelve months ended December 31, 2019, warrants for 9,300 shares were exercised for \$22,320. During the nine months ended September 30, 2020, warrants for 1,277,700 shares were exercised for \$2,946,480. There are 1,638,000 warrants remaining. Due to the underwritten public offering on August 18, 2020, the exercise price of these warrants are now \$0.67 per share.

As part of its underwriting agreement dated October 31, 2018, the Company issued additional warrants, effective May 1, 2019, to its underwriter as part of its secondary offering that allowed for the right to purchase 125,000 shares of common stock at an exercise price of \$2.64 per share on or after May 1, 2019. These warrants expire on May 2, 2022. Due to the underwritten public offering on August 18, 2020, the exercise price of these warrants are now \$0.90 per share.

On April 2, 2018, the Company issued warrants that allowed for the right to purchase 40,000 shares of common stock at an exercise price of \$6.605 per share. If the Company, at any time this warrant is outstanding, combines its outstanding shares of Common Stock into a smaller number of shares or enters into a corporate action or transaction to change the number of outstanding share of common stock, then the exercise price is adjusted along with the number of shares that can be purchased under this agreement. Due to the subsequent issuance of stock and warrants on October 31, 2018 and August 18, 2020, these warrants now have the right to purchase 777,059 shares at an exercise price of \$0.34 per share. These warrants expire in the year 2023. The aggregate intrinsic value of these outstanding common stock warrants as of September 30, 2020 was approximately \$249,000.

A senior secured convertible note to Craven House Capital North America LLC (Related Party), bearing interest at 3.0% was issued on January 16, 2019 and matures on either January 14, 2020 or convertible into 1,436,424 shares of the Company's common shares. On January 8, 2020, the Company entered into a Stock Purchase Agreement ("SPA") with Craven pursuant to which the Company sold to Craven all of the issued and outstanding shares of IIU, Inc., a Virginia based travel insurance brokerage company and wholly owned subsidiary of LMFA ("IIU"), for \$3,562,569. The purchase price was paid by Craven through the cancellation of the \$3,461,782 Craven Convertible Note issued by LMFA to Craven dated January 16, 2019 plus forgiveness of \$100,787 of accrued interest. LMFA originally paid \$4,969,200 for the purchase of IIU in January 2019, which included a negative \$720,386 net fair value of assets and \$5,689,586 of goodwill. The sale of IIU resulted in a gain of \$16,428.

As part of its underwritten public offering on August 18, 2020 the Company issued 11,200,000 warrants that allowed for the right to purchase 11,200,000 shares of common stock at an average exercise price of \$0.90 per share. These warrants have a weighted average remaining life of 4.88 years as of September 30, 2020. These warrants expire in the year 2025. The aggregate intrinsic value of these outstanding common stock warrants as of September 30, 2020 was \$0. Holders of the warrants subsequently exercised such warrants for 150,000 shares of common stock for \$135 thousand.

Stock-Based Compensation

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

Contingencies

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

Fair Value of Financial Instruments

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

Risks and Uncertainties

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

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

Non-cash Financing and Investing Activities

During the nine months ended September 30, 2020 and 2019, the Company acquired unencumbered title to certain properties as a result of foreclosure proceedings. Properties were recorded at fair value less cost to dispose of approximately \$0 and \$0, respectively. The fair value of these properties was first applied to recover the Company's initial investment with any remaining proceeds applied to interest, late fees, and other amounts owed by the property owner.

During the nine months ended September 30, 2020, the Company disposed of IIU which included assets and liabilities listed in Note 10.

Recent Accounting Pronouncements

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. We adopted this new standard on January 1, 2020 and determined that this did not impact our consolidated financial statements.

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

Reclassifications

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

Subsequent Events

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

Note 2. Goodwill and Acquisition

On November 2, 2018, the Company invested cash by purchasing stock under a Securities Purchase Agreement (the “IIU SPA”) from IIU, a synergistic Virginia based travel insurance brokerage company controlled by Craven House N.A. (whose ownership excluding unexercised warrants is approximately 20% of the Company’s outstanding stock as of the date of acquisition), pursuant to which IIU issued to the Company a Senior Convertible Promissory Note (“IIU Note”) in the original principal amount of \$1,500,000 in exchange for a purchase price of \$1,500,000. The maturity date of the Note is 360 dates after the date of issuance (subject to acceleration upon an event of default). The Note carries a 3.0% interest rate, with accrued but unpaid interest being payable on the Note’s maturity date.

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

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

The Board of Directors of LMFA approved the purchase of IIU. LMFA purchased 100% of the outstanding stock of IIU for \$5,089,357. LMFA paid the Purchase Price at closing as follows:

- Cancellation by LMFA of all principal and accrued interest of IIU’s Promissory Note dated November 3, 2018 and issued to LMFA for principal indebtedness and accrued interest of \$1,507,375.
- LMFA issued to Craven a \$3,581,982 Senior Convertible Promissory Note (“Craven Convertible Note”) for the balance of the Purchase Price. At the option of Craven, the Convertible Note may be paid in restricted common shares of LMFA or cash. The Craven Convertible Note shall bear simple interest at 3% per annum. The Craven Convertible Note shall be due and payable 360 days from the Closing Date. If repaid by LMFA in restricted common stock, the outstanding principal and interest of the Craven Convertible Note shall be paid by LMFA by issuing to Seller a number of restricted common shares equal to the adjusted principal and accrued interest owing on the Craven Convertible Note divided by \$2.41. On the date of issuance of the Craven Convertible Note, the closing share price of the Company was \$1.42. The note principal was subsequently reduced by \$120,200 arising from lower than expected Closing Cash and Net Working Capital. Craven had verbally agreed to extend repayment of this Craven Convertible Note 12 months from April 15, 2019.
- Net cash received in the business acquisition was \$51,327. As such, the \$1.5 million note receivable was cancelled as of January 16, 2019.

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

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

We performed an assessment effective as of December 31, 2019 in light of the Company's sale of IIU on January 8, 2020 which resulted in a \$1.65 million goodwill impairment. On January 8, 2020, the Company entered into a SPA with Craven pursuant to which the Company sold to Craven all of the issued and outstanding shares of IIU for \$3,562,569. The purchase price was paid by Craven through the cancellation of the \$3,461,782 Convertible Promissory Note issued by LMFA to Craven dated January 16, 2019 plus forgiveness of \$100,787 of accrued interest. See Note 10 Discontinued Operations.

Note 3. Finance Receivables – Original Product

The Company's original funding product provides financing to community associations only up to the secured or "Super Lien Amount" as discussed in Note 1. Finance receivables for the original product as of September 30, 2020 and December 31, 2019 based on the year of funding are approximately as follows:

| | September 30, 2020 | December 31, 2019 (Audited) |
|--|-----------------------|--------------------------------|
| Funded during the current year | \$ 16,000 | \$ 40,000 |
| 1-2 years outstanding | 14,000 | 15,000 |
| 2-3 years outstanding | 9,000 | 20,000 |
| 3-4 years outstanding | 17,000 | 11,000 |
| Greater than 4 years outstanding | <u>256,000</u> | <u>300,000</u> |
| | 312,000 | 386,000 |
| Reserve for credit losses | (142,000) | (112,000) |
| | <u>\$ 170,000</u> | <u>\$ 274,000</u> |
| Number of active units with delinquent assessments | 489 | 598 |
| Amount of outstanding interest and late fees on active units | \$ 8,682,000 | \$ 9,167,000 |

The Company reserved \$30,000 on financing receivables during the three month period ended September 30, 2020.

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

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

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

As of September 30, 2020, maximum future contingent payments under these arrangements was approximately \$34,000.

Delinquent assessments and accrued charges under these arrangements as of September 30, 2020 and December 31, 2019, are as follows:

| | September 30, 2020 | December 31, 2019 (Audited) |
|--|-----------------------|--------------------------------|
| Finance receivables, net | \$ 96,000 | \$ 129,000 |
| Delinquent assessments | 205,000 | 374,000 |
| Accrued interest and late fees | 91,000 | 235,000 |
| Number of active units with delinquent assessments | 20 | 31 |

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 \$7,000 and \$20,000 as of September 30, 2020 and December 31, 2019, respectively.

Note 5. Due to Related Party

Legal services for the Company associated with the collection of delinquent assessments from property owners are performed by a law firm, Business Law Group ("BLG"), which was owned solely by Bruce M. Rodgers, the Chief Executive Officer of LMFA until and

through the date of the initial public offering. Following the offering, Mr. Rodgers transferred his interest in BLG to other attorneys at the firm through a redemption of his interest in the firm, and BLG is now under control of those lawyers. The law firm has historically performed collection work primarily on a deferred billing basis wherein the law firm receives payment for services rendered upon collection from the property owners or at amounts ultimately subject to negotiations with the Company.

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

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

Amounts expensed by the Company to BLG for the three and nine months ended September 30, 2020 and 2019, respectively were approximately \$247,000 and \$756,000 for 2020 and \$262,000 and \$799,000 for 2019, respectively. As of September 30, 2020 and December 31, 2019, receivables from property owners for charges ultimately payable to BLG approximate \$1,542,000 and \$1,883,000, respectively.

Under the related party agreement with BLG in effect during 2020 and 2019, the Company pays all costs (lien filing fees, process and serve costs) incurred in connection with the collection of amounts due from property owners. Any recovery of these collection costs is accounted for as a reduction in expense incurred. The Company incurred expenses related to these types of costs for the three and nine months ended September 30, 2020 and 2019 were \$28,000 and \$95,000 for 2020 and \$49,000 and \$158,000 for 2019, respectively. Recoveries during the three and nine months ended September 30, 2020 and 2019, related to those costs were approximately \$28,000 and \$124,000 for 2020 and \$53,000 and \$175,000 for 2019, 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. BLG was charged approximately \$45,000 for the office sub-lease.

Amounts (payable) receivable from BLG as of September 30, 2020 and December 31, 2019 were approximately (\$264,400) and \$152,800, respectively. In the first nine months of September 30, 2020, the Company subsequently recouped \$300,000 of previously write-off amounts to BLG.

On December 20, 2019, the Company loaned \$1.5 million to Craven in the form of a secured promissory note (the "Craven Secured Promissory Note") which had an initial maturity date of April 15, 2020 and carried an interest rate of 0.5% that was to be paid monthly.

The Company subsequently extended the due date of the Craven Secured Promissory Note and the monthly interest payments to August 1, 2021. The Craven Secured Promissory Note is secured by, among other things, stock pledge of Craven's 640,000 common stock of the Company and the assignment of the assets of Craven in favor of the Company. This loan and the accrued interest was repaid on June 29, 2020.

Note 6. Debt and Other Financing Arrangements

| | <u>September 30, 2020</u> | <u>December 31, 2019 (Audited)</u> |
|---|-------------------------------|--|
| Financing agreement with FlatIron capital that is unsecured. Down payment of \$19,170 was required upfront and equal installment payments of \$11,590 to be made over a 11 month period. The note matures June 1, 2020. Annualized interest is 6.8% | \$ - | \$ 69,540 |
| Financing agreement with FlatIron capital that is unsecured. Down payment of \$20,746 was required upfront and equal installment payments of \$19,251 to be made over a 10 month period. The note matures May 1, 2021. Annualized interest is 5.95% | \$ 154,012 | \$ - |
| Promissory note issued by a financial institution, bearing interest at 1.0%, interest and no principal payments. The note matures April 30, 2022. Annualized interest is 1.0%. This is a U.S. Small Business Administration's Paycheck Protection Program (the "PPP Loan") | \$ 185,785 | \$ - |
| Senior secured convertible note to Craven House Capital North America LLC (Related Party), bearing interest at 3.0%. Note was issued on January 16, 2019 and either matured on January 14, 2020 or became convertible into 1,436,424 shares of the Company's common shares. The value of the beneficial conversion feature as of January 16, 2019 was zero*. | - | 3,461,782 |
| Promissory note issued by a financial institution, bearing interest at 9.09%, interest and principal payments due monthly of \$323. Note is secured by an automobile and was issued on July 26, 2019 with original borrowings of \$12,892. The note matures on August 26, 2023. | - | 11,802 |
| 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. | - | 606,454 |
| | <u>\$ 339,797</u> | <u>\$ 4,149,578</u> |

As of September 30, 2020, minimum annual principal payments are as follows:

| Years Ending December 31, | |
|------------------------------|------------|
| 2020 | 57,755 |
| 2021 | 96,257 |
| 2022 | 185,785 |
| 2023 | - |
| 2024 | - |
| After 2024 | <hr/> |
| | \$ 339,797 |

On April 30, 2020, the company obtained a \$185,785 Paycheck Protection Program loan. These business loans were established by the 2020 US Federal government Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") to help certain businesses, self-employed workers, sole proprietors, certain nonprofit organizations, and tribal businesses continue paying their workers.

The Paycheck Protection Program allows entities to apply for low interest private loans to pay for their payroll and certain other costs. The loan proceeds will be used to cover payroll costs, rent, interest, and utilities. The loan may be partially or fully forgiven if the Company keeps its employee counts and employee wages stable. The program was implemented by the U.S. Small Business Administration. The interest rate is 1.0% and has a maturity date of 2 years. We anticipate applying for loan and interest forgiveness in the fourth quarter of 2020.

Note 7. Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business within one year after the date the consolidated financial statements are issued.

In accordance with Financial Accounting Standards Board, or the FASB, Accounting Standards Update No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40), our management evaluates whether there are conditions or events, considered in aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are issued.

The Company has experienced significant operating losses over the past 4 years (2016 through September 30, 2020) with cumulative losses of approximately \$18,236,000 and negative cashflows from operations. These losses resulted in the usage of all cash proceeds from the Company's initial public offering in 2015. For the year ended December 31, 2019, the Company disclosed the substantial doubt about the Company's ability to continue as a going concern

The Company received a total of approximately \$14.0 million during the nine months ended September 30, 2020 due to a number of factors including:

- Holders of our warrants exercised such warrants for 1.2 million shares in June 2020 which resulted in the Company receiving approximately \$2.9 million.
- The Company was repaid approximately \$1.5 million on a related party receivable.
- The Company received \$1.25 million for the issuance of 520,838 common shares.
- The Company received \$8.3 million for the issuance of 10,200,000 common shares.
- Holders of our warrants excised such warrants for 150 thousand in August 2020 which resulted in the Company receiving approximately \$0.1 million.

As such, we have \$12.2 million of cash as of September 30, 2020 which will be enough to satisfy our estimated liquidity needs for the 12 months from the issuance of these financial statements. These factors mitigated the substantial doubt about the Company's ability to continue as a going concern as defined by ASU 2014-15.

Note 8. Commitments and Contingencies

Leases

The Company leases certain office space, construction and office equipment, vehicles and temporary housing generally under non-cancelable operating leases. Leases with an initial term of one year or less are not recorded on the balance sheet, and the Company generally recognizes lease expense for these leases on a straight-line basis over the lease term. As of September 30, 2020, the Company's operating leases have remaining lease terms ranging from less than one year to 3 years, some of which include options to

renew the leases. The exercise of lease renewal options is generally at the Company's sole discretion. The Company's leases do not contain any material residual value guarantees or material restrictive covenants.

The Company determines if an arrangement is a lease at inception. Operating lease ROU assets and current and long-term operating lease liabilities are separately stated on the Consolidated Balance Sheet as of September 30, 2020. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The present value of future lease payments are discounted using either the implicit rate in the lease, if known, or the Company's incremental borrowing rate for the specific lease as of the lease commencement date. The rate was determined as a fair value of the lease over a 37 month period using a 6.5% interest rate for the present value calculation. The ROU asset is also adjusted for any prepayments made or incentives received. The lease terms include options to extend or terminate the lease only to the extent it is reasonably certain any of those options will be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Company accounts for lease components (e.g., fixed payments) separate from the non-lease components (e.g., common-area maintenance costs). The Company does not have any material financing leases.

The Company leased its office under an operating lease beginning March 1, 2014 and ending July 31, 2019. The Company's new office lease began July 15, 2019 and ends July 31, 2022. It also had a month to month lease for its IIU operations in 2019. A related party has a sub-lease for approximately \$4,900 per month plus operating expenses.

The Company shares this space and the related costs associated with this operating lease with a related party (see Note 5) that also performs legal services associated with the collection of delinquent assessments. Net rent expense recognized for the three and nine months ended September 30, 2020 and 2019 were approximately \$26,000 and \$76,000 for 2020 and \$50,000 and \$148,000 for 2019, respectively.

The following table presents components of lease expense excluding discontinued operations for the three and nine months ended September 30, 2020 and 2019:

| | Three Months Ended September 30, 2020 | Nine Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2019 |
|-------------------------|--|---|--|---|
| Operating lease expense | \$ 27,644 | \$ 89,931 | \$ 50,274 | \$ 147,575 |
| | <u>\$ 27,644</u> | <u>\$ 89,931</u> | <u>\$ 50,274</u> | <u>\$ 147,575</u> |

The following table presents supplemental balance sheet information related to operating leases as of September 30, 2020 and December 31, 2019

| | Balance Sheet Line Item | As of September 30, 2020 | As of December 31, 2019 |
|--|----------------------------|--------------------------|-------------------------|
| Assets | | | |
| ROU assets | Right of use asset, net | \$ 185,370 | \$ 260,260 |
| Total lease assets | <u>Item</u> | <u>\$ 185,370</u> | <u>\$ 260,260</u> |
| Liabilities | | | |
| Current lease liabilities | Lease liability | \$ 98,846 | \$ 94,235 |
| Long-term lease liabilities | Lease liability | <u>97,368</u> | <u>171,648</u> |
| Total lease liabilities | <u>Item</u> | <u>\$ 196,214</u> | <u>\$ 265,883</u> |
| Weighted-average remaining lease term (in years) | | 1.83 | 2.60 |
| Weighted-average discount rate | | 6.55 % | 6.55 % |

The following table presents supplemental cash flow information and non-cash activity related to operating leases for the nine months ended September 30, 2020 and 2019:

| | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|--|---|---|
| Operating cash flow information | | |
| Cash paid for amounts included in the measurement of lease liabilities | \$ (69,669) | \$ (23,466) |
| Supplemental Disclosure of non-cashflow information | | |
| ROU assets and operating lease obligation recognized | \$ - | \$ 331,477 |

The following table presents maturities of operating lease liabilities on an undiscounted basis as of September 30, 2020:

| | Operating Leases |
|---|-----------------------------|
| 2020 (excluding the nine months ended September 30, 2020) | \$ 24,566 |
| 2021 | 103,646 |
| 2022 | 68,002 |
| | \$ 196,214 |

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.

Note 9. Stockholders' Equity

Stock Options

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

The following is a summary of the stock option plan activity during the nine months ended September 30, 2020 and 2019:

| | 2020 | | 2019 | |
|--|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Options Outstanding at Beginning of the year | 19,300 | \$ 60.51 | 19,300 | \$ 60.51 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Adjustment | - | - | - | - |
| Forfeited | - | - | - | - |
| Options Outstanding at September 30, | 19,300 | \$ 54.68 | 19,300 | \$ 60.51 |
| Options Exercisable at September 30, | 15,134 | \$ 62.02 | 7,634 | \$ 113.81 |

Compensation expense recognized from the vesting of stock options was approximately \$10,200 and \$10,400 for the nine months ended September 30, 2020 and 2019. The remaining unrecognized compensation cost associated with unvested stock options as of September 30, 2020 is approximately \$8,000.

The aggregate intrinsic value of the outstanding common stock options as of September 30, 2020 and December 31, 2019 was approximately \$0 and \$0 respectively.

Warrants

The following is a summary of the warrant activity during the nine months ended September 30, 2020 and 2019:

| | 2020 | | 2019 | |
|---|--------------------|---------------------------------|--------------------|---------------------------------|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Warrants Outstanding at Beginning of the year | 3,959,287 | \$ 5.36 | 3,843,587 | \$ 5.44 |
| Granted | 11,200,000 | 0.90 | 125,000 | 2.64 |
| Exercised | 1,377,700 | 2.24 | 9,300 | 2.40 |
| Adjustment | 633,472 | 0.34 | - | - |
| Adjustment | 375,000 | 0.67 | - | - |
| Forfeited | - | - | - | - |
| Warrants Outstanding at September 30, | 14,790,059 | \$ 1.79 | 3,959,287 | \$ 5.36 |

During September 2020, the Company received approximately \$3,081,480 upon the exercise by warrant holders of warrants for 1,377,700 shares. The aggregate intrinsic value of the outstanding common stock warrants as of September 30, 2020 and December 31, 2019 was approximately \$249,000 and \$0 respectively.

Common Share Issuance

On March 23, 2020, the Company entered into a Share Exchange Agreement, dated March 23, 2020 (the "Share Exchange Agreement"), with Hanfor (Cayman) Limited, a Cayman Islands exempted company ("Hanfor"), and BZ Industrial Limited, a British Virgin Islands business company and the sole stockholder of Hanfor ("Hanfor Owner"). In connection with the execution of the Share Exchange Agreement, the Company and Hanfor Owner entered into a Stock Purchase Agreement, dated March 23, 2020, pursuant to which Hanfor Owner purchased from Company an aggregate of 520,833 shares of the Company's common stock at a price of \$2.40 per share. Hanfor Owner paid \$250,000 cash on March 23, 2020 and the Company received the remaining \$1.0 million in April 2020 at which time the Company issued the 520,833 shares.

In connection with an underwritten public offering on August 18, 2020, the Company issued (i) 8,300,000 units (the “Units”) of common stock, par value \$0.001 per share (the “Common Stock”) and one warrant to purchase one share of common stock (the “Common Warrants”), and (ii) 1,700,000 pre-funded units (the “Pre-Funded Units”), with each pre-funded unit being comprised of one pre-funded warrant to purchase one share of common stock at an exercise price of \$.01 per share (the “Pre-Funded Warrants”) and one warrant to purchase one share of common stock. Each Unit was sold for a price of \$0.90 per Unit, and each Pre-Funded Unit was sold for a price of \$0.89 per Pre-Funded Unit. Pursuant to an over-allotment option in the underwriting agreement, the Company sold an additional 200,000 shares of Common Stock. The net proceeds of the offering were approximately \$8,198,000.

Note 10. Discontinued Operations

On January 8, 2020, the Company entered into a Stock Purchase Agreement (“SPA”) with Craven pursuant to which the Company sold to Craven all of the issued and outstanding shares of IIU for \$3,562,569. The purchase price was paid by Craven through the cancellation of the \$3,461,782 Craven Convertible Note plus forgiveness of \$100,787 of accrued interest. The Company originally paid \$4,969,586 of goodwill. As a result, goodwill was impaired by \$1.65 million. The sale of IIU resulted in a gain of \$16,428.

The impact of this transaction is reflected as a discontinued operation in the consolidated financial statements. Pursuant to ASU 2014-08, the major classes of assets and liabilities of IIU were as follows:

| | <u>As of December 31, 2019</u> |
|---|------------------------------------|
| Major classes of assets | |
| Cash | \$ 246,914 |
| Related party receivable | 27,738 |
| Prepaid expenses | 2,301 |
| Total major classes of current assets – discontinued assets | <u>276,953</u> |
| Fixed assets, net | 27,245 |
| Total major classes of assets – discontinued assets | <u><u>\$ 304,198</u></u> |
| | |
| Accounts payable and accrued expenses | \$ 144,006 |
| Note payable – short term | 100,672 |
| Other liabilities | 21,153 |
| Income taxes payable | 14,226 |
| Total major classes of current liabilities – discontinued liabilities | <u>280,057</u> |
| | |
| Debt | 517,584 |
| Total major classes of liabilities - discontinued liabilities | <u><u>\$ 797,641</u></u> |

The operating results for IIU, Inc. have been presented in the accompanying consolidated financial statements of operations for the three and nine months ended September 30, 2020 and 2019 as discontinued operations are summarized below:

| | Three Months Ended September 30, 2020 | Three Months Ended September 30, 2019 | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|---|---|
| Revenue | \$ - | \$ 221,085 | \$ - | \$ 501,244 |
| Total operating costs and expenses | - | 101,068 | - | 428,445 |
| Gain (Loss) from discontinued operations | - | 120,017 | - | 72,799 |
| Other expense, net | - | 16,455 | - | 33,166 |
| Gain on disposal of discontinued operations | - | - | 16,428 | - |
| Net gain (loss) from discontinued operations | \$ - | \$ 103,562 | \$ 16,428 | \$ 39,633 |
| | | | | |
| Net cash provided by operating activities | \$ - | \$ (48,205) | \$ - | 65,624 |
| Net cash (used in) provided by investing activities | - | (76,695) | (246,914) | (25,368) |
| Net cash used in financing activities | - | (18,418) | (56,304) | (56,304) |

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,
- competition to acquire such receivables,
- our dependence upon third party law firms to service our accounts,
- our ability to obtain funds to purchase receivables,
- our ability to manage growth or declines in the business,
- changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables,
- the impact of class action suits and other litigation on our business or operations,
- our ability to keep our software systems updated to operate our business,
- our ability to employ and retain qualified employees,
- our ability to establish and maintain internal accounting controls,
- changes in the credit or capital markets,
- changes in interest rates,
- deterioration in economic conditions,
- negative press regarding the debt collection industry which may have a negative impact on a debtor's willingness to pay the debt we acquire,
- the spread of the novel coronavirus (COVID-19), its impact on the economy generally and, more specifically, the specialty finance industries,
- negative press regarding the debt collection industry which may have a negative impact on a debtor's willingness to pay the debt we acquire, and
- other factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 201 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. We offer incorporated nonprofit community associations, which we refer to as "Associations," a variety of financial products customized to each Association's financial needs. Our original product offering consists of providing funding to Associations by purchasing their rights under delinquent accounts that are selected by the Associations arising from unpaid Association assessments. Historically, we provided funding against such delinquent accounts, which we refer to as "Accounts," in exchange for a portion of the proceeds collected by the Associations from the account debtors on the Accounts. In addition to our original product offering, we have started purchasing Accounts on varying terms tailored to suit each Association's financial needs, including under our New Neighbor Guaranty™ program.

Specialty Finance Company

We purchase an Association's right to receive a portion of the Association's collected proceeds from owners that are not paying their assessments. After taking assignment of an Association's right to receive a portion of the Association's proceeds from the collection of delinquent assessments, we engage law firms to perform collection work on a deferred billing basis wherein the law firms receive payment upon collection from the account debtors or a predetermined contracted amount if payment from account debtors is less than legal fees and costs owed. Under this business model, we typically fund an amount equal to or less than the statutory minimum an Association could recover on a delinquent account for each Account, which we refer to as the "Super Lien Amount". Upon collection of an Account, the law firm working on the Account, on behalf of the Association, generally distributes to us the funded amount, interest, and administrative late fees, with the law firm retaining legal fees and costs collected, and the Association retaining the balance of the collection. In connection with this line of business, we have developed proprietary software for servicing Accounts, which we believe enables law firms to service Accounts efficiently and profitably.

Under our New Neighbor Guaranty program, an Association will generally assign substantially all of its outstanding indebtedness and accruals on its delinquent units to us in exchange for payment by us of monthly dues on each delinquent unit. This simultaneously eliminates a substantial portion of the Association's balance sheet bad debts and assists the Association to meet its budget by receiving guaranteed monthly payments on its delinquent units and relieving the Association from paying legal fees and costs to collect its bad debts. We believe that the combined features of the program enhance the value of the underlying real estate in an Association and the value of an Association's delinquent receivables. We intend to leverage our proprietary software platform, as well as our industry experience and knowledge gained from our original line of business, to expand the New Neighbor Guaranty program in certain situations and to potentially develop other new products in the future.

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

Specialty Finance Products

Original Product

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

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.

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

New Neighbor Guaranty

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

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

Recent Developments

IIU Acquisition and Disposal

On November 2, 2018, the Company invested cash by purchasing a Senior Convertible Promissory Note in the original principal amount of \$1,500,000 (the “IIU Note”) from IIU, a synergistic Virginia based travel insurance brokerage company controlled by Craven House North America, LLC (“Craven”) N.A., (whose ownership excluding unexercised warrants was approximately 20% of the Company’s outstanding stock at the time of the acquisition). The maturity date of the IIU Note was 360 dates after the date of issuance (subject to acceleration upon an event of default). The IIU Note carried a 3.0% interest rate, with accrued but unpaid interest being payable on the IIU Note’s maturity date.

On January 16, 2019, the Company entered into a Stock Purchase Agreement with Craven (the “IIU SPA”) to purchase all of the outstanding capital stock of IIU as a possible synergistic effort to diversify revenue sources that were believed to be accretive to earnings. IIU provided 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 were fully underwritten with no claim risk remaining with IIU.

The Company purchased 100% of the issued and outstanding capital stock of IIU from Craven for \$5,089,357 subject to adjustment as set forth in the IIU SPA. IIU was required to have a minimum net working capital of \$15,000 and at least \$152,000 in cash. The Company paid the purchase price under the IIU SPA at closing as follows:

- The Company cancelled all principal and accrued interest of the IIU Note, which consisted of aggregate principal indebtedness and accrued interest of \$1,507,375 as of January 16, 2019.
- The Company issued to Craven a \$3,581,982 Senior Convertible Promissory Note (the “Craven Convertible Note”) for the balance of the purchase price. At the option of Craven, the Craven Convertible Note could be paid in restricted shares of our common stock or cash. The Craven Convertible Note bore simple interest at 3% per annum. The Craven Convertible Note was due and payable 360 days from the closing date of the IIU SPA. If repaid by the Company in restricted common stock, the outstanding principal and interest of the Craven Convertible Note would be paid by the Company by issuing to Craven a number of restricted common shares equal to the adjusted principal and accrued interest owing to Craven under the Craven Convertible Note divided by \$2.41. On the date of issuance of the Craven Convertible Note, the closing share price of the Company was \$1.42.
- Pursuant to the terms of the IIU SPA, the purchase price was subsequently reduced by \$120,200, to \$4,969,200.

On December 20, 2019, the Company loaned \$1.5 million to Craven (“Craven Secured Promissory Note”) which had an initial maturity date of April 15, 2020 and carried an interest rate of 0.5% that was to be paid monthly. The Company subsequently extended the due date of the Craven Secured Promissory Note to August 1, 2021. The Craven Secured Promissory Note was secured by, among other things, a pledge of Craven’s 640,000 shares of common stock of the Company and the assignment of the assets of Craven in favor of the Company. On June 29, 2020, the Company received from Craven \$1,503,719 as payment in full of all principal and accrued interest due from the Craven Secured Promissory Note.

On January 8, 2020, the Company entered into a Stock Purchase Agreement (“SPA”) with Craven pursuant to which the Company sold back to Craven all of the issued and outstanding shares of IIU for \$3,562,569. The purchase price was paid by Craven through the cancellation of the \$3,461,782 Craven Convertible Note plus forgiveness of \$100,787 of accrued interest. The Company originally paid \$4,969,200 for the purchase of IIU in January 2019, which included a negative \$720,386 net fair value of assets and \$5,689,586 of goodwill. As a result, goodwill was impaired by \$1.65 million. The sale of IIU resulted in a gain of \$16,428.

As such, IIU is considered a discontinued operation. We did not report any activity from operations from IIU for the nine months ended September 30, 2020.

Specialty Health Insurance

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

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

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

Entry into and Termination of Hanfor Share Exchange Agreement

On March 23, 2020, the Company entered into a Share Exchange Agreement, dated March 23, 2020 (the “Share Exchange Agreement”), with Hanfor (Cayman) Limited, a Cayman Islands exempted company (“Hanfor”), and BZ Industrial Limited, a British Virgin Islands business company and the sole stockholder of Hanfor (“Hanfor Owner”). The Share Exchange Agreement contemplated a business combination transaction in which Hanfor Owner would transfer and assign to the Company all of the share capital of Hanfor in exchange for a number of shares of the Company’s common stock that would result in Hanfor Owner owning 86.5% of the outstanding common stock of the Company.

Under the agreement, Hanfor Owner was required to deliver to the Company audited financial statements for Hanfor for the 2019 and 2018 fiscal years, and such audited financial statements were required to be delivered by May 31, 2020 (subject to extension to June 30, 2020 under specified circumstances). In connection with the execution of the Share Exchange Agreement, the Company and Hanfor Owner entered into a Stock Purchase Agreement, dated March 23, 2020, pursuant to which Hanfor Owner purchased from the Company an aggregate of 520,838 shares of the Company’s common stock at a price of \$2.40 per share. Hanfor Owner paid \$250,000 cash on March 23, 2020 and the Company received an additional \$1,000,000 in April 2020 at which time the Company issued the 520,838 shares.

On July 14, 2020, the Company notified Hanfor and Hanfor Owner that the Company had elected to terminate the Share Exchange Agreement due to Hanfor’s inability to provide audited financial statements by June 30, 2020. Although the Company believes that it properly terminated the Share Exchange Agreement, on July 21, 2020, counsel to Hanfor Owner informed the Company that Hanfor Owner believes that the Company’s termination of the Share Exchange Agreement was not effected in accordance with the terms of the Share Exchange Agreement.

In addition, on October 23, 2020, an amended Schedule 13D was filed by Xueyuan Han, the principal owner of Hanfor, with respect to his beneficial ownership of shares of common stock of the Company. In the amended Schedule 13D, Mr. Han alleged, among other things, that the Company misinterpreted the termination provisions of the Share Exchange Agreement, that Hanfor is still within a cure period under the Share Exchange Agreement, and that Hanfor is purporting to appoint a director to the Company’s Board of Directors. Following the filing of the amended Schedule 13D, the Company continues to believe that its termination of the Share Exchange Agreement was proper because, among other reasons, the failure of Hanfor to provide audited financial statements by June 30, 2020, was an uncurable default under the Share Exchange Agreement. Furthermore, the Company was informed by Hanfor prior to such termination that Hanfor would be unable to provide audited financial statements for Hanfor for the foreseeable future because of ongoing legal issues in China. As a result, the Company believes that the purported appointment of Mr. Han to the Company’s Board of Directors is invalid.

Nasdaq Listing

On March 27, 2020, the Company received a notification letter from the Nasdaq Listing Qualifications department of The Nasdaq Stock Market LLC (“Nasdaq”) stating that the Company has not regained compliance with Nasdaq Continued Listing Rule 5550(a)(2), which requires the Company’s listed securities to maintain a minimum bid price of \$1.00 per share (the “Minimum Bid Price Rule”). The notification stated that the Company’s securities would be delisted from the Nasdaq Capital Market on April 7, 2020 unless the Company timely requested a hearing before a Nasdaq Hearing Panel. The Company has timely requested a hearing. However, on April 16, 2020, Nasdaq suspended any enforcement actions relating to bid price issues through June 30, 2020. On July 1, 2020, the Company received a letter from Nasdaq stating that the Company had regained compliance with the Minimum Bid Price Rule because the closing price for the Company’s common stock was \$1.00 per share or greater for ten (10) consecutive business days.

Additionally, on January 3, 2020, the Company received a deficiency letter from Nasdaq, indicating that it was in violation of Listing Rules 5620(a) and 5810(c)(2)(G) by virtue of passing the applicable deadline for holding of its annual general meeting of shareholders for the financial year ended December 31, 2018. The Company resolved this issue by having its annual general meeting of shareholders on May 11, 2020.

On September 28, 2020, the Company received a notification letter from the Nasdaq Listing Qualifications department of Nasdaq stating that the Company was not in compliance with the Minimum Bid Price Rule. The notification stated that the Company’s securities would be delisted from the Nasdaq Capital Market on March 29, 2021 unless the Company timely requests a hearing before a Nasdaq Hearing Panel.

If the Company is not in compliance by March 29, 2021, the Company may be afforded a second 180-calendar day period to regain compliance. To qualify, the Company would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, except for Minimum Bid Price Rule. In addition, the

Company would be required to notify Nasdaq of its intention to cure the minimum bid price deficiency during the second compliance period, by effecting a reverse stock split, if necessary. If the Company does not regain compliance within the allotted 180-day compliance period and is not eligible for a second 180-day compliance period, the Company's common stock would be subject to delisting unless it requested a hearing before an independent Nasdaq Hearings Panel. A request for a hearing would stay any suspension or delisting action pending the hearing and any additional extension period granted by the Panel. The Company intends to monitor the closing bid price of the Company's common stock and consider its available options to resolve the non-compliance with the minimum bid price requirement.

Reverse Stock Split Approval

On May 11, 2020, our shareholders voted in favor of the approval of an amendment to our Certificate of Incorporation, in the event it is deemed advisable by our Board of Directors, to effect an additional reverse stock split of the Company's issued and outstanding common stock at a ratio within the range of one-for-two (1:2) and one-for-ten (1:10), as determined by the Board of Directors. However, a reverse stock split was not yet effected pursuant to such approval.

Public Share Offering

In connection with an underwritten public offering on August 18, 2020, the Company issued (i) 8,300,000 units (the "Units") of common stock, par value \$0.001 per share (the "Common Stock") and one warrant to purchase one share of common stock (the "Common Warrants"), and (ii) 1,700,000 pre-funded units (the "Pre-Funded Units"), with each pre-funded unit being comprised of one pre-funded warrant to purchase one share of common stock at an exercise price of \$0.01 per share (the "Pre-Funded Warrants") and one warrant to purchase one share of common stock. Each Unit was sold for a price of \$0.90 per Unit, and each Pre-Funded Unit was sold for a price of \$0.89 per Pre-Funded Unit. Pursuant to an over-allotment option in the underwriting agreement, the Company sold an additional 200,000 shares of Common Stock. The net proceeds of the offering were approximately \$8,198,000.

COVID-19 Update

Although COVID-19 is currently not material to our results of operations, there is uncertainty relating to the potential future impact on our business. While our employees currently have the ability and are encouraged to work remotely, such measures have and may continue to have an impact on employee attendance or productivity, which, along with the possibility of employees' illness, may adversely affect our operations. In addition to encouraging employees to work remotely, the Company has increased sanitation of its offices, provided hand gel and masks to its employees and has closed the offices during identified periods of high contagion.

The extent to which COVID-19 impacts our operations, or our ability to obtain financing should we require it, will depend on future developments which are uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions taken by governments and private businesses to contain COVID-19 to treat its impact, among others. If the disruptions posed by COVID-19 continue for an extended period of time, financial markets may not be available to the Company for raising capital in order to fund future growth. Should the Company not be able to obtain financing when required, in the amounts necessary or under terms which are economically feasible, we may be required to reduce planned future growth and/or the scope of our operations.

On April 30, 2020, the company obtained a \$185,785 Paycheck Protection Program loan ("PPP Loan"). These business loans were established by the 2020 US Federal government Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") to help certain businesses, self-employed workers, sole proprietors, certain nonprofit organizations, and tribal businesses continue paying their workers.

The Paycheck Protection Program allows entities to apply for low interest private loans to pay for their payroll and certain other costs. The loan proceeds will be used to cover payroll costs, rent, interest, and utilities. The loan may be partially or fully forgiven if the Company keeps its employee counts and employee wages stable. The program was implemented by the U.S. Small Business Administration. The interest rate is 1.0% and has a maturity date of 2 years. We anticipate applying for loan and interest forgiveness in the fourth quarter of 2020.

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 LM Funding, LLC a wholly-owned subsidiary of LMFA. As used in this discussion and analysis, unless the context requires otherwise, references to "LMF," "LM Funding," "we," "us," "our," "the Company," "our company," and similar references refer to (i) following the date of the Corporate Reorganization, LM Funding America, Inc., a Delaware corporation, and its

consolidated subsidiaries, and (ii) prior to the date of the Corporate Reorganization, LM Funding, LLC, a Florida limited liability company, and its consolidated subsidiaries.

Results of Operations – Three Months

The Three Months Ended September 30, 2020 compared with the Three Months Ended September 30, 2019

Revenues

During the Three Months ended September 30, 2020, total revenues decreased by \$300 thousand, or 54.3%, to \$252 thousand from \$553 thousand in the Three Months ended September 30, 2019.

Interest on delinquent association fees for the Three Months ended September 30, 2020 decreased \$243 thousand or 69.7% as the number of payoffs decreased to 63 payoff occurrences as compared to 128 payoff occurrences for the three months ended September 30, 2019. We believe these payoffs were impacted in part by the negative impact COVID-19 has had on the general economy. “Payoffs” consist of recovery of the entire legally collectible portion, or a settlement thereof, of our principal investment, accrued interest, and late fees owed to us from the proceeds of the Accounts collected by the Associations in accordance with our contracts with Associations. The decrease in payoff occurrences was also due to a decrease in revenue per unit. The average revenue per unit per the Statement of Operations, excluding rental revenue and net commission revenue decreased to \$3,021 for the Three Months ended September 30, 2020 compared with \$3,514 for the Three Months ended September 30, 2019.

We saw a decrease in rental revenue in the Three Months ended September 30, 2020 of \$28 thousand to \$62 thousand from \$90 thousand for the Three Months ended September 30, 2019. This was due to a reduced number of rental units in 2020 as compared to 2019.

Operating Expenses

During the Three Months ended September 30, 2020, operating expenses increased approximately \$2.1 million, or 227.1%, to \$3,006 thousand from \$919 thousand for the Three Months ended September 30, 2019. The increase in operating expenses can be attributed to various factors, including \$2.2 million increase in compensation relating to severance of \$450 thousand, bonus of \$630 thousand and a contract buyout of \$819 thousand offset in part due to a reduction in real estate management expenses of \$31 thousand, and a \$100 thousand recovery of bad debt allowance for a related party.

Professional fees, excluding fees from the BLG service agreement, for the Three Months ended September 30, 2020 were approximately \$139,000 compared with approximately \$125,000 for the Three Months ended September 30, 2019. In the ordinary course of our business, we are involved in numerous legal proceedings and expenses associated with acquisitions and corporate initiatives. We regularly initiate collection lawsuits, using our network of third party law firms, against debtors. In addition, debtors occasionally initiate litigation against us. The settlement costs of these lawsuits increased by approximately \$9,000 to \$18,000 compared with a charge of approximately \$8,000 for the Three Months ended September 30, 2019.

Legal fees for BLG for the Three Months ended September 30, 2020 were \$247 thousand compared to \$262 thousand for the Three Months ended September 30, 2019 See Note 5. Due From Related Party for further discussion regarding the service agreements with BLG.

Interest Expense

During the Three Months ended September 30, 2020, the Company incurred a negative \$2 thousand of interest expense as compared to \$23 thousand of interest expense for the Three Months ended September 30, 2019.

Net Loss from Continuing Operations

During the Three Months ended September 30, 2020, the net loss from continuing operations was \$2,752 thousand as compared to a net loss of \$383 thousand for the Three Months ended September 30, 2019.

Income from Discontinued Operations

During the Three Months ended September 30, 2020, the income from discontinued operations was \$0 as compared to net income of \$104 thousand for the Three Months ended September 30, 2019.

Net Loss

During the Three Months ended September 30, 2020, the net loss was \$2,752 thousand as compared to net loss of \$280 thousand for the Three Months ended September 30, 2019. The change in the loss was primarily due to reduced revenue and increased compensation.

Results of Operations – Nine Months

The Nine Months Ended September 30, 2020 compared with the Nine Months Ended September 30, 2019

Revenues

During the Nine Months ended September 30, 2020, total revenues decreased by \$939 thousand, or 50.1%, to \$936 thousand from \$1,875 thousand in the Nine Months ended September 30, 2019.

Interest on delinquent association fees for the Nine Months ended September 30, 2020 decreased \$731 thousand or 59.6% as the number of payoffs decreased to 227 payoff occurrences as compared to 382 payoff occurrences for the Nine months ended September 30, 2019. We believe these payoffs were impacted in part by the negative impact COVID-19 has had on the general economy. “Payoffs” consist of recovery of the entire legally collectible portion, or a settlement thereof, of our principal investment, accrued interest, and late fees owed to us from the proceeds of the Accounts collected by the Associations in accordance with our contracts with Associations. The decrease in payoff occurrences was also due to a decrease in revenue per unit. The average revenue per unit per the Statement of Operations, excluding rental revenue and net commission revenue decreased to \$3,492 for the Nine Months ended September 30, 2020 compared with \$4,097 for the Nine Months ended September 30, 2019.

We saw a decrease in rental revenue in the Nine Months ended September 30, 2020 of \$167 thousand to \$144 thousand from \$310 thousand for the Nine Months ended September 30, 2019. This was due to a reduced number of rental units in 2020 as compared to 2019.

Operating Expenses

During the Nine Months ended September 30, 2020, operating expenses increased \$1,652 thousand, or 54.5%, to \$4,683 thousand from \$3,032 thousand for the Nine Months ended September 30, 2019. The increase in operating expenses can be attributed to various factors, including \$2.2 million increase in compensation relating to severance of \$450 thousand, bonus of \$630 thousand and contract buyout of \$819 thousand offset in part by a reduction in real estate management expenses of \$229 thousand and \$300 thousand recovery of bad debt allowance for a related party.

Professional fees, excluding fees from the BLG service agreement, for the Nine Months ended September 30, 2020 were approximately \$616,000 compared with approximately \$739,000 for the Nine Months ended September 30, 2019. In the ordinary course of our business, we are involved in numerous legal proceedings and expenses associated with acquisitions and corporate initiatives. We regularly initiate collection lawsuits, using our network of third party law firms, against debtors. In addition, debtors occasionally initiate litigation against us. The settlement costs of these lawsuits decreased by approximately \$19,000 to approximately \$30,000 compared with approximately \$49,000 for the Nine Months ended September 30, 2019. We also issued approximately \$125,000 of our stock for investment banking services.

Legal fees for BLG for the Nine Months ended September 30, 2020 were \$756 thousand compared to \$799 thousand for the Nine Months ended September 30, 2019 See Note 5. Due From Related Party for further discussion regarding the service agreements with BLG.

Interest Expense

During the Nine Months ended September 30, 2020, the Company incurred \$10 thousand of interest expense, net as compared to \$77 thousand of interest expense for the Nine Months ended September 30, 2019.

Net Loss from Continuing Operations

During the Nine Months ended September 30, 2020, the net loss from continuing operations was \$3,757 thousand as compared to a net loss of \$1,227 thousand for the Nine Months ended September 30, 2019.

Gain on Disposal of Discontinued Operations

During the Nine Months ended September 30, 2020, the Company disposed of IIU which generated a net gain of \$16 thousand.

Loss from Discontinued Operations

During the Nine Months ended September 30, 2020, the loss from discontinued operations was \$0 as compared to net income of \$39 thousand for the Nine Months ended September 30, 2019.

Net Loss

During the Nine Months ended September 30, 2020, the net loss was \$3,741 thousand as compared to net loss of \$1,187 thousand for the Nine Months ended September 30, 2019. The change in the loss was primarily due to reduced revenue and increased compensation.

Liquidity and Capital Resources

General

As of September 30, 2020, we had cash and cash equivalents of \$12,235 thousand compared with \$1,070 thousand which includes \$247 thousand held by our discontinued operations at December 31, 2019.

Cash from Operations

Net cash used in operations was \$2,797 thousand during the Nine Months ended September 30, 2020 compared with \$908 thousand during the Nine Months ended September 30, 2019. This change in cash used by operating activities was primarily driven by compensation payout offset in part by the \$300 thousand recovery of related party receivables, \$107 thousand of stock compensation and the disposal of IIU.

Cash from Investing Activities

For the Nine Months ended September 30, 2020 net cash generated by investing activities was \$1,355 thousand as compared to net cash provided by investing activities of \$327 thousand for the Nine Months ended September 30, 2019. The increase was due to the receipt of a \$1.5 million note receivable from related party offset in part by a decrease from the disposal of IIU and the reduced sale of real estate. Net collections from our finance receivables for the Nine Months ended September 30, 2020 was \$107 thousand compared to \$203 thousand for the Nine Months ended September 30, 2019.

Cash from Financing Activities

Net cash provided by financing activities was \$12,607 thousand for the Nine Months ended September 30, 2020 compared with net cash used in financing activities of \$113 thousand during the Nine Months ended September 30, 2019. At September 30, 2020, the principal indebtedness of the Company was \$340 thousand (excluding lease liability of \$220 thousand) compared with \$4.2 million at December 31, 2019 and \$4.2 million at September 30, 2019. For the Nine Months ended September 30, 2020 the Company repaid \$108 thousand of principal repayments compared to \$135 thousand principal repayments for the Nine Months ended September 30, 2019. During the Nine Months ended September 30, 2020 the Company received \$1,250 thousand from a stock subscription agreement, \$8,197 thousand from a public offering of our common stock and \$3,081 thousand from the exercise of warrants. During the Nine Months ended September 30, 2019 the Company received \$22 thousand from the exercise of warrants.

Shareholders' Equity

On March 23, 2020, the Company entered into a Share Exchange Agreement, dated March 23, 2020 (the "Share Exchange Agreement"), with Hanfor (Cayman) Limited, a Cayman Islands exempted company ("Hanfor"), and BZ Industrial Limited, a British Virgin Islands business company and the sole stockholder of Hanfor ("Hanfor Owner"). In connection with the execution of the Share Exchange Agreement, the Company and Hanfor Owner entered into a Stock Purchase Agreement, dated March 23, 2020, pursuant to which Hanfor Owner purchased from Company an aggregate of 520,838 shares of the Company's common stock at a price of \$2.40 per share. Hanfor Owner paid \$250,000 cash on March 23, 2020 and the Company received the remaining \$1.0 million in April 2020 at which time the Company issued the 520,838 shares.

Holders of our warrants exercised such warrants for 1,277,700 shares for total consideration of \$2,946,480.

On August 18, 2020, we raised approximately \$8.2 million by issuing 10.2 million shares of common stock and 11.2 million warrants to purchase shares of common stock. Holders of the warrants subsequently exercised such warrants for 150,000 shares of common stock for \$135 thousand.

Debt of the Company consisted of the following at September 30, 2020 and December 31, 2019:

| | <u>September 30, 2020</u> | <u>December 31, 2019 (Audited)</u> |
|---|-------------------------------|--|
| Financing agreement with FlatIron capital that is unsecured. Down payment of \$19,170 was required upfront and equal installment payments of \$11,590 to be made over a 11 month period. The note matures June 1, 2020. Annualized interest is 6.8% | \$ - | \$ 69,540 |
| Financing agreement with FlatIron capital that is unsecured. Down payment of \$20,746 was required upfront and equal installment payments of \$19,251 to be made over a 10 month period. The note matures May 1, 2021. Annualized interest is 5.95% | \$ 154,012 | \$ - |
| Promissory note issued by a financial institution, bearing interest at 1.0%, interest and no principal payments. The note matures April 30, 2022. Annualized interest is 1.0%. This is a U.S. Small Business Administration's Paycheck Protection Program (the "PPP Loan") | \$ 185,785 | \$ - |
| Senior secured convertible note to Craven House Capital North America LLC (Related Party), bearing interest at 3.0%. Note was issued on January 16, 2019 and either matured on January 14, 2020 or became convertible into 1,436,424 shares of the Company's common shares. The value of the beneficial conversion feature as of January 16, 2019 was zero*. | - | 3,461,782 |
| Promissory note issued by a financial institution, bearing interest at 9.09%, interest and principal payments due monthly of \$323. Note is secured by an automobile and was issued on July 26, 2019 with original borrowings of \$12,892. The note matures on August 26, 2023. | - | 11,802 |
| 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. | - | 606,454 |
| | <hr/> <u>\$ 339,797</u> | <hr/> <u>\$ 4,149,578</u> |

As of September 30, 2020, minimum required annual principal payments are as follows:

| Years Ending December 31, | |
|------------------------------|-------------------------|
| 2020 | 57,755 |
| 2021 | 96,257 |
| 2022 | 185,785 |
| 2023 | - |
| 2024 | - |
| After 2024 | <hr/> <u>\$ 339,797</u> |

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, 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 Securities Exchange Act of 1934, as amended, 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 September 30, 2020. 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 September 30, 2020 due to the following material weakness in internal control over financial reporting that existed as of December 31, 2019 and that continued to exist through September 30, 2020

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 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 September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not to date experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, except for the addition of the risk factor set forth below:

Our business, results of operations, and financial condition may be impacted by the recent coronavirus (COVID-19) outbreak.

The global spread of COVID-19 has created significant volatility and uncertainty. The COVID-19 pandemic has caused a global economic slowdown that may last for a potentially extended duration, and it is possible that it could cause a global recession. Deteriorating economic and political conditions caused by COVID-19, such as increased unemployment, decreases in capital spending, declines in customer confidence, or economic slowdowns or recessions, could cause a decrease in demand for our products and services.

While our employees currently have the ability and are encouraged to work remotely, such measures have had, and may continue to have, an impact on employee attendance or productivity, which, along with the possibility of employees' illness, may adversely affect our operations. Although COVID-19 is currently not material to our results of operations, there is uncertainty relating to the potential future impact on our business. The extent to which COVID-19 impacts our operations, or our ability to obtain financing should we require it, will depend on future developments which are uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions taken by governments and private businesses to contain COVID-19 to treat its impact, among others. If the disruptions posed by COVID-19 continue for an extended period of time, financial markets may not be available to the Company for raising capital in order to fund future growth. Should the Company not be able to obtain financing when required, in the amounts necessary or under terms which are economically feasible, we may be required to reduce planned future growth and/or the scope of our operations. In addition, actions we have taken or may take, or decisions we have made or may make, as a consequence of COVID-19, may result in legal claims or litigation against us.

A potential legal dispute between Hanfor Owner and the Company could have material adverse effect on our business, financial condition, and results of operations.

On March 23, 2020, the Company entered into the Share Exchange Agreement with Hanfor and Hanfor Owner. The Share Exchange Agreement contemplated a business combination transaction in which Hanfor Owner would transfer and assign to the Company all of the share capital of Hanfor in exchange for a number of shares of the Company's common stock that would result in Hanfor Owner owning 86.5% of the outstanding common stock of the Company. Under the agreement, Hanfor Owner was required to deliver to the Company audited financial statements for Hanfor for the 2019 and 2018 fiscal years, and such audited financial statements were required to be delivered by May 31, 2020 (subject to extension to June 30, 2020 under specified circumstances). On July 14, 2020, the Company notified Hanfor and Hanfor Owner that the Company had terminated the Share Exchange Agreement due to Hanfor's inability to provide audited financial statements by June 30, 2020. Although the Company believes that it properly terminated the Share Exchange Agreement, on July 21, 2020, counsel to Hanfor Owner informed the Company that Hanfor Owner believes that the Company's termination of the Share Exchange Agreement was not effected in accordance with the terms of the Share Exchange Agreement. On October 23, 2020, an amended Schedule 13D was filed by Xueyuan Han, the principal owner of Hanfor, with respect his beneficial ownership of shares of common stock of the Company. In the amended Schedule 13D, Mr. Han alleged, among other things, that the Company misinterpreted the termination provisions of the Share Exchange Agreement, that Hanfor is still within a cure period under the Share Exchange Agreement, and that Hanfor is purporting to appoint a director to the Company's Board of Directors. Following the filing of the amended Schedule 13D, the Company continues to believe that its termination of the Share Exchange Agreement was proper because, among other reasons, the failure of Hanfor to provide audited financial statements by June 30, 2020, was an uncurable default under the Share Exchange Agreement. If the Company and Hanfor Owner cannot resolve this disagreement, any resulting formal legal dispute could have a material adverse effect on the Company's business, financial conditions, and results of operation.

Our common shares could be delisted from the Nasdaq Capital Market.

On September 28, 2020, the Company received a notification letter from the Nasdaq Listing Qualifications department of The Nasdaq Stock Market LLC ("Nasdaq") stating that the Company has not regained compliance with Nasdaq Continued Listing Rule 5550(a)(2), which requires the Company's listed securities to maintain a minimum bid price of \$1.00 per share (the "Minimum Bid Price Rule"). The notification stated that the Company's securities would be delisted from the Nasdaq Capital Market on March 29, 2021 unless the Company timely requested a hearing before a Nasdaq Hearing Panel.

If the Company is not in compliance by March 29, 2021, the Company may be afforded a second 180-calendar day period to regain compliance. To qualify, the Company would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, except for Minimum Bid Price Rule. In addition, the Company would be required to notify Nasdaq of its intention to cure the minimum bid price deficiency during the second compliance period, by effecting a reverse stock split, if necessary. If the Company does not regain compliance within the allotted 180-day compliance period and is not eligible for a second 180-day compliance period, the Company's common stock would be subject to delisting unless it requested a hearing before an independent Nasdaq Hearings Panel. A request for a hearing would stay any suspension or delisting action pending the hearing and any additional extension period granted by the Panel. The Company intends to monitor the closing bid price of the Company's common stock and consider its available options to resolve the non-compliance with the minimum bid price requirement. The Company's receipt of the notice does not affect the Company's business, operations or reporting requirements with the Securities and Exchange Commission. However, there can be no assurance that the Company will be able to regain compliance with the minimum bid price requirement or will otherwise be in compliance with other Nasdaq listing criteria.

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

(a) *Sales of Unregistered Securities.*

None.

(b) *Use of Proceeds.*

None.

(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 |
|---------------------------|--|
| 4.1 | <u>Form of Common Warrant (incorporated by reference from Exhibit 4.1 to the Form 8-K filed on August 18, 2020)</u> |
| 4.1 | <u>Form of Pre-Funded Warrant (incorporated by reference from Exhibit 4.2 to the Form 8-K filed on August 18, 2020)</u> |
| 10.1 | <u>Amended and Restated Employment Agreement, dated September 30, 2020, by and between the Company and Bruce M. Rodgers (incorporated by reference from Exhibit 10.1 to the Form 8-K filed on October 2, 2020)</u> |
| 10.2 | <u>Amended and Restated Employment Agreement, dated September 30, 2020, by and between the Company and Richard Russell (incorporated by reference from Exhibit 10.2 to the Form 8-K filed on October 2, 2020)</u> |
| 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. |

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: November 16, 2020

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

Date: November 16, 2020

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

**November 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 quarterly 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.

November 16, 2020

/s/ Bruce Rodgers

Bruce Rodgers

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 Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Richard Russell, certify that:

1. I have reviewed this quarterly 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.

November 16, 2020

/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 September 30, 2020 as filed with the Securities and Exchange Commission on November 16, 2020 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) 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
Chief Executive Officer
(Principal Executive Officer)
November 16, 2020

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

Written Statement of the Chief Financial Officer**Pursuant to 18 U.S.C. Section 1350**

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Financial Officer of LM Funding America, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on November 16, 2020 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) 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)

November 16, 2020

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.