
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2016

OR

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

Commission File Number 001-37605

LM FUNDING AMERICA, INC.

(Exact name of Registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

33602
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value \$0.001 Per Share

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

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES NO

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of voting and nonvoting common equity held by non-affiliates of the Registrant was approximately \$26,961,000 as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares of the Registrant's Common Stock outstanding as of December 31, 2016 was 3,300,000.

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on June 22, 2017, are incorporated by reference into Part III of this Report.

EXPLANATORY NOTE

LM Funding America, Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-K/A (this “Amendment”) to amend its Annual Report on Form 10-K for the year ended December 31, 2016, originally filed with the Securities and Exchange Commission on March 31, 2017 (the “Original Filing”). This Amendment is being filed to correct the spelling of “principle” to “principal” in Note 14 along with an inadvertent date error in the first sentence of the last paragraph of Note 14 of the Company’s consolidated financial statements in the Original Filing. The Original Filing stated that the amendment to the note payable with Heartland Bank (the “Heartland Amendment”) was executed on March 15, 2016, whereas it was executed on March 31, 2017 and effective as of March 15, 2017. That error has been corrected in this amendment. In addition to correcting this error, the Company has attached to this amendment as Exhibits 10.32, 10.33, 10.34, and 10.35 the agreements relating to the Heartland Amendment in lieu of filing them in a subsequent Current Report on Form 8-K. In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the Company has included the entire text of the Annual Report on Form 10-K. However, other than as described in the foregoing paragraph, there were no changes to the text of the Original Filing.

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PART I

Item 1. Business.

We are a specialty finance company that provides funding to nonprofit community associations primarily located in the state of Florida and, to a lesser extent, nonprofit community associations in the states of Washington and Colorado. As of February 2016, we also began operations in Illinois, which is the fourth-largest assessment market in the United States for community associations. We offer incorporated nonprofit community associations, which we refer to as “Associations,” a variety of financial products customized to each Association’s financial needs. Our original product offering consists of providing funding to Associations by purchasing their rights under delinquent accounts that are selected by the Associations arising from unpaid Association assessments. Historically, we provided funding against such delinquent accounts, which we refer to as “Accounts,” in exchange for a portion of the proceeds collected by the Associations from the account debtors on the Accounts. More recently, we have started purchasing Accounts on varying terms tailored to suit each Association’s financial needs, including under our New Neighbor Guaranty™ program. We believe that revenues from the New Neighbor Guaranty program, as well as other similar products we may develop in the future, will comprise an increasingly larger piece of our business during the next few years, and we intend to seek to leverage these products to expand our business activities and growth in the states in which we operate.

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

Under the New Neighbor Guaranty program, an Association will generally assign substantially all of its outstanding indebtedness and accruals on its delinquent units to us in exchange for payment by us of monthly dues on each delinquent unit. This simultaneously eliminates a substantial portion of the Association’s balance sheet bad debts and assists the Association to meet its budget by receiving guaranteed monthly payments on its delinquent units and relieving the Association from paying legal fees and costs to collect its bad debts. We believe that the combined features of the program enhance the value of the underlying real estate in an Association and the value of an Association’s delinquent receivables. We intend to leverage our proprietary software platform, as well as our industry experience and knowledge gained from our original business, to expand the New Neighbor Guaranty program 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 that we have little or no information about. 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.

As of December 31, 2016, we have since our inception, purchased an aggregate of approximately \$309 million in Association receivables by funding a total of \$12.5 million with respect to approximately 12,000 units across over 500 Associations in Florida, Washington and Colorado. Through December 31, 2016, we have, since our inception, received just over \$119.2 million from approximately \$252 million in purchased Accounts. From these purchased Accounts, we have recovered almost all of our principal investment of almost \$13.0 million and earned about \$36.6 million in revenues. Per our contracts, we have paid or recovered \$12.5 million in legal fees and returned \$59.7 million to our funded Associations.

Our Products

Original Product

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

months' past due assessments or, if less, one percent (1.0%) of the original mortgage amount. Under our contracts with Associations for our original product, we pay Associations an amount up to the Super Lien Amount for the right to receive all collected interest and late fees on Accounts purchased from the Associations. In the past, to protect any amount invested by us in excess of the Super Lien Amount, we purchased insurance from an affiliate of AmTrust North America, or AmTrust, covering all assessments lost during the term of coverage due to a first mortgage foreclosure. As of January 28th, 2016 AmTrust advised us that they will not continue to offer the insurance coverage we have purchased from them in the past. They represented to us that the nonrenewal is due solely to the fact that they have not generated the premium volume they anticipated.

In other states in which we offer our original product, which are currently only 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. With respect to our original product, for the year ended December 31, 2016, we acquired 288 Accounts for \$129,753 compared with 234 Accounts for \$173,607 for the year ended December 31, 2015.

New Neighbor Guaranty

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

Before we implement the New Neighbor Guaranty program, an Association typically asks us to conduct a review of its accounts receivable. After we have conducted the review, we inform the Association of 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.

The New Neighbor Guaranty program represented approximately three percent (3%) of our overall revenue in 2016 in comparison to our original product, which accounted for approximately ninety percent (90%) of our overall revenue in the same period. The balance of our revenue from the period was from Accounts that are hybrids of the original product with varying splits and from income on real estate owned, or REO, units. As we continue to develop our New Neighbor Guaranty product, we expect it to make up continually larger portions of our total revenue.

As of December 31, 2016, our average investment per unit for currently active Accounts under our original product was \$893 and \$367 for condo owners associations (COA) and home owners associations (HOA), respectively. We expect that this average investment size will not materially change for the foreseeable future. Current investment for active New Neighbor Guaranty Accounts as of December 31, 2016 averaged approximately \$5,300 and \$1,800 per unit for COAs and HOAs, respectively. This average will vary in the future depending on how quickly we add new Accounts and how quickly we are able to resolve those Accounts. The average continued payment to Associations that have the New Neighbor Guaranty program in place is \$270 per month for each active Account as of December 31, 2016.

As of December 31, 2016, we have historically recovered approximately \$4,000 for COAs and \$1,300 for HOAs per Account in interest and late fee revenue for Accounts collected under our original product. Accounts under our New Neighbor Guaranty program are producing revenue to us of, on average, approximately \$3,400 for COAs and \$1,200 for HOAs, per Account as December 31, 2016 after the recovery of our purchase price or investment basis. The average total recovery under our New Neighbor Guaranty program at final settlement is approximately \$8,000 for COAs and \$3,700 for HOAs, per Account.

Future Products

We are also developing other variations of our contracts with Associations in various states that we may introduce to the market in the future. For example, under one product under development, at the request of an Association lender we may contract with an Association to provide that the Association will have revenues equal to or more than 90% of budget or any other percentage the lender

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

Industry Overview

According to the Community Association Institute ("CAI"), as of January 2014, 65 million people lived in 328,500 Associations in the United States. As a percentage, homeowners associations account for between 51-55% of the total and condominium associations make up between 42-45% of the total, with cooperatives comprising the balance. Florida has nearly eight million residents living in more than 47,000 community associations. Assuming the national distribution of property types exists in Florida, Florida has approximately 24,000 homeowners associations and 20,000 condominium associations. For fiscal year ended December 31, 2016, we have contracted with approximately 500 community associations. We believe opportunity remains abundant in our other geographic markets. As of December 31, 2014, the state of Washington had more than 10,000 community associations and the state of Colorado had more than 9,000.

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

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

Our Strategy

Our primary objective is to utilize our competitive strengths, including our proprietary technology and our management's experience and expertise in buying and collecting Association Accounts, to grow our business in Florida and in other states by identifying, evaluating, pricing, and acquiring Association Accounts and maximizing collections of such Accounts in a cost efficient manner. The principal elements of our strategy are comprised of the following:

- Capitalizing on our brand and existing strategic relationships to identify and acquire Association Accounts. We market our "We Buy Problems" and "You Are Always Better off with LM Funding" brands primarily through trade shows throughout Florida and, to a lesser extent, at national events. Participation in these shows and events has enabled us to form strategic relationships throughout the Association services industry and has served to provide a positive reputation in the industry. We leverage our brand and strategic relationships with law firms and Associations to identify and purchase Accounts.
- Partnering with Associations' advisors such as law firms, management companies, accountants, Association lenders, and others to efficiently identify and acquire Accounts on a national basis. The point of purchase for Accounts is at the individual Association board of directors level; therefore, establishing and maintaining relationships with the advisors of those boards is important to our business strategy. Our strategic relationships with Association boards' advisors provide us with opportunities to meet with Association boards on favorable terms and help us to gain their trust and confidence.
- Providing our proprietary software to our partner law firms in order to cost effectively track, control, and collect purchased Accounts and maintain low fixed overhead. Our proprietary software enables law firms' lawyers to efficiently handle approximately 1,000 accounts at a time with a high degree of uniformity and accuracy based upon historical caseload per lawyer of Business Law Group, P.A., one of our partner law firms. This enables our law firms to operate more efficiently and profitably, while simultaneously enabling us to cost effectively track and control our Accounts on a real-time basis.

- Utilizing increased access to capital and lines of credit to expand our product offerings nationally. As a specialty finance company, capital is our inventory. Access to capital has always determined the speed of our growth and the amount of upfront funding we can provide with our products. We believe that increased access to capital will enable us to pursue more opportunities to buy Accounts and to develop a wider array of specialty finance products.
- Extending secured commercial loans as a means to acquiring large blocks of Accounts. We intend to pursue the extension of secured loans to commercial partners who, as a condition of such loans, would be required to drive large blocks of accounts to us. Banks, management companies, law firms, and large Associations control large blocks of Accounts that we may be able to acquire if we help meet their capital needs.
- Pursuing acquisitions of providers in the Association Account servicing industry. A number of smaller collection companies continue to operate in the community association market. Some have funded Accounts that we can acquire. Others have customer relationships which can serve as a valuable platform for selling our products. We will continue to explore opportunities to expand our footprint in both the states in which we operate and by looking to make strategic acquisitions in states we wish to expand to.

Employees

As of March 31, 2017, we had 20 employees, of which 19 are full-time.

Corporate Information

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

Item 1A. Risk Factors.

Risks Relating to Our Business

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

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

(i) the status of the economy and real estate market in markets which we have operations may become so strong that delinquent Accounts do not occur in sufficient quantities to efficiently acquire them;

(ii) the perceived need of Associations to sell their Accounts to us as opposed to taking other measures to solve budget problems such as increasing assessments; and

(iii) competitive pressures from law firms, collections agencies, and others to produce more revenue for Associations than we can provide through the purchase of Accounts.

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

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

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

(i) the timing and amount of collections on our Account portfolio;

(ii) our inability to identify and acquire additional Accounts;

(iii) a decline in the value of our Account portfolio recoveries;

- (iv) increases in operating expenses associated with the growth of our operations; and
- (v) general, economic and real estate market conditions.

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

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

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

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

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

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

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

We may not be able to secure insurance to mitigate our risks.

In the past when the purchase price of an Account exceeds the amount protected by the Super Lien Amount, or if we purchased an Account in a jurisdiction without a super lien statute, we purchased insurance from AmTrust. This insurance formerly covered all principal assessments owed less the six month past-due assessment deductible for the term of the coverage. AmTrust was the only provider of such coverage, and it is not clear that any other insurance agency would be willing or able to provide such coverage at comparable rates to those offered by AmTrust. As of January 28th, 2016 AmTrust has advised us that they will not continue to offer the insurance coverage we have purchased from them in the past. They represented to us that the nonrenewal is due solely to the fact that they have not generated the premium volume they anticipated. Any newly purchased accounts will not be covered by this insurance policy. We may choose to seek alternative coverage in the future but insurability is not guaranteed.

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

As of March 31, 2017, we had an aggregate of \$2,087,377 in secured debt obligations that will become due within a year. Although we have a history of successfully refinancing our debt obligations, there is no assurance that we will be able to refinance our current indebtedness on a timely basis in view of recent operating losses, pending litigation, market conditions, and/or other reasons that we cannot currently foresee. Inability to refinance these debt obligations when due could raise substantial doubt about our ability to

continue as a going concern. In the event that we are unable to refinance our indebtedness when due, our intent is to generate liquidity through the monetization of owned real estate assets, which we believe in combination with recent expense cuts and new sales programs that are resulting in increases in Account acquisitions for 2017, will mitigate the risks to our liquidity associated with any inability to refinance our indebtedness. However, we cannot predict, with certainty, the outcome of our actions to generate liquidity, including the availability of additional debt financing, or whether such other actions would generate the expected liquidity as currently planned or needed. Additionally, a failure to generate additional liquidity could negatively impact our ability to acquire new Accounts.

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

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

In addition, some of our financing sources impose certain restrictive covenants, including financial covenants. Failure to satisfy any of these covenants could:

- (i) cause our indebtedness to become immediately payable;
- (ii) preclude us from further borrowings from these existing sources; and
- (iii) prevent us from securing alternative sources of financing on favorable terms, if at all, necessary to purchase Accounts and operate our business.

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

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

The Rodgers family will effectively control our company, substantially reducing the influence of our other stockholders.

Bruce M. Rodgers, our Chairman and Chief Executive Officer and his family, including trusts or custodial accounts of minor children of each of Mr. Rodgers and his wife Carollinn Gould, beneficially own in the aggregate more than 51% of our outstanding shares of common stock. As a result, the Rodgers family is able to significantly influence the actions that require stockholder approval, including the election of a majority of our directors and the approval of mergers, sales of assets or other corporate transactions or matters submitted for stockholder approval. As a result, our other stockholders may have little or no influence over matters submitted for stockholder approval. In addition, the Rodgers family's influence could deter or preclude any unsolicited acquisition of us and consequently materially adversely affect the price of our common stock.

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

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

- (i) the effective and timely initiation and development of relationships with law firms, management companies, accounting firms and other trusted advisors of Associations willing to sell Accounts;
- (ii) our ability to continue to develop our proprietary software for use in other markets and with different products;
- (iii) our ability to maintain the collection of Accounts efficiently;
- (iv) the recruitment, motivation and retention of qualified personnel both in our principal office and in new markets;

- (v) our ability to successfully implement our business strategy in states outside of the state of Florida; and
- (vi) our successful implementation of enhancements to our operational and financial systems.

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

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

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

- (i) the Fair Debt Collection Practices Act;
- (ii) the Federal Trade Commission Act;
- (iii) the Truth-In-Lending Act;
- (iv) the Fair Credit Billing Act;
- (v) the Dodd-Frank Act;
- (vi) the Equal Credit Opportunity Act; and
- (vii) the Fair Credit Reporting Act.

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

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

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

The CFPB has started to exercise authority to define unfair, deceptive or abusive acts and practices and to require reports and conduct examinations of these entities for purposes of (i) assessing compliance with federal consumer financial protections laws; (ii) obtaining information about the activities and compliance systems or procedures of such entities; and (iii) detecting and assessing risks to consumers and to markets for consumer financial products and services. The exercise of this supervisory authority must be risk-based, meaning that the CFPB will identify nonbanks for examination based on the risk they pose to consumers, including consideration of the entity’s asset size, transaction volume, risk to consumers, existing oversight by state authorities and any other factors that the CFPB determines to be relevant. When a nonbank is in violation of federal consumer financial protection laws, including the CFPB’s own rules, the CFPB may pursue administrative proceedings or litigation to enforce those laws and rules. In these proceedings, the CFPB can obtain cease and desist orders, which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief, and monetary penalties ranging from \$5,000 per day for ordinary violations of federal consumer financial protection

laws to \$25,000 per day for reckless violations and \$1 million per day for knowing violations. Also, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations under Title X, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the kind of cease and desist orders available to the CFPB (but not for civil penalties). If the CFPB or one or more state officials believe that we have committed a violation of the foregoing laws, they could exercise their enforcement powers in a manner that could have a material adverse effect on us.

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

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

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

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

(i) we could be required to dedicate a portion of our cash flows from operations to pay debt service costs and, as a result, we would have less funds available for operations, future acquisitions of Accounts, and other purposes;

(ii) it may be more difficult and expensive to obtain additional funds through financings, if such funds are available at all;

(iii) we could be more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and

(iv) if we default under any of our existing credit facilities or if our creditors demand payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

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

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

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

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

(i) acceleration of the payment of our outstanding indebtedness;

(ii) cross defaults to and acceleration of the payment under other financing arrangements;

(iii) our inability to borrow additional amounts under our existing financing arrangements; and

(iv) our inability to secure financing on favorable terms or at all from alternative sources.

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

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

We are a defendant in an action entitled *Solaris at Brickell Bay Condominium Association, Inc. v. LM Funding, LLC*, which was brought before the Circuit Court of the Eleventh Judicial Circuit, Miami-Dade Civil Division on July 31, 2014. On May 4, 2011, we entered into a Delinquent Assessments Proceeds Purchase Agreement with the plaintiff (the "Solaris Agreement"). On February 13, 2014, the plaintiff notified us of its intent to rescind the Solaris Agreement, claiming that we had failed to foreclose on Accounts assigned to us under the Solaris Agreement. In response, we requested that the plaintiff pay amounts we believe to be owed to us under the Solaris Agreement. In its complaint, the plaintiff alleges claims such as a usurious loan transaction, state and federal civil Racketeer Influenced and Corrupt Organization Act claims, Florida Deceptive and Unfair Trade Practices Act ("FDUTPA") violations, and other related claims. The plaintiff has requested rescission of the Solaris Agreement, forfeiture of all amounts lent by us to the plaintiff, a declaratory judgment that we have violated FDUTPA, other damages for breach of contract and violations of FDUTPA, and attorneys' fees. We believe these claims are without merit and we have counterclaimed for breach of contract, unjust enrichment, and other claims in the alternative. The plaintiff has sought class certification, which has been granted by the court. We are appealing the class certification order and we are likewise defending the lawsuit and will seek a dismissal of those allegations. The outcome of this litigation is indeterminate at this time. The damages claimed in plaintiff's complaint are the alleged interest collected and other amounts depending upon which counts the plaintiff prevail and the statutory award for damages thereunder, however no amount of damages has been specified by the plaintiffs.

We are also a defendant in an action entitled *Wilmington Savings Fund Society FSB v. Business Law Group PA, LM Funding, LLC, Bruce Rodgers*, which was brought before the Thirteenth Judicial Circuit Court for Hillsborough County Florida on October 29, 2015. LM Funding, LLC received service on November 16, 2015. Plaintiff as trustee brought an action against Business Law Group, P.A., LM Funding, LLC, and Bruce Rodgers individually, alleging broad interactions with only Business Law Group, surrounding a dispute arising in the normal course of litigation. Plaintiff alleges that LM Funding, LLC directed Business Law Group, P.A. to violate certain safe-harbor provisions of the Florida statutes. Plaintiff alleges against all parties claims such as violations of FDUTPA, unjust enrichment, and civil conspiracy. The plaintiff has requested declaratory relief that we have violated portions of FDUTPA, restitution, and additional monetary damages, and alleged that it is a proper plaintiff to represent a putative class. The case has subsequently been removed to United States Federal Court for the Middle District of Florida. Plaintiff's motion seeking class certification was pled and heard with the judge denying the motion for class certification. Deadline for plaintiff to file a notice of appeal has since passed and cannot be reopened. We believe these claims are without merit and plan to pursue all remedies available against plaintiff.

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

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

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

If we make such acquisitions we cannot predict whether:

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

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

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

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

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

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

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

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

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

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

Sales of a substantial number of shares of our common stock in the public market could cause a decrease in the market price of our common stock. We had 3,300,000 shares of common stock issued and outstanding as of December 31, 2016. We may issue additional shares in connection with our business and may grant stock options to our employees, officers, directors and consultants under our stock option plans or warrants to third parties. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

We have limited experience with the performance of our New Neighbor Guaranty program and actual results may differ from our models and projections.

Our business strategy is dependent upon expanded use of our New Neighbor Guaranty program. Although our original product continues to generate revenue, we have experienced issues with turnover on the boards of directors of Associations we service because the new board members fail to recognize the benefit of our original product. We have limited operating history with the New Neighbor Guaranty program and we will not have sufficient actual performance data regarding the New Neighbor Guaranty program for at least several more years, if ever. If our models and projections for the New Neighbor Guaranty program are overstated, use of the New Neighbor Guaranty program may impair our ability to operate profitably. Our inability to profit from our New Neighbor Guaranty Accounts could have a material adverse effect on our financial condition and results of operations as we attempt to expand our business operations.

Risks Relating to the Accounts

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

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

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

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

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

Our primary business relates to revenues from Accounts purchased by us, which are almost all based in Florida, and our primary source of revenue consists of payments made by condominium and home owners to satisfy the liens against their condominiums and homes. As of December 31, 2016 and December 31, 2015, Florida represented 99% and 99%, respectively, of our Accounts. An economic recession, adverse market conditions in Florida, and/or significant property damage caused by hurricanes, tornadoes or other inclement weather could adversely affect the ability of these condominium and home owners to satisfy the liens against their condominiums and homes, which could, in turn, have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Although the liens of the Associations securing the Accounts may be superior in right of payment to some of the other liens on a condominium unit or home, they may not be superior to all liens on that condominium unit or home. For instance, a lien relating to delinquent property taxes would be superior in right of payment to the liens securing the Accounts. In addition, if an Association fails to assert the priority of its lien in a foreclosure action, the Association may inadvertently waive the priority of its lien. In the event that there is a lien of superior priority on a unit or home relating to one of the Accounts, the Association's lien might be extinguished in the event that such superior liens are foreclosed. In most instances, the unit or home owner will be liable for the payment of such Account

and the ultimate payment would depend on the creditworthiness of such owner. In the case of a tax lien foreclosure, an owner taking title through foreclosure would not be liable for the payment of obligations that existed prior to the foreclosure sale. The purchase or ownership of a significant number of Accounts that are the subject of foreclosure by a superior lien could adversely affect our financial condition, results of operations and cash flows.

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

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

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

It can take our third-party law firms anywhere from three months to four years or longer to collect on an Account. Approximately 75% of our Accounts were purchased prior to 2013, with some being purchased as early as 2008. Due to various factors, including those discussed above, we cannot project the payoff date for any Account. This indeterminate holding period reduces our liquidity and ability to fund our operations. If our ability to collect on a material number of Accounts was significantly delayed, it could adversely affect our cash flows and ability to fund our operations.

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

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

Risks Relating to our Securities

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

Sales of a substantial number of shares of our common stock in the public market could cause a decrease in the market price of our common stock. We had authorized 10,000,000 and 5,000,000 shares of common stock and preferred stock, respectively as of December 31, 2016 and December 31, 2015. We had 3,300,000 shares of common stock issued and outstanding as of December 31, 2016 and December 31, 2015. In addition, pursuant to our 2015 Omnibus Incentive Plan, options to purchase 215,368 and 94,500 respectively, shares of our common stock were outstanding as of December 31, 2016 and December 31, 2015, of which 94,500 and 8,663, respectively were exercisable. Lastly, there are 1,200,000 warrants issued and outstanding as of December 31, 2016 and December 31, 2015. We may also issue additional shares in connection with our business and may grant additional stock options or restricted shares to our employees, officers, directors and consultants under our present or future equity compensation plans or we may issue warrants to third parties outside of such plans. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

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

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

We are a “controlled company” within the meaning of the rules of The NASDAQ Capital Market and, as a result, expect to qualify for, and may to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.

Entities controlled by Bruce M. Rodgers, our Chairman and Chief Executive Officer, and Carolinn Gould, our Vice President-General Manager and director, control a majority of the voting power of our common stock. As a result, we are a “controlled company” within the meaning of the corporate governance standards of The NASDAQ Capital Market. Under NASDAQ Capital Market rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including:

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

We elected to utilize some of these exemptions, namely the exemption relating to the requirement to have all independent directors on the nominating and corporate governance committee. We may also elect to utilize other exemptions in the future so long as we continue to qualify as a “controlled company.” If we utilize these exemptions we may not have a majority of independent directors and our nominating and corporate governance and compensation committees will not consist entirely of independent directors and such committees will not be subject to annual performance evaluations. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of The NASDAQ Capital Market.

We incur increased costs as a result of being a public company.

As a public company, the Sarbanes-Oxley Act and related rules and regulations of the SEC and the various trading markets (including The NASDAQ Capital Market) regulate the corporate governance practices of public companies. Compliance with these requirements will increase our expenses and make some activities more time consuming than they have been in the past when we were a private company. Such additional costs going forward could negatively impact our financial condition and results of operations.

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

We cannot assure you that securities analysts will cover our company. As of December 31, 2016, no securities analyst cover our company. If securities analysts do not cover our company, this lack of coverage may adversely affect the trading price of our securities. The trading market for our securities will rely in part on the research and reports that securities analysts publish about us and our business. If one or more of the analysts who cover our company downgrades our securities, the trading price of our securities may decline. If one or more of these analysts ceases to cover our company, we could lose visibility in the market, which, in turn, could also cause the trading price of our securities to decline. Further, because of our small market capitalization, it may be difficult for us to attract securities analysts to cover our company, which could significantly and adversely affect the trading price of our securities.

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

Our executive and administrative offices are located in Tampa, Florida, where we lease approximately 11,000 square feet of general office space for approximately \$14,000 per month, plus utilities. The lease was renewed March 2, 2014 and expires on July 31, 2019.

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

Item 3. Legal Proceedings.

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

Solaris at Brickell Bay Condominium Association, Inc. v. LM Funding, LLC, Case No: 2014-20043-C, was brought before the Circuit Court of the Eleventh Judicial Circuit, Miami-Dade Civil Division on July 31, 2014. On May 4, 2011, we entered into a Delinquent Assessments Proceeds Purchase Agreement with the plaintiff (the “Solaris Agreement”). On February 13, 2014, the plaintiff notified us of its intent to rescind the Solaris Agreement, claiming that we had failed to foreclose on Accounts assigned to us under the Solaris Agreement. In response, we requested that the plaintiff pay amounts we believe to be owed to us under the Solaris Agreement. In its complaint, the plaintiff alleges claims such as a usurious loan transaction, state and federal civil Racketeer Influenced and Corrupt Organization Act claims, Florida Deceptive and Unfair Trade Practices Act (“FDUTPA”) violations, and other

related claims. The plaintiff has requested rescission of the Solaris Agreement, forfeiture of all amounts lent by us to the plaintiff, a declaratory judgment that we have violated FDUTPA, other damages for breach of contract and violations of FDUTPA, and attorneys' fees. We believe these claims are without merit and we have counterclaimed for breach of contract, unjust enrichment, and other claims in the alternative. Plaintiff's motion seeking class certification was granted by the court. We are appealing the class certification order and we are likewise defending the lawsuit and will seek a dismissal of those allegations. The outcome of this litigation is indeterminate at this time.

Wilmington Savings Fund Society FSB v. Business Law Group PA, LM Funding, LLC, Bruce Rodgers, Case No. 15-CA-009871, was brought before the Thirteenth Judicial Circuit Court for Hillsborough County Florida on October 29th, 2015. LM Funding, LLC received service on November 16, 2015. Plaintiff as trustee brought an action against Business Law Group, P.A., LM Funding, LLC, and Bruce Rodgers individually, alleging broad interactions with only Business Law Group, surrounding a dispute arising in the normal course of litigation. Plaintiff alleges that LM Funding, LLC has directed Business Law Group, P.A. to violate certain safe-harbor provisions of the Florida statutes. Plaintiff alleges against all parties claims such as violations of FDUTPA, unjust enrichment, and civil conspiracy. The plaintiff has requested declaratory relief that we have violated portions of FDUTPA, restitution, and additional monetary damages, and alleged that it is a proper plaintiff to represent a putative class. The case has subsequently been removed to United States Federal Court for the Middle District of Florida. Plaintiff's motion seeking class certification was pled and heard with the judge denying the motion for class certification. Deadline for plaintiff to file a notice of appeal has since passed and cannot be reopened. We believe these claims are without merit and plan to pursue all remedies available against plaintiff.

Item 4. Mine Safety Disclosures.

None

PART II

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

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

Effective December 8, 2015, our common stock and common stock warrants became separately quoted on the NASDAQ Capital Market under the symbols "LMFA" and "LMFAW," respectively. On December 31, 2016 there were 2 holders of record of our common stock and 1 holder of record of our common stock warrants.

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

	<u>Common Stock</u>		<u>Common Stock Warrants</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
<u>2016</u>				
First Quarter	\$ 9.89	7.4	1.98	0.36
Second Quarter	\$ 9.50	7.76	1.10	0.32
Third Quarter	\$ 8.92	6.33	1.04	0.30
Fourth Quarter	\$ 8.07	4.02	1.00	0.17
<u>2015</u>				
First Quarter	\$ -	-	-	-
Second Quarter	\$ -	-	-	-
Third Quarter	\$ -	-	-	-
Fourth Quarter	\$ 9.60	8.51	1.98	0.25

Dividends

The Company did not declare any dividends for the fiscal years 2016 and 2015. Future dividend payments will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements and any other factors our board of directors deems relevant. In addition, our agreements with our lender may, from time to time, restrict our ability to pay dividends. Currently there are no restrictions in place.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer

None.

Use of Proceeds from Initial Public Offering

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

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

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

As of December 31, 2016, we have used \$7.3 million of the net proceeds for various purposes including repurchase of non-controlling interest (\$.25 million), repayment of debt (\$2.54 million), debt interest payments (\$0.65 million), funding of our original product (\$.15 million), funding of our New Neighbor Guaranty program (\$0.56 million) and real estate owned investments (\$0.54 million). The remainder of the funds have been invested in accordance with our investment policy as well as used in normal operations of the Company.

Item 6. Selected Financial Data

Not applicable

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

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

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

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

Overview

We are a specialty finance company that provides funding to nonprofit community associations primarily located in the state of Florida and, to a lesser extent, nonprofit community associations in the states of Washington, Colorado, and, since February 2016, Illinois. We offer incorporated nonprofit community associations, which we refer to as “Associations,” a variety of financial products customized to each Association’s financial needs. Our original product offering consists of providing funding to Associations by purchasing their rights under delinquent accounts that are selected by the Associations arising from unpaid Association assessments. We provide funding against such delinquent accounts, which we refer to as “Accounts,” in exchange for a portion of the proceeds collected by the Associations from the account debtors on the Accounts. More recently, we have started to engage in the business of purchasing Accounts on varying terms tailored to suit each Association’s financial needs, including under our New Neighbor Guaranty program. We believe that revenues from the New Neighbor Guaranty program, as well as other similar products we may develop in the future, will comprise an increasingly larger piece of our business during future quarters. We intend to leverage these products to expand our business activities and grow both in and outside of the states in which we currently operate.

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

In our original product offering, we typically purchase an Association’s right to receive a portion of the proceeds collected from delinquent unit owners. Once under contract, we engage law firms, typically on behalf of our Association clients pursuant to a power of attorney, to perform collection work on delinquent unit accounts. Our law firms typically handle collection matters on a deferred billing basis whereby payment is received upon collection from the delinquent unit account debtors or at a predetermined contractual rate if amounts collected from delinquent unit account debtors are less than legal fees and costs incurred. We typically fund an amount less than or equal to the statutory “Super Lien Amount” an Association would recover at some point in the future based on the Association’s statutory lien priority. Upon collection of an Account, the law firm retained for the collection matter distributes proceeds pursuant to the terms of the agreement by and between the Association and us. Not all agreements are the same, but our typical payoff distribution will result in us first recovering amounts advanced to the Association, interest, late fees, and costs advanced, with legal fees kept by the retained law firm, and assessment amounts remitted to the Association client. In connection with our business, we have developed proprietary software for servicing Accounts, which we believe enables law firms to service Accounts efficiently and profitably.

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

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

Corporate History and Reorganization

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

Results of Operations

The Year Ended December 31, 2016 compared with the Year Ended December 31, 2015

Revenues

During the year ended December 31, 2016, total revenues decreased by \$2.06 million, or 29.60%, to \$4.90 million from \$6.96 million in the year ended December 31, 2015. There was a decrease in payoffs of approximately 35.0% as the Company recorded approximately 959 payoff occurrences for the year ended December 31, 2016 compared with 1,476 payoff occurrences for the year ended December 31, 2015. "Payoffs" consist of recovery of the entire legally collectible portion, or a settlement thereof, of our principal investment, accrued interest, and late fees owed to us from the proceeds of the Accounts collected by the Associations in accordance with our contracts with Associations. We believe the decrease in payoff occurrences is attributed to a change in the overall real estate markets where LMF operates. We believe the year over year decrease in the number of foreclosures in the Florida market has affected the number of payoff occurrences we experienced in 2016. The decrease in the number of payoffs was partially offset by a slight increase in revenue per unit. The average revenue per unit increased to \$4,700 for the year ended December 31, 2016 compared with \$4,600 for the year ended December 31, 2015.

We saw an increase in rental revenue in the year ended December 31, 2016 of \$0.17 million to \$0.35 million from \$0.18 million for the year ended December 31, 2015. This was due to a continued emphasis to increase our rental base in 2016. There were 67 rental units in the portfolio as December 31, 2016 compared with 43 rental units as of December 31, 2015. Rental revenue for the year ended December 31, 2016 was reduced by approximately \$0.13 million related to the cost recovery of REO investment in unit balances. Rental revenue for the year ended December 31, 2015 included a gain on the sale of one unit in the amount of approximately \$0.01 million.

Operating Expenses

During the year ended December 31, 2016, operating expenses increased \$3.57 million, or 78.98%, to \$8.09 million from \$4.52 million for the year ended December 31, 2015. The increase in operating expenses can be attributed to various factors, including the new service agreement with Business Law Group, P.A. (BLG), which resulted in an additional expense of approximately \$51,000. There were also increases in professional fees including audit fees, professional insurance and other expenses incurred as a result of being a public company. Payroll costs increased in part due to an overall increase in the number of full-time employees for the year ended December 31, 2016 compared with the year ended December 31, 2015.

The Company also experienced a significant increase in legal fees related to our collection events. The majority of these expenses relate to ongoing litigation cases listed within Item 1. Item 3. Legal Proceedings of this report. Legal fees excluding fees from the BLG service agreement, for the year ended December 31, 2016 were approximately \$990,000 compared with approximately

\$265,000 for the year ended December 31, 2015. In the ordinary course of our business, we are involved in numerous legal proceedings. We regularly initiate collection lawsuits, using our network of third party law firms, against debtors. In addition, debtors occasionally initiate litigation against us. The settlement costs of these lawsuits decreased by approximately \$150,000 to approximately \$655,000 compared with \$805,000 for the year ended December 31, 2015.

The Company implemented a cost savings initiative that went into effect on October 1, 2016. We are projecting a quarterly reduction of operating expenses between \$0.65 million and \$0.75 million. This equates to an estimated annual savings in operating expenses of approximately \$2.60 million to \$3.0 million. We believe these costs reductions will reduce operating losses of future quarters.

Interest Expense

During the year ended December 31, 2016, interest expense decreased \$0.33 million, or 35.87%, to \$0.59 million from \$0.92 million for the year ended December 31, 2015. This decrease is attributable to our refinancing of \$1.8 million in indebtedness in July 2015 at a 6% interest rate. As of December 31, 2016 and December 31, 2015 this indebtedness had an outstanding balance of \$0.72 million and \$1.44 million, respectively, at a 6% interest rate. All remaining loan terms were consistent during the year ending December 31, 2016 and 2015. The overall interest expense decrease is due to the balances of the debt decreasing due to the principal payments being made throughout the year. This trend should continue as we continue to repay the principal balances of the Company loans. In addition, the amortization of debt issuance costs is to be reported as interest expense under ASU 2015-03 (ASC 835-30-45-3). During the year ended December 31, 2016, debt issuance costs decreased \$0.10 million, or 50.0%, to \$0.10 million from \$0.20 million for the year ended December 31, 2015.

Net Income

During the year ended December 31, 2016, net income (loss) decreased \$4.24 million to (\$2.37 million) from \$1.87 million for the year ended December 31, 2015. The Company expects the cost savings initiative listed above to positively impact net income (loss) for future periods.

Liquidity and Capital Resources

General

As of December 31, 2016, we had cash and cash equivalents of \$2.3 million compared with \$9.0 million at December 31, 2015. The decrease in cash is due to decreases in net cash from operations and financing of \$3.4 million and \$3.7 million, respectively. This was partially offset by an increase from cash from investing in the amount of \$0.4 million.

Cash from Operations

Net cash used in operations was (\$3.4) million during the year ended December 31, 2016 compared with \$2.3 during the year ended December 31, 2015. This was primarily driven by a net loss (before income tax benefit) of \$3.7 for the year ended December 31, 2016 compared with net income of \$1.7 million (before income tax benefit) for the year ended December 31, 2015.

Cash from Investing Activities

For the year ended December 31, 2016, our finance receivables fell by \$0.73 million. This was due to the Company collecting more Accounts than were invested in for the period. Our primary business relies on our ability to invest in accounts, and during the year ended December 31, 2016, this balance decreased compared with the year ended December 31, 2015. This balance has been in consistent decline since 2012. This balance is very susceptible to housing market fluctuations, but as we believe our current market penetration is less than 1% in Florida, we believe there is still a large, untapped market for our product offerings to grow in Florida and elsewhere. Regarding our original product, for the year ended December 31, 2016, we acquired 288 Accounts (154 HOA Accounts and 134 COA Accounts) for approximately \$130,000 compared with 233 accounts (128 HOA Accounts and 105 COA Accounts) for approximately \$170,000 for the year ended December 31, 2015. Generally HOA Accounts under the original product do not have any associated initial cash outlays as we choose to limit our funding amounts for those units. Regarding our *New Neighbor Guaranty* product, for the year ended December 31, 2016, we made a total investment of \$393,000 compared with a total investment of \$417,000 in the year ended December 31, 2015. The proceeds from the payouts of Accounts was partially offset by costs incurred in connection with the acquisition of real estate owned assets in the amount of \$0.50 million for the year ended December 31, 2016. Included in this cost were two real estate owned assets purchased for approximately \$172,000.

Cash from Financing Activities

At December 31, 2016, indebtedness of the Company was \$5.2 million compared with \$7.5 million at December 31, 2015. On January 26, 2015, our subsidiary, LMF October 2010 Fund, LLC borrowed \$2 million on a three year term from a private lender (the "Private Loan"). This note bore interest at 14% per annum and was collateralized by all of the accounts receivable, contract rights, and lien rights arising from or relating to collection of Association payments made by us relating to certain Accounts as well as all deposit accounts and cash of LMF October 2010 Fund, LLC. The Company and its members guaranteed this loan. This loan was being amortized in 36 equal installments of principal and interest commencing February 26, 2015. The proceeds of this loan were used to redeem the membership interests of the Company beneficially owned by Frank C. Silcox. This note was retired without prepayment penalty on July 31, 2015.

On July 1, 2015, our subsidiary, LMF October 2010 Fund, LLC, borrowed \$1.8 million on a 29-month term under a loan agreement dated September 25, 2015. This note bears interest at 6% plus the LIBOR Base Rate published in the Wall Street Journal per annum and is collateralized by all of the accounts receivable, contract rights, and lien rights arising from or relating to collection of Association payments made by us relating to certain Accounts as well as all deposit accounts and cash of LMF October 2010 Fund, LLC. Certain beneficial owners of the members of the Company guaranteed this loan. This loan is being amortized in 29 equal installments of principal and interest commencing July 25, 2015. The proceeds from this loan were used to pay off the Private Loan.

Debt of the Company consisted of the following at December 31, 2016 and 2015:

	Year ended December 31,	
	2016	2015
Financing agreement with FlatIron capital. Down payment of \$16,500 was required upfront and equal installment payments of \$9,610 to be made over a 10 month period. Annualized interest is 5.25%	\$ -	\$ 48,050
Promissory note issued to a financial institution, bearing interest at 8%, interest payable monthly, and principal payments due quarterly. Secured by all of the Company's rights, title, interest, claims, and demands associated with certain condominium units held in LMF SPE #2, LLC and all cash held in LMF SPE #2, LLC. Accrued interest is due monthly beginning January 29, 2015. Installment of principal is due quarterly. Note matures on April 30, 2018 and can be prepaid at any time without penalty. Principal balances for this promissory note were \$4,540,274 and \$6,241,555, respectively, as of December 31, 2016 and 2015. Unamortized debt issuance costs were \$96,896 and \$193,792, respectively, as of December 31, 2016 and December 31, 2015.	4,443,378	6,047,763
Promissory note issued to a financial institution, bearing interest at 6% plus one month Libor, principal payments of \$60,000 per month plus interest due through maturity on February 1, 2018. This loan is collateralized by all of the accounts receivable, contract rights, and lien rights arising from or relating to collection of Association payments made by the Company relating to certain accounts as well as all deposit accounts and cash of LMF October 2010 Fund, LLC. LM Funding, LLC and its members guaranteed this loan. Principal balances for this promissory note were \$720,000 and \$1,440,000, respectively, as of December 31, 2016 and 2015. Unamortized debt issuance costs were \$2,500 and \$4,167, respectively, as of December 31, 2016 and December 31, 2015.	717,500	1,435,833
	<u>\$ 5,160,878</u>	<u>\$ 7,531,646</u>

As of December 31, 2016, minimum required principal payments on notes payable are \$1,622,529 in 2017 and \$3,637,745 in 2018.

In addition, the Company's related party balance has increased \$1.25 million to \$1.66 million as of December 31, 2016 compared with \$0.41 million as of December 31, 2015. The Company expects this balance to decrease in the future in direct correlation with our expectation for payouts to increase. The revision of the BLG service agreement will also assist with the repayment of this related party balance. See Note 10. Related Party Transactions for further discussion on the Company's related party receivable balance and new service agreement. See Note 13. Management's Plans for further discussion management's assessment of liquidity.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

None

Item 8. Financial Statements and Supplementary Data.

The Financial Statements of the Company, the Notes thereto and the Report of Independent Registered Public Accounting Firm thereon required by this item begin on page F-1 of this report located immediately following the signature page.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended, or Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules, regulations and related forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

In accordance with Rule 13a-15(b) of the Exchange Act, our management carried out an evaluation, under the supervision and with the participation of our principal executive officer and our principal financial officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e)) as of December 31, 2016. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2016, the end of the period covered by this report.

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) that occurred during the year ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report on Form 10-K does not include a report of management's assessments regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item will be set forth in our definitive proxy statement with respect to our 2017 annual meeting of stockholders to be filed not later than 120 days after December 31, 2016 and is incorporated herein by this reference.

Item 11. Executive Compensation.

The information required by this item will be set forth in our definitive proxy statement with respect to our 2017 annual meeting of stockholders to be filed not later than 120 days after December 31, 2016 and is incorporated herein by this reference.

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

The information required by this item will be set forth in our definitive proxy statement with respect to our 2017 annual meeting of stockholders to be filed not later than 120 days after December 31, 2016 and is incorporated herein by this reference.

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

The information required by this item will be set forth in our definitive proxy statement with respect to our 2017 annual meeting of stockholders to be filed not later than 120 days after December 31, 2016 and is incorporated herein by this reference.

Item 14. Principal Accounting Fees and Services.

The information required by this item will be set forth in our definitive proxy statement with respect to our 2017 annual meeting of stockholders to be filed not later than 120 days after December 31, 2016 and is incorporated herein by this reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

1. *Financial Statements*. See the Index to Consolidated Financial Statements on page 26.
2. *Exhibits*. See Item 15(b) below.

(b) *Exhibits*. The exhibits listed on the Exhibit Index, which appears at the end of this Item 15, are filed as part of, or are incorporated by reference into, this report.

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

Item 16. Form 10-K Summary.

None.

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of LM Funding America, Inc. and Subsidiaries and Predecessor (collectively the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LM Funding America, Inc. and Subsidiaries and Predecessor at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ SKODA MINOTTI & CO.

Tampa, Florida
March 31, 2017

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

	December 31, 2016	December 31, 2015
Assets		
Cash	\$ 2,268,180	\$ 8,997,798
Finance receivables:		
Original product (Note 2)	1,035,832	1,537,101
Special product - New Neighbor Guaranty program, net of allowance for credit losses of \$125,000 (Note 3)	491,597	715,534
Due from related party (Note 10)	1,661,360	406,219
Prepaid expenses and other assets	203,738	151,362
Fixed assets, net	109,938	158,692
Real estate assets owned (Note 5)	734,727	285,341
Deferred tax asset (Note 8)	3,509,401	2,162,380
Total assets	\$ 10,014,773	\$ 14,414,427
Liabilities and stockholders' equity		
Notes payable (Note 6)		
Principal amount	\$ 5,260,274	\$ 7,729,605
Less unamortized debt issuance costs	(99,396)	(197,959)
Long-term debt less unamortized debt issuance costs	5,160,878	7,531,646
Accounts payable and accrued expenses	493,691	466,783
Deferred tax liability	77,865	41,803
Other liabilities and obligations	112,881	109,729
Total liabilities	5,845,315	8,149,961
Stockholders' equity (Note 9)		
Common stock, par value \$.001; 10,000,000 shares authorized; 3,300,000 shares issued and outstanding	3,300	3,300
Additional paid-in capital	6,556,704	6,281,322
Accumulated deficit	(2,390,546)	(20,156)
Total stockholders' equity	4,169,458	6,264,466
Total liabilities and stockholders' equity	\$ 10,014,773	\$ 14,414,427

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

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

	Years ended December 31,	
	2016	2015
Revenues		
Interest on delinquent association fees	\$ 3,640,233	\$ 5,588,697
Administrative and late fees	383,773	544,067
Recoveries in excess of cost - special product	143,106	345,686
Underwriting fees and other revenues	385,683	302,154
Rental revenue	347,040	180,157
Total revenues	<u>4,899,835</u>	<u>6,960,761</u>
Operating expenses		
Staff costs & payroll	3,220,005	1,288,342
Professional fees	2,105,143	819,343
Settlement costs with associations	654,750	805,180
Selling, general and administrative	1,080,130	686,721
Real estate management and disposal	499,647	270,574
Depreciation and amortization	72,114	47,466
Collection costs	292,791	206,998
Provision for credit losses	-	125,000
Other operating	62,004	68,565
Operating expenses	<u>7,986,584</u>	<u>4,318,189</u>
Operating (loss) income	(3,086,749)	2,642,572
Interest expense	<u>594,600</u>	<u>917,485</u>
(Loss) income before income taxes	(3,681,349)	1,725,087
Income tax benefit	1,310,959	146,555
Net (loss) income	<u>(2,370,390)</u>	<u>1,871,642</u>
Net (income) attributable to non-controlling interest	-	(139,865)
Net (income) attributable to predecessor members	<u>-</u>	<u>(1,751,933)</u>
Net loss to common stockholders	<u>\$ (2,370,390)</u>	<u>\$ (20,156)</u>
Loss per share attributable to the stockholders of LM Funding America, Inc.		
Basic	\$ (0.72)	(0.01)
Diluted	\$ (0.72)	(0.01)
Weighted average number of common shares outstanding		
Basic	3,300,000	3,300,000
Diluted	3,300,000	3,300,000

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

LM FUNDING AMERICA, INC. AND SUBSIDIARIES AND PREDECESSOR
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	LM Funding America, Inc.				Predecessor Members				
	Common Stock		Additional paid-in capital	Accumulated Deficit	LM Funding Management, LLC	CGR 63, LLC	BRR Holding, LLC	Non- controlling interest	Total Equity
	Shares	Amount							
Balance - December 31, 2014	-	\$ -	\$ -	\$ -	\$ (572,262)	\$ (571,950)	\$ -	\$ 11,035	\$(1,133,177)
Close out capital account	-	-	-	-	572,262	(572,262)	-	-	-
Redemption of membership interest	-	-	-	-	-	(1,960,010)	-	-	(1,960,010)
Distributions	-	-	-	-	-	(3,904,459)	-	(36,015)	(3,940,474)
Net income, allocated before stock offering	-	-	-	-	-	1,716,452	35,481	135,170	1,887,103
Deferred tax asset	-	-	1,974,022	-	-	-	-	-	1,974,022
Reorganization	-	-	(5,256,748)	-	-	5,292,229	(35,481)	-	-
Initial public stock offering	3,300,000	3,300	9,684,896	-	-	-	-	-	9,688,196
Purchase of non-controlling interest	-	-	(135,115)	-	-	-	-	(114,885)	(250,000)
Stock option expense	-	-	14,267	-	-	-	-	-	14,267
Net (loss) income after stock offering	-	-	-	(20,156)	-	-	-	4,695	(15,461)
Balance - December 31, 2015	3,300,000	3,300	6,281,322	(20,156)	-	-	-	-	6,264,466
Stock option expense	-	-	275,382	-	-	-	-	-	275,382
Net loss	-	-	-	(2,370,390)	-	-	-	-	(2,370,390)
Balance - December 31, 2016	<u>3,300,000</u>	<u>\$ 3,300</u>	<u>\$ 6,556,704</u>	<u>\$ (2,390,546)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,169,458</u>

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

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

	Years ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest on delinquent association fees	\$ 3,577,745	\$ 5,588,697
Administrative and late fees	375,259	544,067
Recoveries in excess of cost - special product	126,818	345,686
Underwriting and origination fees	386,657	291,928
Rental revenue	347,040	180,157
Staff costs and payroll	(2,944,625)	(1,288,342)
Other operating expenses	(4,725,496)	(2,694,649)
Interest paid	(496,037)	(717,305)
Net cash (used) provided by operating activities	<u>(3,352,639)</u>	<u>2,250,239</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net collections of finance receivables - original product	498,734	893,355
Net collections of finance receivables - special product	215,136	327,271
Capital expenditures	(267,960)	(43,761)
Payments for real estate assets owned	(98,417)	(242,610)
Net cash provided by investing activities	<u>347,493</u>	<u>934,255</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	—	2,172,626
Principal repayments	(2,469,331)	(1,874,959)
Redemption of membership interest	—	(1,960,010)
Distributions	—	(3,904,459)
Return of capital to non-controlling interest	—	(36,015)
(Advances) repayments to related party	(1,255,141)	57,681
Proceeds from initial public stock offering, net (See Note 9)	—	9,688,196
Purchase of non-controlling interest	—	(250,000)
Debt issue costs	—	(107,450)
Net cash provided by (used in) financing activities	<u>(3,724,472)</u>	<u>3,785,610</u>
NET (DECREASE) INCREASE IN CASH	<u>(6,729,618)</u>	<u>6,970,104</u>
CASH - BEGINNING OF YEAR	<u>8,997,798</u>	<u>2,027,694</u>
CASH - END OF YEAR	<u>\$ 2,268,180</u>	<u>\$ 8,997,798</u>

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

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

Note 1. Summary of Significant Accounting Policies

Nature of Operations

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

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

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

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

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

Effective November 1, 2015, LMFA purchased for \$250,000 the outstanding 5% ownership in its subsidiary LMF SPE, #2, LLC held by CRE Funding, LLC.

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; LM Funding of Colorado, LLC; LM Funding of Washington, LLC; LM Funding of Illinois, LLC; and LMF SPE #2, LLC. All significant intercompany balances have been eliminated in consolidation.

Basis of Presentation

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

Use of Estimates

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

Note 1. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Accounting Standards Codification (“ASC”) 605-10-25-1 of the Financial Accounting Standards Board (“FASB”) states revenues are realized or realizable when related assets received or held are readily convertible into known amounts of cash. In those cases where there is no reasonable basis for estimating the “known amount” of cash to be collected, the cash basis or cost recovery method of recognizing revenues may be used. The Company provides funding to community associations by purchasing their rights under delinquent accounts from unpaid assessments due from property owners (the “accounts”). Collections on the accounts may vary greatly in both the timing and amount ultimately recovered compared with the total revenues earned on the accounts because of a variety of economic and social factors affecting the real estate environment in general. The Company has determined that the known amount of cash to be realized or realizable on its revenue generating activities cannot be reasonably estimated and as such, classifies its finance receivables as nonaccrual and recognizes revenues in the accompanying statements of income on the cash basis or cost recovery method in accordance with ASC 310-10, *Receivables*. The Company applies the cash basis method to its original product and the cost recovery method to its special product as follows:

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

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

Cash

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

Finance Receivables

Finance receivables are recorded at the amount funded or cost (by unit). The Company evaluates its finance receivables at each period end for losses that are considered probable and can be reasonably estimated in accordance with ASC 450-20. As discussed above, recoverability of funded amounts under the Company’s original product is generally assured because of the protection of the Super Lien Amount. As such, the Company did not have any allowance for credit losses related to its original product at December 31, 2016 and 2015.

Under the *New Neighbor Guaranty* program (special product), the Company funds amounts in excess of the Super Lien Amount. When evaluating the carrying value of its finance receivables, the Company looks at the likelihood of future cash flows based on historical payoffs, the fair value of the underlying real estate, the general condition of the community association in which the unit exists, and the general economic real estate environment in the local area. During 2015 the Company purchased credit insurance covering all funded amounts in excess of a deductible amount (equal to six months of delinquent assessments). Recoveries under this credit insurance program for the year ended December 31, 2016 and 2015 were approximately \$95,000 and \$236,000, respectively. This insurance product was not renewed and only claims filed related to foreclosures occurring on or before January 28, 2016 will be covered under this policy. The Company estimated an allowance for credit losses of \$125,000 as of December 31, 2016 and December 31, 2015 under ASC 450-20 related to its *New Neighbor Guaranty* program.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Real Estate Assets Owned

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

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

The Company capitalizes costs incurred to acquire real estate owned properties and any costs incurred to get the units in a condition to be rented. These costs include, but are not limited to, renovation/rehabilitation costs, legal costs, and delinquent taxes. These costs are depreciated over the estimated minimum time period the Company expects to maintain possession of the units. Costs incurred for unencumbered units are depreciated over 20 years and costs for units subject to a first mortgage are depreciated over 3 years. As of December 31, 2016 and 2015, capitalized real estate costs, net of accumulated depreciation, were approximately \$735,000 and \$285,000, respectively. During the years ended December 31, 2016 and 2015, depreciation expense was approximately \$27,000 and \$0, 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Fixed Assets

The Company capitalizes all acquisitions of fixed assets in excess of \$500. Fixed assets are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Fixed assets are comprised of furniture, computer and office equipment with an assigned useful life of 3 to 5 years. Fixed assets also includes capitalized software costs. Capitalized software costs include costs to develop software to be used solely to meet the Company's internal needs, consist of employee salaries and benefits and fees paid to outside consultants during the application development stage, and are amortized over their estimated useful life of 5 years. As of December 31, 2016 and December 31, 2015, capitalized software costs, net of accumulated amortization, was \$68,470 and \$91,729, respectively. Amortization expense for capitalized software costs for the periods ended December 31, 2016 and December 31, 2015 was \$23,259.

Debt Issue Costs

The Company capitalizes all debt issue costs and amortizes them on a method that approximates the effective interest method over the remaining term of the note payable. Unamortized debt issue costs of \$99,396 at December 31, 2016 and \$197,959 at December 31, 2015 are presented in the accompanying condensed consolidated balance sheets as a direct deduction from the carrying amount of that debt liability in accordance with Accounting Standards Update ("ASU") 2015-03 (see below). The Company adopted this new standard in the first quarter of fiscal 2016. The adoption of this standard did not have a material impact on the Company's consolidated financial position and had no impact on its consolidated income or cash flows.

Settlement Costs with Associations

Community associations working with the Company will at times incur costs in connection with litigation initiated by the Company against property owners and or mortgage holders. These costs include settlement agreements whereby the community association agrees to pay some monetary compensation to the opposing party or judgments against the community associations for fees of opposing legal counsel or other damages awarded by the courts. The Company indemnifies the community association for these costs pursuant to the provisions of the agreement between the Company and the community association. Costs incurred by the Company for these indemnification obligations for the year ended December 31, 2016 and 2015 were \$654,750 and \$805,180, 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.

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

Loss Per Share

Basic loss per share is calculated as net loss to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted loss per share for the period equals basic loss per share as the effect of any stock based compensation awards or stock warrants would be anti-dilutive.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Contingencies

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

Fair Value of Financial Instruments

FASB ASC 825-10, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. The Company engages a third party valuation firm to assist in estimating the fair value of its finance receivables. See Note 11.

Risks and Uncertainties

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

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

Non-cash Operating and Investing Activities

During the year ended December 31, 2016 and 2015, 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 \$135,000 and \$237,000, respectively. The fair value of these properties was first applied to recover the Company's initial investment with any remaining proceeds applied to interest, late fees, and other amounts owed by the property owner.

New Accounting Pronouncements

Revenue Recognition - On May 28, 2014, the Financial Accounting Standards Board issued ASU 2014-09—*Revenue from Contracts with Customers (Topic 606)* which provided new accounting guidance regarding revenue recognition, and is effective for annual periods beginning after December 15, 2017. The Company has not yet evaluated the impact of this new guidance on its consolidated financial statements.

Debt Issue Costs - In April 2015, FASB issued ASU 2015-03, *Interest – Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). The amended guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015. Debt issue costs deducted from the carrying amount of the related debt liability in the accompanying consolidated balance sheets were \$99,396 and \$197,959 as of December 31, 2016 and 2015.

Leases – In February 2016, the FASB issued ASU 2016-02-*Leases* which requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and the disclosure of additional information about leasing arrangements. Under the new guidance, for all leases, interest expense and amortization of the right to use asset will be recorded for leases determined to be financing leases and straight-line lease expense will be recorded for leases determined to be operating leases. Lessees will initially recognize assets for the right to use the leased assets and liabilities for the obligations created by those leases. The new accounting standard must be adopted using a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The accounting standard is effective for the Company beginning January 1, 2019, with early adoption permitted. The Company is currently in the process of assessing what impact this new standard may have on its consolidated financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Subsequent Events

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

Note 2. Finance Receivables – Original Product

The Company’s original funding product provides financing to community associations only up to the secured or “Super Lien Amount” as discussed in Note 1. Finance receivables for the original product as of December 31, based on the year of funding are approximately as follows:

	2016	2015
Funded during the current year	\$ 80,000	94,000
1-2 years outstanding	31,000	87,000
2-3 years outstanding	37,000	193,000
3-4 years outstanding	144,000	390,000
Greater than 4 years outstanding	744,000	773,000
	<u>\$ 1,036,000</u>	<u>\$ 1,537,000</u>
Number of active units with delinquent assessments	1,490	1,983
Amount of outstanding interest and late fees on active units	\$ 18,000,000	\$ 21,000,000

Note 3. Finance Receivables – Special Product (New Neighbor Guaranty program)

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

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

As of December 31, 2016, maximum future contingent payments under these arrangements was approximately \$602,000. The Company had mitigated the credit risk for these transactions by insuring the payment of a portion of uncollected assessments paid by the Company during 2016 and 2015, (See Note 4 below).

Finance receivables at December 31, 2016 and 2015 related to this special product were approximately \$492,000 and \$716,000, respectively, under agreements with 33 associations covering 152 units at December 31, 2016 and 32 associations covering 175 units at December 31, 2015.

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

	2016	2015
Delinquent assessments	\$ 1,636,000	\$ 2,018,000
Accrued interest and late fees	1,045,000	1,088,000

Recoveries on the collection of assessments in excess of the Company’s cost during 2016 and 2015 approximated \$143,000 and \$346,000, respectively.

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

Allowance for credit losses are recorded for losses that are considered “probable” and can be “reasonably estimated” in accordance with ASC 450-20. Recoverability of the Company’s Original Product is generally assured because of the protection of the Super Lien under Florida statute and as such no allowance is recorded. Recoverability of the Company’s NNG Product was, in prior years, considered to be generally assured by the purchase of credit insurance. The coverage was not renewed and only claims filed related to foreclosures occurring on or before January 28, 2016 will be covered under the insurance policy.

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

Note 5. Real Estate Assets Owned

Real estate assets owned as reported in the accompanying consolidated balance sheets consist of the fair market value less cost to dispose for those foreclosed units acquired free and clear of any mortgage or other liens plus costs incurred by the Company in excess of original funding on units. Real estate assets owned at December 31, 2016, and 2015, were approximately \$734,700 and \$285,300 respectively, consisting of fifteen and eleven units owned respectively, at these dates. The Company acquired four and nine new unencumbered units, net of disposals during 2016 and 2015 that were capitalized at fair value less cost to dispose of approximately \$57,000 and \$237,000, respectively. The fair market value of each unit was first applied to recover the Company’s investment with any remaining proceeds applied next to interest, late fees, legal fees, collection costs, and payable to the association. Any excess proceeds still remaining were recognized as a gain.

Most units are quitclaimed to the Company without the Company incurring additional cost and are subject to mortgage. Total units within the real estate portfolio at December 31, 2016 and 2015 as a result of foreclosure action were, including those discussed above, 67 and 43, respectively. During 2016 and 2015, the Company sold four and one units, respectively, and realized proceeds of approximately \$105,000 and \$10,000, respectively. Any proceeds collected are first applied to recover the Company’s investment with any remaining proceeds applied next to interest, late fees, legal fees, collection costs and any amounts due to the community association. Any excess proceeds still remaining are recognized as gain on sale of real estate assets. If the future proceeds collected are lower than the Company’s carrying value, then a loss is recognized on the sale. There was no significant gain or loss on the disposal of real estate assets during 2016 or 2015. Rental revenues collected in 2016 and 2015 were approximately \$347,000 (net of cost recovery of \$128,000) and \$180,000, respectively.

As mentioned above, upon a unit being quitclaim deeded to the Company, the Company becomes responsible for current association assessments. The monthly contingent obligation for assessments due on these units to associations as of December 31, 2016 and 2015 approximates \$23,000 and \$15,000, respectively.

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

Note 6. Long-Term Debt and Other Financing Arrangements

	Year ended December 31,	
	2016	2015
Financing agreement with FlatIron capital. Down payment of \$16,500 was required upfront and equal installment payments of \$9,610 to be made over a 10 month period. Annualized interest is 5.25%	\$ -	\$ 48,050

Promissory note issued to a financial institution, bearing interest at 8%, interest payable monthly, and principal payments due quarterly. Secured by all of the Company's rights, title, interest, claims, and demands associated with certain condominium units held in LMF SPE #2, LLC and all cash held in LMF SPE #2, LLC. Accrued interest is due monthly beginning January 29, 2015. Installment of principal is due quarterly. Note matures on April 30, 2018 and can be prepaid at any time without penalty. Principal balances for this promissory note were \$4,540,274 and \$6,241,555, respectively, as of December 31, 2016 and 2015. Unamortized debt issuance costs were \$96,896 and \$193,792, respectively, as of December 31, 2016 and December 31, 2015.	4,443,378	6,047,763
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Promissory note issued to a financial institution, bearing interest at 6% plus one month Libor, principal payments of \$60,000 per month plus interest due through maturity on February 1, 2018. This loan is collateralized by all of the accounts receivable, contract rights, and lien rights arising from or relating to collection of Association payments made by the Company relating to certain accounts as well as all deposit accounts and cash of LMF October 2010 Fund, LLC. LM Funding, LLC and its members guaranteed this loan. Principal balances for this promissory note were \$720,000 and \$1,440,000, respectively, as of December 31, 2016 and 2015. Unamortized debt issuance costs were \$2,500 and \$4,167, respectively, as of December 31, 2016 and December 31, 2015.	717,500	1,435,833
	\$ 5,160,878	\$ 7,531,646

Minimum required principal payments on the Company's debt as of December 31, 2016 are as follows :

Years Ending December 31,	
2017	\$ 1,622,529
2018	3,637,745
	5,260,274
Unamortized debt issue costs	(99,396)
	\$ 5,160,878

Note 7. Commitments and Contingencies

Leases

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

Future minimum lease payments due under this lease as of December 31, 2016 are as follows:

Years Ending December 31,	
2017	\$ 354,000
2018	364,000
2019	216,000
	\$ 934,000

Note 7. Commitments and Contingencies (Continued)

The Company shares this space and the related costs associated with this operating lease with a related party (see Note 10) that also performs legal services associated with the collection of delinquent assessments. Net rent expense recognized in 2016 and 2015 approximated \$170,000 and \$159,000, respectively.

Legal Proceedings

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

Solaris at Brickell Bay Condominium Association, Inc. v. LM Funding, LLC, Case No: 2014-20043-C, was brought before the Circuit Court of the Eleventh Judicial Circuit, Miami-Dade Civil Division on July 31, 2014. On May 4, 2011, we entered into a Delinquent Assessments Proceeds Purchase Agreement with the plaintiff (the "Solaris Agreement"). On February 13, 2014, the plaintiff notified us of its intent to rescind the Solaris Agreement, claiming that we had failed to foreclose on Accounts assigned to us under the Solaris Agreement. In response, we requested that the plaintiff pay amounts we believe to be owed to us under the Solaris Agreement. In its complaint, the plaintiff alleges claims such as a usurious loan transaction, state and federal civil Racketeer Influenced and Corrupt Organization Act claims, Florida Deceptive and Unfair Trade Practices Act ("FDUTPA") violations, and other related claims. The plaintiff has requested rescission of the Solaris Agreement, forfeiture of all amounts lent by us to the plaintiff, a declaratory judgment that we have violated FDUTPA, other damages for breach of contract and violations of FDUTPA, and attorneys' fees. We believe these claims are without merit and we have counterclaimed for breach of contract, unjust enrichment, and other claims in the alternative. Plaintiff's motion seeking class certification was granted by the court. We are appealing the class certification order and we are likewise defending the lawsuit and will seek a dismissal of those allegations. The outcome of this litigation is indeterminate at this time.

Wilmington Savings Fund Society FSB v. Business Law Group PA, LM Funding, LLC, Bruce Rodgers, Case No. 15-CA-009871, was brought before the Thirteenth Judicial Circuit Court for Hillsborough County Florida on October 29th, 2015. LM Funding, LLC received service on November 16, 2015. Plaintiff as trustee brought an action against Business Law Group, P.A., LM Funding, LLC, and Bruce Rodgers individually, alleging broad interactions with only Business Law Group, surrounding a dispute arising in the normal course of litigation. Plaintiff alleges that LM Funding, LLC has directed Business Law Group, P.A. to violate certain safe-harbor provisions of the Florida statutes. Plaintiff alleges against all parties claims such as violations of FDUTPA, unjust enrichment, and civil conspiracy. The plaintiff has requested declaratory relief that we have violated portions of FDUTPA, restitution, and additional monetary damages, and alleged that it is a proper plaintiff to represent a putative class. The case has subsequently been removed to United States Federal Court for the Middle District of Florida. Plaintiff's motion seeking class certification was pled and heard with the judge denying the motion for class certification. Deadline for plaintiff to file a notice of appeal has since passed and cannot be reopened. We believe these claims are without merit and plan to pursue all remedies available against plaintiff.

Note 8. Income Taxes

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

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

Adjustments are recorded based on filed returns when finalized or the related adjustments are identified.

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

Note 8. Income Taxes (Continued)

Significant components of the tax benefit recognized in the accompanying consolidated statements of operations for the period subsequent to the initial public offering (October 23, 2015 to December 31, 2016) are as follows:

	Year Ended		Period Ended	
	December 31, 2016		December 31, 2015	
Current tax benefit				
Federal	\$	1,402,230	\$	171,007
State		81,611		9,953
		1,483,841		180,960
Deferred tax expense		(172,882)		(34,405)
	\$	1,310,959	\$	146,555

The reconciliation of the income tax computed at the combined federal and state statutory rate of 37.63% to the income tax benefit is as follows:

	Year Ended December 31,		Period Ended December 31,	
	2016	2016	2015	2015
Benefit on net loss after initial public offering of \$3,681,349 and \$166,711	\$ 1,385,291	37.6 %	\$ 62,733	37.6 %
Nondeductible expenses	(48,375)	(1.3) %	(7,246)	(4.3) %
Tax benefit of historical carryover basis at contribution of members' interest	-	0.0 %	91,068	54.6 %
Other items	(25,957)	(0.7) %	-	0.0 %
Tax benefit/effective rate	\$ 1,310,959	35.6 %	\$ 146,555	87.9 %

The significant components of the Company's deferred tax liabilities and assets as of December 31, 2016 and December 31, 2015 are as follows:

	As of December 31,	
	2016	2015
Deferred tax liabilities:		
Tax expense for debt issuance costs	\$ 37,403	\$ -
Tax expense for internally developed software	25,752	34,280
Tax depreciation in excess of book	14,710	7,523
	77,865	41,803
Deferred tax assets:		
Loss carryforwards	1,641,485	180,960
Step up in basis at contribution to C-Corp	1,584,758	1,826,688
Stock option expense	108,994	5,369
Step up in basis - purchase of non-controlling interest	96,583	102,325
Allowance for credit losses	47,038	47,038
Accrued liabilities	30,543	-
	3,509,401	2,162,380
Net deferred tax asset	\$ 3,431,536	\$ 2,120,577

Note 8. Income Taxes (Continued)

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

Note 9. Stockholders' Equity

Initial Public Offering

In October 2015, LMFA closed its initial public offering of 1,200,000 units, each unit consisting of one share of common stock and one warrant to purchase one share of common stock, at a public offering price of \$10.00 per unit. The units were listed on the Nasdaq Capital Market under the symbol "LMFAU" and commenced trading on October 23, 2015. The shares of common stock and warrants comprising the units began trading separately on December 8, 2015, and the units ceased trading on December 7, 2015. Shares of LM Funding America, Inc. common stock trade on the Nasdaq Capital Market under the symbol "LMFA" and the warrants trade on the Nasdaq Capital Market under the symbol "LMFAW".

The Company received aggregate proceeds from the offering of \$12,000,000 and incurred costs related to the offering of approximately \$2,312,000. Net proceeds of approximately \$9,688,000 were credited to additional paid-in capital. Immediately prior to the offering, the members of the Predecessor contributed all of their membership interests to the Company and their related member account balances totaling a deficit of approximately \$5,257,000 were closed against additional paid-in capital. The former members of the Predecessor recognized taxable gains associated with both deficit capital accounts and redemption transactions noted below resulting in a step up in income tax basis for assets of the Predecessor and favorable tax benefits to the Company. The Company recorded a deferred tax asset related to the tax effect of these transactions with or among shareholders of approximately \$1,974,000 with a corresponding increase to additional paid-in of capital in accordance with ASC 740-20-45-11, *Income Taxes*.

Minority Interest Purchase

Effective November 1, 2015, LM Funding America, Inc. purchased for \$250,000 the outstanding 5% ownership in its subsidiary LMF SPE #2 held by CRE Funding, LLC. Under the terms of the agreement, the tax consequences of the transaction are retroactive to December 31, 2014.

Redemption of Membership Interest

In January 2015, the Company and another related party entity redeemed the membership interests in LM Funding, LLC beneficially owned by one of its co-founders, for an aggregate redemption price of \$2,000,000 (\$1,960,000 paid by the Company). The redemption was recorded as a reduction in capital. This redemption allowed management and the members of LM Funding, LLC to have more flexibility to execute its business strategy.

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).

Note 9. Stockholders' Equity (Continued)

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

On January 4, 2016 the Company granted a total of 84,600 stock options to our employees at an exercise price of \$12.50 per share. These awards will vest evenly over a three year period. The maximum term of an option is 10 years from the date of grant. The grant date fair value of the options granted was \$1.27. Total expense to be recognized for the employee options is approximately \$107,000.

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

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

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

The Black-Scholes pricing model was used to determine the fair value of the stock options granted by the Company. The Company recognizes this value as an expense over the period in which the stock options vest. The weighted average grant date fair value of the options granted was \$1.21 and \$2.36, respectively for awards granted in the years ended December 31, 2016 and 2015. Compensation expense recognized from the vesting of stock options was approximately \$275,000 and \$14,000, respectively for the years ended December 31, 2016 and 2015. The remaining unrecognized compensation cost associated with unvested stock options as of December 31, 2016 and 2015 is approximately \$89,000 and \$209,000, respectively which will be recognized through April 30, 2019. At December 31, 2016, the stock options had a remaining life of approximately 9 years.

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

	2016			
	Employees	Consultants	Board of Directors	Employee
Risk-free rate	1.90 %	1.73 %	1.90 %	1.36 %
Expected life	6 years	5 years	6 years	6 years
Expected volatility	25.13 %	20.61 %	25.13 %	25.82 %
Expected dividend	—	—	—	—
				2015
Risk-free rate				1.93 %
Expected life				6 years
Expected volatility				25.00 %
Expected dividend				—

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

Note 9. Stockholders' Equity (Continued)

The following is a summary of the stock option plan activity during 2016 and 2015:

	2016		2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options Outstanding at Beginning of the year	94,500	\$ 10.00	-	\$ -
Granted	172,504	12.14	94,500	10.00
Exercised	-	-	-	-
Forfeited	<u>(51,636)</u>	<u>12.50</u>	<u>-</u>	<u>-</u>
Options Outstanding at End of Year	<u>215,368</u>	<u>\$ 11.38</u>	<u>94,500</u>	<u>\$ 10.00</u>
Options Exercisable at End of Year	<u>94,500</u>	<u>\$ 10.00</u>	<u>6,038</u>	<u>\$ 10.00</u>

Note 10. Related Party Transactions

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

Amounts collected from property owners and paid to BLG for 2016 and 2015 were approximately \$1,129,000 and \$1,581,000, respectively. As of December 31, 2016 and 2015, receivables from property owners for charges ultimately payable to BLG approximate \$6,005,000 and \$5,649,000, respectively.

Under the related party agreement with BLG in effect during 2015 and 2016, the Company pays all costs (lien filing fees, process and serve costs) incurred in connection with the collection of amounts due from property owners. Any recovery of these collection costs are accounted for as a reduction in expense incurred. The Company incurred expenses related to these types of costs of \$609,000 and \$506,000, during 2016 and 2015, respectively. Recoveries during 2016 and 2015 related to those costs were approximately \$316,000 and \$299,000, respectively. Following the change in ownership of BLG discussed above, the Company began paying BLG a monthly fee of \$7,000 per month plus a minimum fee of \$700 per unit in those payoff events where the collection amount was limited to the Super Lien amount. Legal fees charged to the Company by BLG in excess of amounts collected from property owners for the years ended December 31, 2016 and 2015 were approximately \$146,000 and \$95,000, respectively.

The Company also shares office space and related common expenses with BLG. All shared expenses, including rent, are charged to the legal firm based on an estimate of actual usage. Any expenses of BLG paid by the Company that have not been reimbursed or settled against other amounts are reflected as due from related parties in the accompanying consolidated balance sheet. Amounts receivable from BLG as of December 31, 2016 and 2015 were approximately \$1,661,000 and \$406,000, respectively.

During 2016, the Company experienced a decline in collection events that affected revenues both to the Company and BLG. The increase in the receivable noted above 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 will pay BLG a fixed monthly fee of \$82,000 per month for services rendered. The Company will continue to pay BLG a minimum per unit fee of \$700 in any case where there is a collection event and BLG receives no payment from the property owner. This provision has been expanded to also include any unit where the Company has taken title to the unit or where the association has terminated its contract with either BLG or the Company. The Company and BLG are in discussions regarding formalizing a note agreement to be secured by the outstanding receivables of BLG.

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

Note 10. Related Party Transactions (Continued)

The Company expects repayment of the receivable amount as collection events return to historical levels.

Note 11. Fair Value of Financial Instruments

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

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

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

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

The Company considers the data inputs used to estimate the fair value of its finance receivables to fall within Level 3 of the fair value hierarchy. Fair value measurements as noted below are based on the income approach using a discount rate of 8.45% and 9.10% for finance receivables at December 31, 2016 and 2015, respectively. The recovery period as of both dates was assumed to be 8.5 years. The carrying amount and estimated fair value of finance receivables at December 31 are as follows:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Finance receivables:				
Original product	\$ 1,035,832	\$ 7,920,000	\$ 1,537,101	\$ 8,695,000
Special product, net of allowance (1)	491,597	975,000	715,534	1,460,000

(1) For New Neighbor Guaranty program

Note 12. Reconciliation of Net Income To Cash Provided By (Used In) Operating Activities

	2016	2015
Net (loss) income	\$ (2,370,390)	\$ 1,731,777
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities		
Non-controlling interest	-	139,865
Stock compensation expense	275,380	-
Non cash operating revenue	(95,033)	-
Debt issuance costs	98,564	200,180
Depreciation and amortization	72,114	47,466
Decrease (increase) in prepaid expenses and other assets	(52,376)	159,326
Increase (decrease) in accounts payable and accrued expenses	26,908	122,062
Increase (decrease) in other liabilities and obligations	3,153	(3,882)
Income tax benefit	(1,310,959)	(146,555)
	<u>\$ (3,352,639)</u>	<u>\$ 2,250,239</u>

Note 13. Management's Plans

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

The Company has debt obligations arising within one year that if not refinanced will raise substantial doubt about the Company's ability to continue as a going concern as defined by ASU 2014-05. Management has performed its assessment as required by ASU 2014-05 and has concluded that it is probable that its plans as discussed below will mitigate the conditions that raise substantial doubt.

The Company has a history of refinancing debt and management is confident that it will be able to successfully refinance the current debt obligations. Although the Company experienced significant operating losses in 2016, management believes that there have been positive financial trends for the 6 month period ended February 2017. Management has realized significant expense reductions starting in September of 2016 and management has implemented new sales programs that are resulting in significant increases in unit acquisitions for 2017. The Company has also acquired a large real estate base that, if needed, could be sold to help the Company's liquidity. We expect to generate additional liquidity through the monetization of our real estate and additional debt financing actions. We expect that these actions will be executed in alignment with the anticipated timing of our liquidity needs. We also continue to explore ways to unlock value across a range of assets, including exploring ways to maximize the value of our unsecured debt.

We believe that the actions discussed above mitigate the substantial doubt raised by our recent operating losses and refinancing needs and satisfy our estimated liquidity needs 12 months from the issuance of the financial statements. However, we cannot predict, with certainty, the outcome of our actions to generate liquidity, including the availability of additional debt financing, or whether such actions would generate the expected liquidity as currently planned. Additionally, a failure to generate additional liquidity could negatively impact our ability to acquire units.

Note 14. Subsequent Events

On January 1, 2017 LMF entered into a new services agreement with Business Law Group. Please refer to Note 10. Related Party Transactions for further discussion.

On February 22, 2017 United States District Judge Charlene Edwards Honeywell issued an order denying plaintiff's Wilmington Savings Fund Society, individually and on behalf of all those similarly situated, Motion for Class Certification. The deadline for plaintiff to file a notice of appeal has since passed so the order will stand. See Note 7. Commitments and Contingencies for further discussion.

On March 31, 2017, LM Funding executed an amendment, effective as of March 15, 2017, to its note payable with Heartland Bank, see Note 6. Long-Term Debt and Other Financing Arrangements. This amendment defers all principal payments from January 1, 2017 through July 1, 2017. During this period the note will be paid on an interest only basis. On July 1, 2017, principal payments will recommence. This amendment also extends the term of the loan to April 30, 2018 with a principal payment due on that date of \$3,173,172.

Exhibit Index

Exhibit Number	Description
2.1	Contribution Agreement, dated October 21, 2015, by and between CGR63, LLC, BRR Holding, LLC and LM Funding America, Inc. (incorporated by reference from Exhibit 2.1 to the Form 8-K filed on October 23, 2015)
3.1	Certificate of Incorporation of LM Funding America, Inc., as amended. (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (Amendment No. 2) filed on August 27, 2015 (Registration No. 333-205232))
3.2	By-Laws of LM Funding America, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
4.1	Form of Warrant Agreement. (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
4.2	Form of Common Stock Certificate. (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1 (Amendment No. 2) filed on August 27, 2015 (Registration No. 333-205232))
10.1#	Employment Agreement, dated October 22, 2015, by and between Bruce M. Rodgers and LM Funding America, Inc. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on October 23, 2015)
10.2#	Employment Agreement, dated October 22, 2015, by and between Carrollinn Gould and LM Funding America, Inc. (incorporated by reference to Exhibit 10.2 to the Form 8-K filed on October 23, 2015)
10.3#	Employment Agreement, dated October 22, 2015, by and between Sean Galaris and LM Funding America, Inc. (incorporated by reference to Exhibit 10.3 to the Form 8-K filed on October 23, 2015)
10.4#	Employment Agreement, dated January 4, 2016, by and between the Company and Steve Weclaw. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on January 7, 2016)
10.5#	Employment Agreement, dated January 4, 2016, by and between the Company and Aaron L. Gordon. (incorporated by reference to Exhibit 10.2 to the Form 8-K filed on January 7, 2016)
10.6#	LM Funding America, Inc. 2015 Omnibus Incentive Plan. (incorporated by reference to Exhibit 10.4 to the Form 8-K filed on October 23, 2015)
10.7#	Form of LM Funding America, Inc. 2015 Omnibus Incentive Plan Stock Option Award Agreement. (incorporated by reference to Exhibit 10.5 to the Form 8-K filed on October 23, 2015)
10.8#	Form of LM Funding America, Inc. 2015 Omnibus Incentive Plan Restricted Stock Award Agreement. (incorporated by reference to Exhibit 10.6 to the Form 8-K filed on October 23, 2015)
10.9	Services Agreement, dated April 15, 2015, between LM Funding, LLC and Business Law Group, P.A. (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
10.10	Software License Agreement, dated April 15, 2015, between LM Funding, LLC and Business Law Group, P.A. (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
10.11	Assessment Recovery Indemnity (ARI) Policy for Community Associations, dated December 1, 2012, in favor of LM Funding, LLC and issued by Security National Insurance Company, a member of AmTrust North America, an AmTrust Financial Company. (incorporated by reference to Exhibit 10.9 to the Form of Association Receivables Purchase Agreement. (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
10.12	Form of Association Receivables Purchase Agreement. (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
10.13	Form of Escrow Agreement among SunTrust Bank, N.A., International Assets Advisory, LLC and LM Funding America, Inc. (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
10.14	Form of Selected Dealer Agreement between International Assets Advisory, LLC and the members of the selling group. (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
10.15	Credit Agreement, dated December 30, 2014, among LMF SPE#2, LLC, as borrower, LM Funding, LLC, CGR63, LLC and LM Funding Management, LLC, as guarantors, and Heartland Bank, as lender. (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))

Exhibit Number	Description
10.16	Irrevocable Continuing Guaranty Agreement, dated December 30, 2014, by LM Funding, LLC, CGR63, LLC and LM Funding Management, LLC in favor of Heartland Bank. (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
10.17	Pledge Agreement, dated December 30, 2014, by LM Funding, LLC and CRE Funding, LLC in favor of Heartland Bank. (incorporated by reference to Exhibit 10.15 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
10.18	Form of Lock-Up Agreement. (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
10.19	Errors and Omissions Agreement, dated June 25, 2015, by LMF October 2010 Fund, LLC in favor of IBERIABANK. (incorporated by reference to Exhibit 10.17 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
10.20	Business Loan Agreement (Asset Based), dated June 25, 2015, between LMF October 2010 Fund, LLC and IBERIABANK. (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
10.21	Commercial Guaranty, dated June 25, 2015, by Carrollinn Gould in favor of IBERIABANK. (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
10.22	Commercial Guaranty, dated June 25, 2015, by Bruce Rodgers in favor of IBERIABANK. (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
10.23	Commercial Security Agreement, dated June 25, 2015, by LMF October 2010 Fund, LLC in favor of IBERIABANK. (incorporated by reference to Exhibit 10.21 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
10.24	Promissory Note, dated June 25, 2015, by LMF October 2010 Fund, LLC in favor of IBERIABANK. (incorporated by reference to Exhibit 10.22 to the Registration Statement on Form S-1 (Amendment No. 1) filed on August 7, 2015 (Registration No. 333-205232))
10.25#	Form of Indemnification Agreement entered into between LM Funding America, Inc. and its directors and officers. (incorporated by reference to Exhibit 10.21 to the Registration Statement on Form S-1 filed on June 25, 2015 (Registration No. 333-205232))
10.26#	Employment Agreement, dated May 10, 2016, by and between the Company and R. Dean Akers. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 11, 2016)
10.27#	Amendment to Employment Agreement of Bruce M. Rodgers, dated August 30, 2016, by and between the Company and Bruce M. Rodgers. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on August 31, 2016)
10.28#	Amendment to Employment Agreement of Carrollinn Gould, dated August 30, 2016, by and between the Company and Carrollinn Gould. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on August 31, 2016)
10.29#	Amendment to Employment Agreement of R. Dean Akers, dated August 30, 2016, by and between the Company and R. Dean Akers. (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on August 31, 2016)
10.30#	Amendment to Employment Agreement of Steve Weclaw, dated August 30, 2016, by and between the Company and Steve Weclaw. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on August 31, 2016)
10.31#	Amendment to Employment Agreement of Aaron Gordon, dated August 30, 2016, by and between the Company and Aaron Gordon. (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on August 31, 2016)
10.32	First Amendment to the Credit Agreement, dated March 31, 2017 and effective as of March 15, 2017, among LMF SPE#2, LLC, as borrower, LM Funding, LLC, and LM Funding of America, Inc. as guarantors, and Heartland Bank, as lender.
10.33	Irrevocable Continuing Guaranty Agreement, dated March 31, 2017 and effective as of March 15, 2017, by LM Funding of America, Inc. in favor of Heartland Bank.

Exhibit Number	Description
10.34	Pledge Agreement, dated March 31, 2017 and effective as of March 15, 2017, by LM Funding America, Inc. in favor of Heartland Bank.
10.35	First Amendment to Pledge Agreement, dated March 31, 2017, effective as of March 15, 2017, by LM Funding, LLC in favor of Heartland Bank.
21.1*	Subsidiaries of the registrant.
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Indicates a management contract or compensatory arrangement.

* Filed herewith.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

LM FUNDING AMERICA, INC.

Date: April 4, 2017

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

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Bruce M. Rodgers and Stephen Weclaw and each of them, jointly and severally, his attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u> /s/ Bruce M. Rodgers </u> Bruce M. Rodgers	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	April 4, 2017
<u> /s/ Stephen Weclaw </u> Stephen Weclaw	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	April 4, 2017
<u> /s/ Bruce M. Rodgers </u> Bruce M. Rodgers, Attorney-in-fact for Carollinn Gould	Member of the Board of Directors	April 4, 2017
<u> /s/ Bruce M. Rodgers </u> Bruce M. Rodgers, Attorney-in-fact for Andrew Graham	Member of the Board of Directors	April 4, 2017
<u> /s/ Bruce M. Rodgers </u> Bruce M. Rodgers, Attorney-in-fact for Martin A. Traber	Member of the Board of Directors	April 4, 2017

Loan No.: 9100010227

FIRST AMENDMENT TO CREDIT AGREEMENT

This **FIRST AMENDMENT TO CREDIT AGREEMENT** (this "**Amendment**") is effective as of March 15, 2017 and entered into this 31st day of March, 2017, among **LMF SPE#2, LLC**, a Florida limited liability company ("**Borrower**"), **LM FUNDING, LLC**, a Florida limited liability company ("**LMF**"), **LM FUNDING AMERICA, INC.**, a Delaware corporation ("**LMFA**") and together with LMF, "**Guarantors**") and **HEARTLAND BANK**, an Arkansas state bank ("**Lender**"). Capitalized terms used but not specifically defined herein shall have the meanings provided for such terms in the Credit Agreement (as defined below).

RECITALS:

WHEREAS, Borrower, LMF, CGR63, LLC, a Florida limited liability company, and Lender have executed that certain Credit Agreement dated as of December 30, 2014 (as amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**");

WHEREAS, Borrower and Guarantors have requested that Lender amend certain provisions of the Credit Agreement; and

WHEREAS, Lender is willing to make such amendments to the Credit Agreement in accordance with and subject to the terms and conditions set forth herein.

NOW, THEREFORE, for and in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the parties agree as follows:

1. Acknowledgment of Parties. Each of Borrower, Guarantors and Lender acknowledges and agrees that the recital of facts set forth in this Amendment are true and correct in all respects.

2. Amendments to Credit Agreement.

(a) Amendments to Section 1.1.

(i) In Section 1.1 of the Credit Agreement, each of the definitions of "Change of Control", "Guarantor", "Obligated Party", "Pledge Agreement" and "Pledged Equity Interests" are hereby amended and restated in their entirety to read as follows:

"**Change of Control**" shall mean (a) the occurrence of any event (whether in one or more transactions) which results in a change of control of LM Funding, LLC to a Person who is not a Person who controls LM Funding, LLC as of March 31, 2017 or another Person under such Person's control, (b) the occurrence of any event (whether in one or more transactions) which results in a transfer of control of Borrower to a Person who is not LM Funding, LLC or a Person under the control of LM Funding, LLC, or (c) any merger or consolidation of or with Borrower or sale of all or substantially all of

the property or assets of Borrower. For purposes of this definition, "control" shall mean the power, direct or indirect, (x) to vote 50% or more of the equity interests having ordinary voting power for the election of directors (or the individuals performing similar functions) of any Person or (y) to direct or cause the direction of the management and policies of any Person by contract or otherwise.

"**Guarantor**" means each of LM Funding, LLC, a Florida limited liability company, and LM Funding America, Inc., a Delaware corporation, and each Person who from time to time Guarantees all or any part of the Obligations.

"**Pledge Agreement**" means (i) that certain Pledge Agreement, dated as of December 30, 2014, executed by LM Funding, LLC, among others, as grantor, and Lender, and (ii) that certain Pledge Agreement, dated as of March 31 2017, executed by LM Funding America, Inc., as grantor, and Lender, in each case securing the Obligations of Borrower to Lender.

"**Pledged Equity Interests**" means all membership interests of LMF SPE#2, LLC and all shares of LM Funding, LLC, in each case which from time to time are part of the Collateral.

3. **Conditions to Effectiveness.** The effectiveness of this Amendment is subject to the condition precedent that Lender shall have received all of the following, each dated the date hereof, in form and substance satisfactory to Lender:

(a) **Resolutions.** Resolutions of the Members and Manager of Borrower and each Guarantor certified by the Manager or Responsible Officer of such Person which authorize the execution, delivery and performance by such Person of this Amendment and the other Amendment Documents (as hereinafter defined) to which such Person is a party;

(b) **Incumbency Certificate.** A certificate of incumbency certified by the Manager or Responsible Officer certifying the names of the individuals or other Persons authorized to sign this Amendment and each of the other Amendment documents to which Borrower and each Guarantor is a party on behalf of such Person together with specimen signatures of such individual Persons;

(c) **Constituent Documents.** The Constituent Documents for Borrower and each of the Guarantors certified by the Manager or Responsible Officer of such Person;

(d) **Governmental Certificates.** Certificate of the appropriate governmental officials of the state of incorporation or organization of Borrower and each Guarantor as to the existence and good standing of such party, each dated within ten (10) days prior to the date hereof;

(e) **Second Amendment to Note.** That certain Second Amendment to Term Promissory Note (the "**Note Amendment**"), executed by Borrower and Lender;

(f) **Guaranty and Security Documents.** (i) That certain Irrevocable Continuing Guaranty Agreement executed by LMFA in favor of Lender, (ii) that certain Pledge Agreement executed by LMFA, as grantor, and Lender with respect to LMFA's membership interest of LM

Funding, LLC, and (iii) that certain First Amendment to Pledge Agreement executed by LM Funding, LLC and Lender with respect to LM Funding, LLC's membership interest in Borrower (collectively, the "**New Guaranty and Security Documents**") and together with this Amendment and the Note Amendment, the "**Amendment Documents**");

(g) **Financing Statements.** UCC financing statements or UCC financing statement amendments, as applicable, reflecting each Guarantor as debtor, and Lender as secured party.

(h) **Opinion of Counsel.** A favorable opinion of each of Florida counsel to Borrower and Guarantors, as to such matters as Lender may reasonably request; and

(i) **Attorney's Fees and Expenses.** Evidence that costs and expenses (including reasonable attorney's fees) referred in Section 14, to the extent incurred, shall have been paid in full by Borrower.

4. Limited Waiver and Consent.

(a) **Limited Waiver.** As of the date hereof, the provisions of Sections 8.4 and 8.6 of the Credit Agreement are hereby waived solely to retroactively permit the Change of Control and/or disposition of Collateral that resulted from (i) the transfer by CRE Funding, LLC of its membership interests of Borrower to LM Funding, LLC and (ii) the transfer by LM Funding, LLC of its membership interests of Borrower to LMFA. The waiver set forth in this Section 4(a) shall be limited precisely as written and relates solely to the provisions of Sections 8.4 and 8.6 of the Credit Agreement in the manner and to the extent described above, and nothing in this Amendment shall be deemed to (x) constitute a waiver of compliance by the Borrower or any other Obligated Party with respect to any other term, provision or condition of the Credit Agreement, any other Loan Document or any other instrument or agreement referred to therein, or (y) prejudice any right or remedy that Lender may now have or in the future under or in connection with the Credit Agreement, any other Loan Document or any other instrument or agreement referred to therein.

(b) **Consent.** Borrower has informed Lender that it intends to acquire certain assets as more specifically described in Schedule 1 attached hereto (collectively, the "**New Assets**"). Lender hereby consents to Borrower's acquisition of the New Assets and waives any Event of Default that may arise under Section 8.3 of the Credit Agreement as a result of such acquisition. The consent and waiver set forth in this Section 4(b) shall be limited precisely as written and relates solely to the provisions of Sections 8.3 of the Credit Agreement in the manner and to the extent described above, and nothing in this Amendment shall be deemed to (x) constitute a consent to non-compliance, or waiver of compliance, by the Borrower or any other Obligated Party with respect to any other term, provision or condition of the Credit Agreement, any other Loan Document or any other instrument or agreement referred to therein, or (y) prejudice any right or remedy that Lender may now have or in the future under or in connection with the Credit Agreement, any other Loan Document or any other instrument or agreement referred to therein.

5. Representation and Warranty of Guarantors regarding Pledged Equity Interests. Each of Guarantors hereby represents and warrants that none of the Pledged Equity Interests are certificated.

6. Reaffirmation of Representations and Warranties in Loan Documents. Each of Borrower and LMF hereby agrees with, reaffirms and acknowledges its respective representations and warranties contained in the Loan Documents to which it is a party. Furthermore, each of Borrower and LMF hereby represents that its respective representations and warranties contained in the Loan Documents to which it is a party continue to be true and in full force and effect in all material respects. This agreement, reaffirmation and acknowledgment is given to Lender by Borrower and LMF without defenses, claims or counterclaims of any kind. To the extent that any such defenses, claims or counterclaims against Lender may exist, each of Borrower and LMF waives and releases Lender from same.
7. Ratification and Reaffirmation of Loan Documents. Each of Borrower and LMF ratifies and reaffirms all terms, covenants, conditions and agreements contained in the Loan Documents to which it is a party.
8. Legal Representation. Each of the parties hereto acknowledge that they have been represented by independent legal counsel in connection with the execution of this Amendment, that they are fully aware of the terms and conditions contained herein, and that they have entered into and executed this Amendment as a voluntary action and without coercion or duress of any kind.
9. Partial Invalidity; No Repudiation. If any of the provisions of this Amendment shall contravene or be held invalid under the laws of any jurisdiction, the Amendment shall be construed as if not containing such provisions and the rights, remedies, warranties, representations, covenants, and provisions hereof shall be construed and enforced accordingly in such jurisdiction and shall not in any manner affect such provision in any other jurisdiction, or any other provisions of this Amendment in any jurisdiction.
10. Binding Effect. This Amendment is binding upon the parties hereto and their respective successors and assigns.
11. Full Force and Effect. Except as otherwise modified hereby, the Credit Agreement shall remain in full force and effect in accordance with its terms.
12. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA; PROVIDED THAT LENDER SHALL RETAIN ALL RIGHTS UNDER FEDERAL LAW. ANY DISPUTE UNDER THIS AMENDMENT, THE CREDIT AGREEMENT OR THE OTHER LOAN DOCUMENTS SHALL BE RESOLVED BY THE ARBITRATION PROCEDURES SET FORTH IN SECTION 11.23 OF THE CREDIT AGREEMENT
13. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO WAIVES THE RIGHT TO A TRIAL BY JURY, AS TO ANY ACTION WHICH MAY ARISE AS A RESULT OF THE LOAN DOCUMENTS, THIS AMENDMENT OR ANY DOCUMENT EXECUTED IN CONNECTION HEREWITH.
14. Counterparts. This Amendment and/or any documentation contemplated or required in connection herewith may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall be considered one and the same document. Delivery of

an executed counterpart of a signature page of this document by facsimile shall be effective as delivery of a manually executed counterpart of this document.

15. Costs and Expenses. Borrower agrees to pay or reimburse Lender for all of its out-of-pocket costs and expenses incurred in connection with this Amendment, the other Amendment Documents, any other documents prepared in connection therewith and the transactions contemplated thereby, including, without limitation, the fees and disbursements of counsel to Lender.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, do hereby execute this Amendment the date and year first above written.

BORROWER:

LMF SPE#2, LLC,
a Florida limited liability company

By: LM Funding, LLC,
a Florida limited liability company,
as Manager of LMF SPE#2, LLC

By: /s/ Bruce M. Rodgers
Name: Bruce M. Rodgers
Title: Chief Executive Officer of LM
Funding America, Inc., as Manager of
LM Funding, LLC

GUARANTORS:

LM FUNDING, LLC
a Florida limited liability company

By: /s/ Bruce M. Rodgers
Name: Bruce M. Rodgers
Title: Chief Executive Officer of LM Funding
America, Inc., as Manager of LM Funding,
LLC

LM FUNDING AMERICA, INC.
a Delaware corporation

By: /s/ Bruce M. Rodgers
Name: Bruce M. Rodgers
Title: Chief Executive Officer

LENDER:

HEARTLAND BANK

By: /s/ Mark Hoffpauir
Name: Mark Hoffpauir
Title: Executive Vice President

[Signature Page to First Amendment to Credit Agreement – LMF SPE#2, LLC]

SCHEDULE I

New Assets to be Acquired by Borrower

[see attached]

WPB_ACTIVE 7603877.4

Loan No: 9100010227

IRREVOCABLE CONTINUING GUARANTY AGREEMENT

THIS IRREVOCABLE CONTINUING GUARANTY AGREEMENT (this “**Guaranty**”) is effective as of March 15, 2017 and entered into this 31st day of March, 2017, by **LM FUNDING AMERICA, INC.**, a Delaware corporation (“**Guarantor**”), and delivered to **HEARTLAND BANK**, an Arkansas state bank (“**Lender**”), with respect to the following facts:

(A) The Guarantor has requested that **LMF SPE#2, LLC**, a Florida limited liability company (“**Borrower**”), and Lender has agreed to, continue to make a loan available to Borrower in a principal amount not to exceed **S e Mllione F o u r H u Thoudand Niae HndredThity Eight and 50/100 O** United States Dollars (\$7,431,938.50) (the “**Loan**”), pursuant to that **c e Credit Agreement** dated as of December 30, 2014, as amended by that certain First Amendment to Credit Agreement dated as of the date hereof (as so amended and as the same may be further amended, restated, supplemented or otherwise modified from time to time, the “**Credit Agreement**”), such Loan being represented by a Term Promissory Note dated December 30, 2014 in the maximum principal amount of amount of **S e Mllion n F o u r H u Thodsand NinedHndred h** Thirty Eight and 50/100 United States Dollars (\$7,431,938.50), as amended by that certain First Amendment to Term Promissory Note, dated April 9, 2015 and that certain Second Amendment to Term Promissory Note, dated the date hereof (as so amended and as the same may be amended, restated, supplemented or otherwise modified from time to time and including any and all renewals, substitutions, modifications, rearrangements, extensions and replacements thereof shall be referred to as the “**Note**”).

(B) Payment of the indebtedness evidenced by the Note may now or hereafter be secured by other documents or instruments of pledge, guaranty, or hypothecation (the Credit Agreement and all such other documents or instruments concerning, evidencing, securing or guaranteeing the Indebtedness (defined below) being collectively referred to as the “**Loan Documents**”).

(C) In consideration of Lender continuing to make the Loan available to Borrower, Guarantor has agreed, at the request of Borrower, to irrevocably and unconditionally guarantee to Lender, the Indebtedness upon the terms and conditions provided herein.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor agrees with Lender as follows:

ARTICLE I.**REPRESENTATIONS AND WARRANTIES**

Guarantor makes the following representations and warranties to Lender which shall be continuing representations and warranties and the obligation of Guarantor so long as any Indebtedness shall remain unpaid.

Section 1.1 Guaranty Authorized and Binding. Guarantor’s execution, delivery and

performance of this Guaranty are duly authorized and do not require the consent or approval of any governmental body or other regulatory authority. This Guaranty is a valid and legally binding obligation of Guarantor enforceable in accordance with its terms.

Section 1.2 No Conflict. The execution and delivery of this Guaranty by Guarantor are not, and the performance of this Guaranty will not be, in contravention of, or in conflict with, any agreement, indenture or undertaking to which Guarantor is a party or by which Guarantor or any of Guarantor's properties are or may be bound or materially affected and do not, and will not, cause any security interest, lien or other encumbrance to be created or imposed upon any such properties.

Section 1.3 Litigation. Other than as set forth in Schedule 1.3 attached hereto, there is no litigation or other proceeding pending or, to the knowledge of Guarantor, threatened against, or affecting, Guarantor or Guarantor's properties which, if determined adversely to Guarantor, would have a material adverse effect on the financial condition, properties, businesses or operations of Guarantor; and Guarantor is not in default with respect to any order, writ, injunction, decree or demand of any court or other governmental or regulatory authority.

Section 1.4 Financial Condition. The financial statements of Guarantor which have heretofore been submitted in writing by Guarantor to Lender in connection herewith are true and correct and fairly present the financial condition of Guarantor for the period covered thereby. Since the date the financial statements were delivered to Lender there has not been a material adverse change in the financial condition of Guarantor. Guarantor has no knowledge of any liabilities, contingent or otherwise which are not reflected in the financial statements; and, other than in the ordinary course of Guarantor's business, Guarantor has not entered into any commitments or contracts which are not reflected in the financial statements or which may have a material adverse effect upon Guarantor's financial condition, operations or business as now conducted.

Section 1.5 Financial Benefit. Guarantor hereby acknowledges and warrants that Guarantor has derived or expects to derive a financial advantage from each and every loan or other extension of credit and from each and every renewal, extension, release of collateral or other relinquishment of legal rights made or granted or to be made or granted by Lender to the Borrower in connection with the Indebtedness.

Section 1.6 Review of Documents; Financial Condition of Borrower . Guarantor hereby acknowledges that Guarantor has copies of and is fully familiar with each and every document executed and delivered to Lender by the Borrower in connection with the Loan (including without limitation the Loan Documents) and represents and warrants that all necessary action has been taken by the Borrower to authorize execution of the Loan Documents by Borrower and to engage in the transactions thereby contemplated. Further, Guarantor warrants and represents to Lender that it has independently reviewed the financial condition of Borrower, and is not relying upon any statement or other representation from Borrower or Lender regarding the decision to execute this Guaranty. Further, Guarantor warrants, represents, understands and agrees that the obligation of Guarantor hereunder is one of payment and performance, and includes without limitation all obligations of Borrower to Lender pursuant to the Loan Documents, including without limitation all

damages or losses suffered by Lender by entry into and consummation of the Credit Agreement (whether by enforcement or otherwise) and all indemnifications provided by Borrower to Lender.

ARTICLE II.

GUARANTY

Section 2.1 Guaranty. Guarantor irrevocably, absolutely, and unconditionally guarantees and promises to pay to, or to the order of, Lender, on demand, in lawful money of the United States of America, any and all of the Indebtedness. The word "Indebtedness," as used herein, includes all advances, debts, obligations, indemnification and liabilities of Borrower to Lender pursuant to the Loan, now or hereafter advanced, incurred or created (and all renewals, extensions, modifications and rearrangement thereof, without limit as to the number of such extensions or the period or periods thereof) (including without limitation those also described in **Section 2.4** hereof), whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, direct or indirect, and whether the Borrower may be liable separately or jointly with others or whether recovery upon such Indebtedness may be or hereafter become barred by any statute of limitations, or whether such Indebtedness may be or hereafter become otherwise unenforceable.

Section 2.2 Irrevocable, Unconditional and Continuing Guaranty. This is an irrevocable, unconditional and continuing guaranty of the Indebtedness, and the liability of Guarantor hereunder is absolute. This Guaranty may be terminated as to future transactions only, and any such termination shall be effective only as of noon of the next business day after written notice thereof is received by Lender addressed to and otherwise delivered to Lender pursuant to and as required by **Section 3.3** hereof. No such notice shall release Guarantor from any liability existing when such notice is received.

Section 2.3 Nature of Guaranty. The liability of Guarantor hereunder is independent of the obligation of Borrower (or any other guarantor having joint and several liability to Lender regarding the Indebtedness) and a separate action or separate actions may be brought and prosecuted against Guarantor, whether or not any action is brought or prosecuted against the Borrower or whether the Borrower is joined in any such action or actions. The liability of Guarantor is independent of and not in consideration of or contingent upon the liability of any other person under this or any similar instrument, and the release of, or cancellation by, any signer of a similar instrument shall not act to release or otherwise affect the liability of Guarantor. Any payment by the Borrower which operates to toll any statute of limitations applicable to the Borrower shall also operate to toll the statute of limitations applicable to Guarantor.

Section 2.4 Authorization. Guarantor authorizes Lender, without notice or demand and without affecting his liability hereunder, from time to time to:

(a) Create new indebtedness or renew, compromise, extend (without limit as to the number of extensions or the period thereof), increase, accelerate and otherwise change the time for payment of, or otherwise change the terms of, the Indebtedness, or any part thereof, including increasing or decreasing the rate of interest thereon, if agreed to by Borrower; and

(b) Take and hold security for the payment of this Guaranty or the Indebtedness, perfect such security or refrain from perfecting such security, whether or not such security is required as a condition to the making of the Loan, and exchange, enforce, waive or release (whether intentionally or unintentionally) any such security or any part thereof, purchase such security at a public or private sale, and apply any such security and direct the order or manner of sale thereof as Lender in its discretion may determine.

Section 2.5 Waivers. Guarantor waives the right to require Lender to proceed against the Borrower or any other person liable on the Indebtedness, to proceed against or exhaust any security held from the Borrower or any other person, or to pursue any other remedy available to Lender, and Guarantor waives the right to have the property of the Borrower first applied to the discharge of the Indebtedness. Lender may, at its election, exercise any right or remedy it may have against the Borrower or any security held by Lender, including, without limitation, the right to foreclose upon any such security by one or more judicial or nonjudicial sales, whether or not every aspect of such sale is commercially reasonable, without affecting or impairing in any way the liability of Guarantor, except to the extent the Indebtedness has been paid, and Guarantor waives any defense arising out of the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of Guarantor against the Borrower or any such security, whether resulting from such election by Lender or otherwise. Guarantor understands that if all or any part of the liability of the Borrower to Lender for the indebtedness is secured by real property, Guarantor shall be liable for the full amount of Guarantor's liability hereunder notwithstanding foreclosure on such real property or any other reason impairing Guarantor's right to proceed against the Borrower. In addition, Guarantor hereby waives, to the fullest extent permitted by law, (a) any defense arising as a result of any election by Lender in any proceeding instituted under the Bankruptcy Code, and (b) any defense based on any borrowing or grant of a security interest under the Bankruptcy Code.

Section 2.6 Additional Waivers. Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor and notices of acceptance of this Guaranty. Guarantor assumes the responsibility for being and keeping informed of the financial condition of the Borrower and of all other circumstances bearing upon the risk of nonpayment of the Indebtedness which diligent inquiry would reveal, and agrees that Lender shall have no duty to advise Guarantor of information known to it regarding such condition or any such circumstances.

Section 2.7 The Borrower. It is not and shall not be necessary for Lender to inquire into the powers of Borrower or the members, managing members, trustees or agents acting or purporting to act on behalf of Borrower and any Indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder. Guarantor agrees that Lender's books and records showing the account between Lender and Borrower shall be admissible in any proceeding or action and shall be binding upon Guarantor for the purpose of establishing the items therein set forth and shall constitute *prima facie* proof thereof.

Section 2.8 Bankruptcy No Discharge. Notwithstanding anything to the contrary herein contained, this Guaranty shall continue to be in effect or be reinstated, as the case may be, if at any time, payment, or any part hereof, of any or all of the Indebtedness is rescinded or must otherwise be restored or returned by Lender upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made. Notwithstanding any modification, discharge or extension of the Indebtedness or any amendment, modification, stay or cure of Lender's rights which may occur in any bankruptcy or reorganization case or proceeding concerning the Borrower whether permanent or temporary, and whether assented to by Lender, Guarantor hereby agrees that Guarantor shall be obligated hereunder to pay the Indebtedness and discharge Guarantor's other obligations in accordance with the Indebtedness and the terms of this Guaranty. Guarantor understands and acknowledges that by virtue of this Guaranty, any and all risks of insolvency, bankruptcy or a reorganization case or proceeding with respect to the Borrower have been specifically assumed. As an example and not in any way of limitation, a subsequent modification of the Indebtedness in any reorganization case concerning the Borrower shall not affect the obligation of Guarantor to pay the Indebtedness in accordance with its original terms.

Section 2.9 The Subordination. Guarantor hereby absolutely subordinates, both in right of payment and in time of payment, any present or future indebtedness of the Borrower to Guarantor to the Indebtedness of the Borrower to Lender. If, whether or not at Lender's request, Guarantor shall collect, enforce or receive payment from the Borrower upon any indebtedness of the Borrower to Guarantor, any such sums shall be received by Guarantor as trustee for Lender and shall be paid over to Lender on account of the Indebtedness of the Borrower to Lender, but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty. Guarantor shall file in any bankruptcy or other proceeding in which the filing of claims is required by law, all claims which Guarantor may have against the Borrower relating to any indebtedness of the Borrower to Guarantor and does hereby assign to Lender all rights of Guarantor thereunder. If Guarantor does not file any such claim, the Lender as limited attorney-in-fact for Guarantor is hereby authorized to do so in the name of Guarantor or, in Lender's discretion, to assign the claim to a nominee and to cause proof of claim to be filed in the name of Lender's nominee. The foregoing power of attorney is coupled with an interest and cannot be revoked. Lender or its nominee shall have the sole right to accept or reject any plan proposed in any such proceeding and to take any other action which a party filing a claim is entitled to do. In all such cases, whether in administration, bankruptcy or otherwise, the person or persons authorized to pay such claim shall pay, and Guarantor does hereby authorize such person or persons to pay to Lender the amount payable on such claim and, to the full extent necessary for that purpose, Guarantor hereby assigns to Lender all of Guarantor's rights to any such payments or distributions to which Guarantor would otherwise be entitled. Any instruments now or hereafter evidencing any indebtedness of the Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and, if Lender so requests, shall be delivered to Lender.

**ARTICLE
III.**

MISCELLANEOUS

Section 3.1 Survival of Warranties. All agreements, obligations, representations and warranties made herein shall survive the execution and delivery of this Guaranty and

repayment, foreclosure or other enforcement of the Credit Agreement or any of the other Loan Documents, the same surviving for the maximum limitations period and so long as Borrower shall have any direct, indirect, liquidated or contingent liability to Lender, by indemnification or otherwise.

Section 3.2 Failure or Indulgence Not Waiver. No failure or delay on the part of Lender in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any power, right or privilege preclude any other or further exercise of any such power, right or privilege. All powers, rights and privileges hereunder are cumulative to, and not exclusive of, any powers, rights or privileges otherwise available.

Section 3.3 Notices. All notices, demands and requests given or required to be given by any party hereto to any other party shall be in writing. All such notices, demands and requests by the Lender to the Guarantor shall be deemed to have been properly given if served in person or mailed by United States registered or certified mail, return receipt requested, postage prepaid, or by Federal Express, Airborne or any other insured and reputable overnight delivery service, addressed to the Guarantor at the following address:

LM FUNDING AMERICA, INC.
302 Knights Run Avenue
Suite 1000
Tampa, FL 33602
Attn: Bruce M. Rodgers

or to such other address as Guarantor may from time to time designate by written notice to the Lender given as herein required. All notices, demands and requests by Guarantor to the Lender shall be deemed to have been properly given if served in person or mailed by United States registered or certified mail, return receipt requested, postage prepaid, or by Federal Express, Airborne or any other insured and reputable overnight delivery service, addressed to the Lender at the following address:

HEARTLAND BANK
One Information Way
Suite 300
Little Rock, Arkansas 72202
Attention: Mark Hoffpauir

or to such other address as the Lender may from time to time designate by written notice to the Guarantor given as herein required. Notices, demands and requests sent pursuant to this paragraph shall be deemed to be received (i) if personally delivered in the manner aforesaid, on the date of delivery, (ii) if sent by registered or certified mail in the manner aforesaid, on the earlier of the second (2nd) business day following the day sent, or (iii) if sent by overnight delivery service in the manner aforesaid, on the next business day immediately following the day sent.

Section 3.4 Severability. In case any provision of this Guaranty shall be invalid,

illegal or unenforceable, such provisions shall be severable from the rest of this Guaranty and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 3.5 Applicable Law. This Guaranty and the rights and obligations of the parties hereto shall be governed by and construed and enforced in accordance with the laws of the State of Florida and the United States of America; provided that Lender shall retain all rights under Federal Law.

Section 3.6 Jurisdiction and Venue. Any dispute under this Guaranty or the other Loan Documents shall be resolved by the arbitration procedures set forth at Section 11.23 of the Credit Agreement. Each party irrevocably and unconditionally agrees that it will not commence any action, litigation or proceeding of any kind whatsoever against any other party in any way arising from or relating to this Guaranty and all contemplated transactions, including, but not limited to, contract, equity, tort, fraud, and statutory claims in any form other than the U.S. Federal District Courts located in Arkansas or, if such court does not have subject matter jurisdiction, the courts of the State of Arkansas, and any appellate court from any thereof. Each party irrevocably and unconditionally submits to the exclusive jurisdiction of such courts and agrees to bring any such action, litigation or proceeding only in such courts. Each party agrees that a final judgment in any such action, litigation, or proceeding is conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

Section 3.7 Assignability. This Guaranty shall inure to the benefit of the Lender and its respective successors and assigns. Lender may assign this Guaranty or any of its rights and powers hereunder without notice, with all or any of the Indebtedness hereby guaranteed, and in such event the assignee shall have the same rights and remedies as if originally named herein in place of Lender; provided, however, that Lender shall have an unimpaired right, prior and superior to that of any such assignee to enforce the provisions of the Guaranty for the benefit of Lender as to so much of the Indebtedness that it has not sold, assigned or transferred.

Section 3.8 Survival of Guaranties. This Guaranty shall be binding upon the heirs, successors, representatives and assigns of Guarantor.

Section 3.9 Headings. Headings of the Articles and Sections of this Guaranty are inserted for convenience only and shall not be deemed to constitute a part hereof.

Section 3.10 Expenses and Fees. Guarantor hereby agrees to be responsible for and to pay all costs and expenses, including, without limitation, reasonable attorneys' fees and foreclosure fees, incurred by Lender in connection with the collection of all sums guaranteed hereunder and the defense or enforcement of any of Lender's rights hereunder, whether or not suit is filed, and whether such collection be from the Borrower or from Guarantor.

[Signature Page Follows]

IN WITNESS WHEREOF, Guarantor has executed this Guaranty and it has been delivered to and accepted by Lender as of the date first above written.

GUARANTOR:

LM FUNDING AMERICA, INC
a Delaware corporation

By: /s/ Bruce M. Rodgers
Name: Bruce M. Rodgers
Title: Chief Executive Officer

[Signature Page to Irrevocable Continuing Guaranty Agreement]

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SCHEDULE 1.3

Pending or Threatened Litigation

[see attached]

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Loan No: 9100010227

PLEDGE AGREEMENT

THIS **PLEDGE AGREEMENT** is effective as of March 15, 2017 and entered into this 31st day of March, 2017 by and between **LM FUNDING AMERICA, INC.**, a Delaware corporation, as grantor ("**Grantor**"), and **HEARTLAND BANK**, an Arkansas state bank, on behalf of itself and its Affiliates ("**Secured Party**").

RECITALS

WHEREAS, LMF SPE#2, LLC, a Florida limited liability company, as borrower ("**Borrower**"), Grantor, CGR63, LLC, a Florida limited liability company, and LM Funding, LLC, a Florida limited liability company ("**LMF**"), as guarantors, and Secured Party, as lender, have entered into a Credit Agreement dated as of December 30, 2014, as amended by that certain First Amendment to Credit Agreement dated as of the date hereof (as so amended and as the same may be further amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**").

WHEREAS, Grantor is the beneficial owner of all of the membership interests of LMF, and LMF is the sole member and manager of Borrower.

WHEREAS, Grantor is entering into this Pledge Agreement (as it may be amended, restated or modified from time to time, this "**Agreement**") in order to, among other things, induce Secured Party to continue to extend credit under the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. DEFINITIONS**1.1. Reference to Pledge Agreement**

. Unless otherwise specified, all references herein to Articles, Sections, Preliminary Statements, Exhibits, and Schedules refer to Articles and Sections of, and Preliminary Statements, Exhibits and Schedules to, this Agreement. All Exhibits and Schedules shall be deemed a part of this Agreement. All Schedules include amendments and supplements thereto from time to time.

1.2. Principles of Construction

. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neutral, as the context indicates is appropriate. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". All references to agreements and other contractual instruments shall be deemed to include subsequent amendments, permitted assignments and other modifications thereto, but only to the extent such amendments, assignments and other modifications are not prohibited by the terms of any Loan Document. Furthermore, any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any

PLEDGE AGREEMENT (LM Funding, LLC and CRE Funding, LLC)

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reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time.

1.3. **Definitions**

. Unless otherwise defined herein, or the context hereof otherwise requires, each term defined in either of the Credit Agreement or in the UCC is used in this Agreement with the same meaning; *provided that*, if the definition given to such term in the Credit Agreement conflicts with the definition given to such term in the UCC, the Credit Agreement definition shall control to the extent legally allowable; and if any definition given to such term in Article 9 of the UCC conflicts with the definition given to such term in any other chapter of the UCC, the Article 9 definition shall prevail. All definitions herein shall be equally applicable to both the singular and plural forms of the defined terms. As used herein, the following terms have the meanings indicated:

“**Collateral**” shall have the meaning set forth in *Section 2.1*.

“**Control**” shall have the meaning set forth in *Section 9-314* of the UCC.

“**Grantor**” shall have the meaning set forth in the introductory paragraph of this Agreement and includes Grantor’s respective successors and assigns.

“**Instrument**” means any “*instrument*”, as such term is defined in *Section 9.102(a)(47)* of the UCC.

“**LMF**” shall have the meaning set forth in the recitals of this Agreement.

“**LMF Operating Agreement**” shall mean the Operating Agreement of LMF, dated as of January 8, 2008.

“**Pledged Equity Interests**” means all limited liability company interests issued by LMF listed on *Exhibit A*, including but not limited to all rights to participate in the management of the LMF as a member, and any and all certificates representing such limited liability company interests and any interest of Grantor on the books and records of LMF with respect to such limited liability company interests and all dividends, other distributions, cash, warrants, rights, options, instruments, securities and other property or other Proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such limited liability company interests.

“**Proceeds**” means any “*proceeds*,” as such term is defined in *Section 9-102(a)(64)* of the UCC, and, in any event, shall include, but not be limited to, (a) any and all dividends and distributions with respect to any of the Pledged Equity Interests, (b) proceeds of any insurance, indemnity, warranty, or guaranty payable to Grantor from time to time with respect to any of the Pledged Equity Interests, (c) any and all payments (in any form whatsoever) made or due and payable to Grantor from time to time in connection with any requisition, confiscation, condemnation, seizure, or forfeiture of all or any part of the Pledged Equity Interests by any Governmental Authority (or any person acting under color of Governmental Authority), and (d) any and all other amounts from time to time paid or payable under or in connection with any of the Pledged Equity Interests.

PLEDGE AGREEMENT (*LM Funding, LLC and CRE Funding, LLC*)
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“**Section**” means a numbered Section of this Agreement, unless another document is specifically referenced.

“**Secured Obligations**” means, collectively, the Obligations (as defined in the Credit Agreement), whether or not (a) such Obligations arise or accrue before or after the filing by or against Grantor of a petition under the Bankruptcy Code, or any similar filing by or against Grantor under the laws of any jurisdiction, or any bankruptcy, insolvency, receivership or other similar proceeding, (b) such Obligations are allowable under *Section 502(b)(2)* of the Bankruptcy Code or under any other insolvency proceedings, (c) the right of payment in respect of such Obligations is reduced to judgment, or (d) such Obligations are liquidated, unliquidated, similar, dissimilar, related, unrelated, direct, indirect, fixed, contingent, primary, secondary, joint, several, or joint and several, matured, disputed, undisputed, legal, equitable, secured, or unsecured.

“**Security**” has the meaning set forth in *Section 8-102(a)(15)* of the UCC.

“**Security Interests**” means the pledge and security interests securing the Secured Obligations, including (a) the pledge and security interest in the Collateral granted in this Agreement, and (b) all other security interests created or assigned as additional security for the Secured Obligations pursuant to the provisions of this Agreement.

“**Specified LLC Rights**” means any equity interests, securities, dividends or other distributions and any other right or property which Grantor shall receive or shall become entitled to receive for any reason whatsoever with respect to, in substitution for or in exchange for the Pledged Equity Interests.

“**UCC**” means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of Florida; provided, however, that in any event, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority (or terms of similar import in any applicable jurisdiction) of Secured Party’s Security Interest in any Collateral is governed by the UCC (or other similar law) as in effect in a jurisdiction (whether within or outside the United States) other than the State of Florida, the term “UCC” shall mean the Uniform Commercial Code (or other similar law) as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority (or terms of similar import in such jurisdiction) and for purposes of definitions related to such provisions.

2. GRANT OF SECURITY INTEREST

2.1. Grant of Security Interest .

(a) As collateral security for the Secured Obligations, Grantor hereby pledges and grants to Secured Party (including its Affiliates), a first priority Lien on and security interest in and to, and agrees and acknowledges that Secured Party has and shall continue to have, a Security Interest in and to, all of Grantor’s right, title and interest in and to (i) the Pledged Equity Interests and (ii) all Proceeds of the Pledged Equity (all of the property being described in the preceding clauses (i) and (ii) the “**Collateral**”), whether now owned or hereafter acquired, wherever located, howsoever arising or created and whether now existing or hereafter arising, existing or created.

(b) The Security Interests are granted as security only and shall not subject Secured Party or any holder of the Secured Obligations to, or transfer or in any way modify, any Obligations or liability of Grantor with respect to any of the Collateral.

2.2. Grantor Remains Liable

. Notwithstanding anything to the contrary contained herein, (a) Grantor shall remain liable under the contracts and agreements included in the Collateral, and under the LMF Operating Agreement, to the extent set forth therein to perform all of its respective duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by Secured Party of any of its rights hereunder shall not release Grantor from any of its duties or obligations under the contracts and agreements included in the Collateral or under the LMF Operating Agreement, and (c) Secured Party shall not have any obligations or liability under any of the contracts and agreements included in the Collateral by reason of this Agreement or under the LMF Operating Agreement, nor shall Secured Party be obligated to perform any of the obligations or duties of Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

2.3. Authorization to File Financing Statements

. Grantor hereby irrevocably authorizes Secured Party at any time and from time to time to file in any UCC jurisdiction any initial financing statements and amendments thereto that describe the Collateral and contain any other information required by Part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including whether Grantor is an organization, the type of organization and any organization identification number issued to Grantor. Grantor agrees to furnish any such information to Secured Party promptly upon request.

REPRESENTATIONS AND WARRANTIES

. Grantor represents and warrants to Secured Party that:

3.1. Title, Authorization, Validity and Enforceability

. Grantor has good and valid rights in and title to the Collateral with respect to which it has purported to grant a Security Interest hereunder, free and clear of all other Liens, and has full power and authority to grant to Secured Party the Security Interest in such Collateral pursuant hereto. The execution and delivery by Grantor of this Agreement has been duly authorized by proper limited liability company proceedings, and this Agreement constitutes a legal, valid and binding obligation of Grantor and creates a Security Interest which is enforceable against Grantor in all now owned and hereafter acquired Collateral. When financing statements have been filed in the appropriate offices against Grantor in the locations listed on *Exhibit B*, Secured Party will have a fully perfected first priority Security Interest in that Collateral in which a Security Interest may be perfected by filing, subject to no other Liens.

3.2. Conflicting Laws and Contracts

. Neither the execution and delivery by Grantor of this Agreement, the creation and perfection of the Security Interest in the Collateral granted hereunder, nor compliance with the terms and provisions hereof will violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on Grantor or Grantor's articles or certificate of incorporation, bylaws, articles of organization or operating agreement or other charter documents, as the case may be, the provisions of any indenture, instrument or agreement to which Grantor is a party or is subject, or by which it, or its property, is bound, or

conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien pursuant to the terms of any such indenture, instrument or agreement (other than any Lien of Secured Party).

3.3. **Reserved**

3.4. **Litigation**

. Other than as set forth in *Exhibit C*, there is no litigation investigation or governmental proceeding threatened against Grantor or any of its properties which would reasonably be expected to result in a Material Adverse Event with respect to the Collateral or Grantor.

3.5. **No Other Names**

. Grantor has not conducted business under any name except the name in which it has executed this Agreement.

3.6. **No Default or Event of Default**

. No Default or Event of Default has occurred.

3.7. **No Financing Statements**

. No financing statement describing all or any portion of the Collateral which has not lapsed or been terminated naming Grantor as debtor has been filed in any jurisdiction except (a) financing statements naming Secured Party as the secured party, and (b) as permitted by *Section 4.1(d)*.

3.8. **Pledged**

Equity Interests. *Exhibit A* sets forth a true, correct, and complete list of the Pledged Equity Interests. Grantor is the direct and beneficial owner of the Pledged Equity Interests set forth in Exhibit A free and clear of any Liens, except for the security interest granted to Secured Party hereunder. Grantor further represents and warrants that (a) all such Pledged Equity Interests are duly and validly issued, are fully paid and non-assessable and (b) none of the Pledged Equity Interests are certificated, and they are not Securities as defined in Article 8 of the UCC of the applicable jurisdiction.

COVENANTS

. From the date of this Agreement, and thereafter until this Agreement is terminated:

4.1. **General.**

(a) **Inspection.** Grantor will permit Secured Party, by its representatives and agents (i) to inspect the Collateral, (ii) to examine and make copies of the records of Grantor relating to the Collateral and (iii) to discuss the Collateral and the related records of Grantor with, and to be advised as to the same by, Grantor's officers, employees, and accountants all at such reasonable times and intervals as Secured Party may determine, and all at Grantor's expense.

(b) **Taxes.** Grantor will pay when due all taxes, assessments and governmental charges and levies upon the Collateral, except those which are being contested in good faith by appropriate proceedings and with respect to which no Lien exists and as to which appropriate reserves are being maintained.

(c) **Records and Reports; Notification of a Default and Event of Default.** Grantor will maintain true, complete, and accurate books and records with respect to the

Collateral, and furnish to Secured Party such reports relating to the Collateral at such intervals as Secured Party shall from time to time reasonably request. Grantor will, upon becoming aware thereof, give prompt notice in writing to Secured Party of the occurrence of any Default or Event of Default and of any other development, financial or otherwise, which would reasonably be expected to materially and adversely affect the Collateral. Grantor shall mark its books and records to reflect the Security Interest of Secured Party under this Agreement.

(d) **Financing Statements and Other Actions; Defense of Title** . Grantor will deliver to Secured Party all financing statements and deliver to the Secured Party the originals of all certificates (if any) evidencing any of the Pledged Equity Interests and take such other actions as may from time to time be reasonably requested by Secured Party in order to maintain a first perfected Security Interest in the Collateral and/or to otherwise enable the Secured Party to enjoy its interest, rights and remedies under this Agreement. Grantor will take any and all actions necessary to defend title to the Collateral against all persons and to defend the Security Interest of Secured Party in the Collateral and the priority thereof against any Lien not expressly permitted hereunder.

(e) **Disposition of Collateral**. Grantor will not sell, lease or otherwise dispose of the Collateral except as permitted under the Credit Agreement.

(f) **Liens**. Grantor will not create, incur, or suffer to exist any Lien on the Collateral except the Security Interest created by this Agreement.

(g) **Change in Location, Jurisdiction of Organization or Name** . Grantor will not (a) maintain a place of business at a location other than a location specified on *Exhibit D*, (b) change its name or taxpayer identification number, (c) change its mailing address, or (d) change its jurisdiction of organization, unless in each case Grantor shall have given Secured Party not less than thirty (30) days' prior written notice thereof, and Secured Party shall have reasonably determined that such change will not adversely affect the validity, perfection or priority of Secured Party's Security Interest in the Collateral. Prior to making any of the foregoing changes, Grantor shall execute and deliver all such additional documents and perform all additional acts as Secured Party, in its sole discretion, may request in order to continue or maintain the existence and priority of its Security Interest in all of the Collateral.

(h) **Other Financing Statements** . Grantor will not sign and/or file or authorize the signing and/or filing on its behalf of any financing statement naming it as debtor covering all or any portion of the Collateral, except for financing statements naming the Secured Party as secured party.

4.2. **Securities**

. Grantor will (a) deliver to Secured Party immediately upon execution of this Agreement the originals of all certificates evidencing any Collateral (if any), (b) hold in trust for Secured Party upon receipt and immediately thereafter deliver to Secured Party any future certificates evidencing Collateral, and (c) upon Secured Party's request, deliver to Secured Party (and thereafter hold in trust for Secured Party upon receipt and immediately deliver to Secured Party) any other document evidencing or constituting Collateral.

4.3. **Stock, Pledged Equity Interests, and Other Ownership Interests .**

(a) **Issuance of Securities.** Grantor shall not permit any Pledged Equity Interest to at any time constitute a Security or consent to the issuer of any such interests taking any action to have such interests treated as a Security unless (i) Secured Party has consented to such action in writing, and (ii) (A) all certificates or other documents constituting such Security have been delivered to Secured Party and such Security is properly defined as such under Article 8 of the UCC of the applicable jurisdiction, whether as a result of actions by the issuer thereof or otherwise, or (B) Secured Party has entered into a control agreement with the issuer of such Security or with a securities intermediary relating to such Security, and such Security is defined as such under Article 8 of the UCC of the applicable jurisdiction, whether as a result of actions by the issuer thereof or otherwise.

4.4. **Compliance with Agreements**

. Grantor shall comply in all material respects with all mortgages, deeds of trust, instruments, and other agreements binding on it or affecting its properties or business.

4.5. **Compliance with Laws**

. Grantor shall comply, in all material respects, with all applicable laws, rules, regulations, and orders of any court or Governmental Authority.

4.6. **Further Assurances**

. At any time and from time to time, upon the request of Secured Party, and at the sole expense of Grantor, Grantor shall promptly execute and deliver all such further instruments and documents and take such further action as Secured Party may deem reasonably necessary or desirable (a) to assure Secured Party that its Security Interests hereunder are perfected with a first priority Lien and (b) to carry out the provisions and purposes of this Agreement, including (i) the filing of such financing statements as Secured Party may require, (ii) furnishing to the Secured Party from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Secured Party may reasonably request, all in reasonable detail, and (iii) taking all actions required by law in any relevant UCC, or by other law as applicable in any foreign jurisdiction. Grantor shall promptly endorse and deliver to Secured Party all documents, instruments, and chattel paper that it now owns or may hereafter acquire with respect to the Collateral.

5. **EVENTS OF DEFAULT**

5.1. **Remedies**

. Upon the occurrence and during the continuance of an Event of Default under the Credit Agreement or any other Loan Document (as such term is defined in the Credit Agreement), and subject to the terms and conditions of the Cure Agreement, Secured Party may exercise any or all of the following rights and remedies:

(a) Those rights and remedies provided in this Agreement, Credit Agreement or any other applicable Loan Document.

(b) Those rights and remedies available to a secured party under the UCC (whether or not the UCC applies to the affected Collateral) or under any other applicable law (including any law governing the exercise of a bank's right of setoff or bankers' lien) when a debtor is in default under a security agreement.

(c) Without notice except as specifically provided in **Section 8.1** or elsewhere herein, sell, lease, assign, grant an option or options to purchase or otherwise dispose of the Collateral or any part thereof in one or more parcels at public or private sale, for cash, on credit or for future delivery, and upon such other terms as Secured Party may deem commercially reasonable. Neither Secured Party's compliance with any applicable state or federal law in the conduct of such sale, nor its disclaimer of any warranties relating to the Collateral, shall be considered to affect the commercial reasonableness of such sale.

(d) During the existence of any Event of Default, all payments and distributions made on behalf of Grantor's Specified LLC Rights shall be paid or delivered to Secured Party (except that if the Secured Party has not taken any other material enforcement action, Grantor may receive tax distributions (in accordance with Section 4.5 of the LMF Operating Agreement) and distribute same as "Tax Distributions" under the Credit Agreement), and Grantor agrees to take all such action as Secured Party may deem necessary or appropriate to cause all such payments and distributions to be made to Secured Party. Further, Secured Party shall have the right, during the existence of any Event of Default, to notify and direct LMF (subject as aforesaid with respect to tax distributions) to make all payments, dividends, and any other distributions payable in respect thereof directly to Secured Party. LMF shall be fully protected in relying on the written statement of Secured Party that it then holds a Security Interest which entitles it to receive such payments and distributions. Any and all money and other property paid over to or received by Secured Party hereunder shall be retained by as additional Collateral hereunder or applied to the Obligations.

(e) Grantor recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (collectively, the "**Securities Act**") and applicable state securities laws, Secured Party may be compelled, with respect to any sale of all or any part of the Collateral conducted without prior registration or qualification of such Collateral under the Securities Act and/or such state securities laws, to limit purchasers to those who will agree, among other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Grantor acknowledges that any such private sale may be at prices and on terms less favorable than those obtainable through a public sale without such restrictions (including a public offering made pursuant to a registration statement under the Securities Act) and, notwithstanding such circumstances, Grantor agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner and that Secured Party shall have no obligation to engage in public sales and no obligation to delay the sale of any Collateral for the period of time necessary to permit the issuer thereof to register it for a form of public sale requiring registration under the Securities Act or under applicable state securities laws, even if such issuer would, or should, agree to so register it. If Secured Party determines to exercise its right to sell any or all of the Collateral, upon written request, Grantor shall furnish to Secured Party all such information as Secured Party may request in order to determine the number and nature of interest, shares or other instruments included in the Collateral which may be sold by Secured Party in exempt transactions under the Securities Act and the rules and regulations of the Securities and Exchange Commission thereunder, as the same are from time to time in effect. In case of any sale of all or any part of the Collateral on credit

or for future delivery, such Collateral so sold may be retained by Secured Party until the selling price is paid by the purchaser thereof, but the Secured Party shall not incur any liability in case of the failure of such purchaser to take up and pay for such assets so sold and in case of any such failure, such Collateral may again be sold upon like notice. Secured Party, instead of exercising the power of sale herein conferred upon them, may proceed by a suit or suits at law or in equity to foreclose Security Interests created hereunder and sell such Investment Property, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction.

(f) If Secured Party sells any of the Collateral upon credit, Grantor will be credited only with payments actually made by the purchaser, received by Secured Party, and applied to the indebtedness of the purchaser. In the event the purchaser fails to pay for the Collateral, Secured Party may resell the Collateral, and Grantor shall be credited with the Proceeds of the sale

WAIVERS, AMENDMENTS AND REMEDIES

. No delay or omission of Secured Party to exercise any right or remedy granted under this Agreement shall impair such right or remedy or be construed to be a waiver of any Event of Default, or an acquiescence therein, and any single or partial exercise of any such right or remedy shall not preclude any other or further exercise thereof or the exercise of any other right or remedy. No waiver, amendment or other variation of the terms, conditions or provisions of this Agreement whatsoever shall be valid unless in writing signed by Secured Party and then only to the extent in such writing specifically set forth. All rights and remedies contained in this Agreement or by law afforded shall be cumulative and all shall be available to Secured Party until this Agreement has been terminated pursuant to **Section 8.11**.

7. PROCEEDS

7.1. Application of Proceeds

. Upon the occurrence and during the continuation of an Event of Default, the Proceeds of the Collateral may be applied by Secured Party to payment of the Secured Obligations in such manner and order as Secured Party may elect in its sole discretion.

8. GENERAL PROVISIONS

8.1. Notice of Disposition of Collateral

. Grantor hereby waives notice of the time and place of any public sale or the time after which any private sale or other disposition of all or any part of the Collateral may be made. To the extent such notice may not be waived under applicable law, any notice made shall be deemed reasonable if sent to Grantor, addressed as set forth in **Section 9.1**, at least ten (10) days prior to (a) the date of any such public sale or (b) the time after which any such private sale or other disposition may be made. Secured Party shall not be obligated to make any sale or other disposition of the Collateral regardless of notice having been given. Subject to the provisions of applicable law, Secured Party may postpone or cause the postponement of the sale of all or any portion of the Collateral by announcement at the time and place of such sale, and such sale may, without further notice, to the extent permitted by law, be made at the time and place to which the sale was postponed, or Secured Party may further postpone such sale by announcement made at such time and place.

8.2. **Secured Party Performance of Grantor's Obligations**

. Without having any obligation to do so, Secured Party may perform or pay any Obligations which Grantor has agreed to perform or pay in this Agreement, and Grantor shall reimburse Secured Party for any amounts paid by Secured Party pursuant to this **Section 8.2**. Grantor's obligation to reimburse Secured Party pursuant to the preceding sentence shall be a Secured Obligation payable on demand.

8.3. **Authorization for Secured Party to Take Certain Action**

. Grantor irrevocably authorizes Secured Party at any time and from time to time in the sole discretion of Secured Party, and appoints Secured Party as its attorney in fact, coupled with an interest, (a) to execute on behalf of such Grantor as debtor and to file financing statements necessary or desirable in Secured Party's sole discretion to perfect and to maintain the perfection and priority of Secured Party's Security Interest in the Collateral, (b) during the existence of any Event of Default, to indorse and collect any cash Proceeds of the Collateral, (c) to apply the Proceeds of any Collateral received by Secured Party to the Secured Obligations as provided in **Section 7** and (d) to discharge past due taxes, assessments, charges, fees or Liens on the Collateral (except for such Liens as are specifically permitted hereunder), and Grantor agrees to reimburse Secured Party on demand for any payment made or any expense incurred by Secured Party in connection therewith, *provided that* this authorization shall not relieve Grantor of any of its obligations under this Agreement, the Credit Agreement or any other Loan Document (as defined in the Credit Agreement).

8.4. **Specific Performance of Certain Covenants**

. Grantor acknowledges and agrees that a breach of any of the covenants contained in **Sections 4.1(d), 4.1(f), 4.2, or 8.6** or in **Section 7** will cause irreparable injury to Secured Party, that Secured Party has no adequate remedy at law in respect of such breaches and therefore agrees, without limiting the right of Secured Party to seek and obtain specific performance of other Obligations of Grantor contained in this Agreement, that the covenants of Grantor contained in the Sections referred to in this **Section 8.4** shall be specifically enforceable against Grantor.

8.5. **Reserved.**

8.6. **Dispositions Not Authorized**

. Grantor is not authorized to sell or otherwise dispose of the Collateral, except for dispositions permitted under the Credit Agreement, and notwithstanding any course of dealing between Grantor and Secured Party or other conduct of Secured Party, no authorization to sell or otherwise dispose of the Collateral (except as permitted under the Credit Agreement) shall be binding upon Secured Party unless such authorization is in writing signed by Secured Party.

8.7. **Benefit of Agreement**

. The terms and provisions of this Agreement shall be binding upon and inure to the benefit of Grantor, Secured Party and their respective successors and assigns, except that Grantor shall not have the right to assign its rights or delegate its obligations under this Agreement or any interest herein, without the prior written consent of Secured Party.

8.8. **Survival of Representations**

. All representations and warranties of Grantor contained in this Agreement shall survive the execution and delivery of this Agreement.

8.9. **Taxes and Expenses**

. Any taxes (including income taxes) payable or ruled payable by Federal or State authority in respect of this Agreement shall be paid by Grantor, together with interest and penalties, if any. Grantor shall reimburse Secured Party for any and all out-of-pocket expenses and internal charges (including reasonable attorneys', auditors' and accountants' fees) paid or incurred by Secured Party in connection with the preparation, execution, delivery, and administration of this Agreement and in the audit, analysis, administration, collection, preservation or sale of the Collateral (including the expenses and charges associated with any periodic or special audit of the Collateral). In addition, Grantor shall be obligated to pay all of the costs and expenses incurred by Secured Party, including attorneys' fees and court costs, in obtaining or liquidating the Collateral, in enforcing payment of the Secured Obligations, or in the prosecution or defense of any action or proceeding by or against Secured Party or Grantor concerning any matter arising out of or connected with this Agreement, any Collateral or the Secured Obligations, including any of the foregoing arising in, arising under or related to a case under any bankruptcy, insolvency or similar law. Any and all costs and expenses incurred by Grantor in the performance of actions required pursuant to the terms hereof shall be borne solely by Grantor.

8.10. **Headings**

. The title of and Section headings in this Agreement are for convenience of reference only, and shall not govern the interpretation of any of the terms and provisions of this Agreement.

8.11. **Termination**

. This Agreement shall continue in effect (notwithstanding the fact that from time to time there may be no Secured Obligations outstanding) until (a) the Credit Agreement has terminated pursuant to its express terms and (b) all of the Secured Obligations (except Secured Obligations consisting of contingent indemnification provisions for which no claim has been asserted) have been paid in full in cash in full and no commitments of Secured Party which would give rise to any Secured Obligations are outstanding; *provided that* any termination of this Agreement under this **Section 8.11** is subject to **Section 8.18**. Upon any such termination, the Secured Party shall (i) return any original certificates evidencing the Pledged Equity Interests previously delivered by Grantor to the Secured Party, (ii) authorize, at the expense of Grantor, UCC-3 termination statements to be filed terminating financing statements filed to perfect the Security Interests and (iii) at the expense of Grantor, take such other actions as Grantor may reasonably request to reflect such termination.

8.12. **FINAL AGREEMENT**

. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

8.13. **CHOICE OF LAW**

. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF FLORIDA, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

8.14. **INDEMNITY**

. GRANTOR DOES HEREBY ASSUME ALL LIABILITY FOR THE COLLATERAL, FOR THE SECURITY INTEREST OF SECURED PARTY, AND FOR

ANY USE, POSSESSION, MAINTENANCE, AND MANAGEMENT OF, ALL OR ANY OF THE COLLATERAL, INCLUDING ANY TAXES ARISING AS A RESULT OF, OR IN CONNECTION WITH, THE TRANSACTIONS CONTEMPLATED HEREIN, AND AGREE TO ASSUME LIABILITY FOR, AND TO INDEMNIFY AND HOLD SECURED PARTY AND ITS RESPECTIVE SUCCESSORS, ASSIGNS, AGENTS, ATTORNEYS, AND EMPLOYEES HARMLESS FROM AND AGAINST, ANY AND ALL CLAIMS, CAUSES OF ACTION, OR LIABILITY, FOR INJURIES TO OR DEATHS OF PERSONS AND DAMAGE TO PROPERTY, HOWSOEVER ARISING FROM OR INCIDENT TO SUCH USE, POSSESSION, MAINTENANCE, AND MANAGEMENT, WHETHER SUCH PERSONS BE AGENTS OR EMPLOYEES OF GRANTOR OR OF THIRD PARTIES, OR SUCH DAMAGE BE TO PROPERTY OF GRANTOR OR OF OTHERS. GRANTOR DOES HEREBY INDEMNIFY, SAVE, AND HOLD SECURED PARTY AND ITS RESPECTIVE SUCCESSORS, ASSIGNS, AGENTS, ATTORNEYS, AND EMPLOYEES HARMLESS FROM AND AGAINST, AND COVENANTS TO DEFEND SECURED PARTY AGAINST, ANY AND ALL LOSSES, DAMAGES, CLAIMS, COSTS, PENALTIES, LIABILITIES, AND EXPENSES (COLLECTIVELY, "**CLAIMS**"), INCLUDING COURT COSTS AND ATTORNEYS' FEES, AND ANY OF THE FOREGOING ARISING FROM THE NEGLIGENCE OF SECURED PARTY OR ANY OF THEIR RESPECTIVE OFFICERS, EMPLOYEES, AGENTS, ADVISORS, EMPLOYEES, OR REPRESENTATIVES, HOWSOEVER ARISING OR INCURRED BECAUSE OF, INCIDENT TO, OR WITH RESPECT TO COLLATERAL OR ANY USE, POSSESSION, MAINTENANCE, OR MANAGEMENT THEREOF; PROVIDED, HOWEVER, THAT THE INDEMNITY SET FORTH IN THIS **SECTION 8.14** WILL NOT APPLY TO CLAIMS CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SECURED PARTY OR ANY OF THEIR RESPECTIVE OFFICERS, EMPLOYEES, AGENTS, ADVISORS, EMPLOYEES, OR REPRESENTATIVES, AS DETERMINED BY A COURT OF COMPETENT JURISDICTION IN FINAL AND NONAPPEALABLE JUDGMENT.

8.15. **Limitation of Obligations.**

(a) The provisions of this Agreement are severable, and in any action or proceeding involving any applicable law affecting the rights of creditors generally, if the Obligations of Grantor under this Agreement would otherwise be held or determined to be avoidable, invalid or unenforceable on account of the amount of Grantor's liability under this Agreement, then, notwithstanding any other provision of this Agreement to the contrary, the amount of such liability shall, without any further action by Grantor or Secured Party, be automatically limited and reduced to the highest amount that is valid and enforceable as determined in such action or proceeding (such highest amount determined hereunder being Grantor's "**Maximum Liability**").

(b) Notwithstanding any or all of the Secured Obligations becoming unenforceable against Grantor or the determination that any or all of the Secured Obligations shall have become discharged, disallowed, invalid, illegal, void or otherwise unenforceable as against Grantor (whether by operation of any present or future law or by order of any court or governmental agency), the Secured Obligations shall, for the purposes of this Agreement, continue to be outstanding and in full force and effect.

8.16. **Reserved.**

8.17. **Reserved**

8.18. **Recovered Payments**

. The Secured Obligations shall be deemed not to have been paid, observed or performed, and Grantor's obligations under this Agreement in respect thereof shall continue and not be discharged, to the extent that any payment, observance or performance thereof by Grantor is recovered from or paid over by or for the account of Secured Party for any reason, including as a preference or fraudulent transfer or by virtue of any subordination (whether present or future or contractual or otherwise) of the Secured Obligations, whether such recovery or payment over is effected by any judgment, decree or order of any court or governmental agency, by any plan of reorganization or by settlement or compromise by Secured Party (whether or not consented to by Grantor) of any claim for any such recovery or payment over. Grantor hereby expressly waives the benefit of any applicable statute of limitations and agrees that it shall be liable hereunder whenever such a recovery or payment over occurs.

9. **NOTICES**

9.1. **Sending Notices**

. Whenever any notice is required or permitted to be given under the terms of this Agreement, the same shall, except as otherwise expressly provided for in this Agreement, be given in writing, and sent by: (a) certified mail, return receipt requested, postage pre-paid; (b) a national overnight delivery service; (c) hand delivery with written receipt acknowledged; or (d) facsimile, followed by a copy sent in accordance with *clause (b)* or *(c)* of this **Section 9.1** sent the same day as the facsimile, in each case to the address or facsimile number (together with a contemporaneous copy to each copied addressee), as applicable, set forth in **Exhibit D**. Grantor and Secured Party shall not conduct communications contemplated by this Agreement by electronic mail or other electronic means, except by facsimile transmission as expressly provided in this **Section 9.1**, and the use of the phrase "in writing" or the word "written" shall not be construed to include electronic communications except by facsimile transmissions as expressly provided in this **Section 9.1**. Any notice required or given hereunder shall be deemed received the same Business Day if sent by hand delivery or facsimile, the next Business Day if sent by overnight courier, or three (3) Business Days after posting if sent by certified mail, return receipt requested; *provided that* any notice received after 5:00 p.m. Little Rock, Arkansas time on any Business Day or received on any day that is not a Business Day shall be deemed to have been received on the following Business Day.

9.2. **Change in Address for Notices**

. Grantor and Secured Party may change the address for service of notice upon it by a notice in writing to the other party.

9.3 **Subject to Agreements.** The terms and provisions of this Agreement are (whether or not expressly so stated above) subject to the terms and provisions of the LMF Operating Agreement.

**[Remainder of Page Intentionally Left Blank
Signature Page Follows.]**

IN WITNESS WHEREOF, Grantor and Secured Party have executed this Agreement as of the date first above written.

GRANTOR:

LM FUNDING AMERICA, INC.,
a Delaware corporation

By: /s/ Bruce M. Rodgers
Name: Bruce M. Rodgers
Title: Chief Executive Officer

SECURED PARTY:

HEARTLAND BANK,
an Arkansas state bank

By: /s/ Mark Hoffpauir
Name: Mark Hoffpauir
Title: Executive Vice President

[Signature Page to Pledge Agreement]

EXHIBIT A

List of Pledged Equity Units

<u>Grantor</u>	<u>Issuer</u>	<u>Certificate Number</u>	<u>Membership Interests</u>
LM Funding America, Inc.	LM Funding, LLC	N/A	100%

PLEDGE AGREEMENT (*LM Funding America, Inc.*)
WPB_ACTIVE 7608584.3

Exhibit A to Pledge Agreement

EXHIBIT B

UCC Filing Jurisdictions

<u>Grantor</u>	<u>Jurisdiction</u>
LM Funding America, Inc.	Delaware Secretary of State

PLEDGE AGREEMENT (*LM Funding America, Inc.*)
WPB_ACTIVE 7608584.3

Exhibit B to Pledge Agreement

EXHIBIT C

Litigation

[see attached]

EXHIBIT D

Principal Place of Business and Mailing Address :

LM Funding America, Inc.

302 Knights Run Ave Suite #1000

Tampa, Florida 33602

Attention: Bruce M. Rodgers

Fax No.: (813) 221-7909

With a copy of notices to be sent to:

Business Law Group, P.A.

302 Knights Run Avenue

Suite 1000

Tampa, Florida 33602

Fax No.: (813) 221-7909

PLEDGE AGREEMENT (*LM Funding America, Inc.*)
WPB_ACTIVE 7608584.3

Exhibit D to Pledge Agreement

Loan No.: 9100010227

FIRST AMENDMENT TO PLEDGE AGREEMENT

This **FIRST AMENDMENT TO PLEDGE AGREEMENT** (this "*Amendment*") is effective as of March 15, 2017 and entered into this 31st day of March, 2017, between **LM FUNDING, LLC**, a Florida limited liability company ("*Grantor*"), and **HEARTLAND BANK**, an Arkansas state bank ("*Secured Party*"). Capitalized terms used but not specifically defined herein shall have the meanings provided for such terms in the Pledge Agreement (as defined below).

RECITALS:

WHEREAS, Grantor, CRE Funding, LLC, a Florida limited liability company ("*CRE*") and Secured Party have executed that certain Pledge Agreement dated as of December 30, 2014 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "*Pledge Agreement*");

WHEREAS, Grantor and CRE have requested that Secured Party (i) modify Exhibit A of the Pledge Agreement to reflect that Grantor owns 100% of the membership interests of LMF SPE#2, LLC and that such membership interests shall constitute the Pledged Equity Interests and (ii) release CRE from its obligations under the Pledge Agreement; and

WHEREAS, Secured Party is willing to make such modifications to the Pledge Agreement and release CRE from its obligations under the Pledge Agreement in accordance with and subject to the terms and conditions set forth herein.

NOW, THEREFORE, for and in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the parties agree as follows:

1. Acknowledgment of Parties. Each of Grantor and Secured Party acknowledges and agrees that the recital of facts set forth in this Amendment are true and correct in all respects.
2. Amendments to Pledge Agreement.
 - (a) Amendment to Exhibit A. Exhibit A to the Pledge Agreement is hereby deleted in its entirety and replaced with Exhibit A hereto.
3. Release of CRE. Secured Party hereby releases and discharges CRE from any and all obligations under the Pledge Agreement.
4. Conditions to Effectiveness. The effectiveness of this Amendment is subject to Secured Party's receipt of this Amendment, duly executed by Grantor and Secured Party.
5. Reaffirmation of Representations and Warranties. Grantor hereby agrees with, reaffirms and acknowledges its respective representations and warranties contained in the Pledge Agreement. Furthermore, Grantor hereby represents that its respective representations and

warranties contained in the Pledge Agreement continue to be true and in full force and effect in all material respects. This agreement, reaffirmation and acknowledgment is given to Secured Party by Grantor without defenses, claims or counterclaims of any kind. To the extent that any such defenses, claims or counterclaims against Secured Party may exist, Grantor waives and releases Secured Party from same.

6. Ratification and Reaffirmation of Pledge Agreement. Grantor ratifies and reaffirms all terms, covenants, conditions and agreements contained in the Pledge Agreement.

7. Legal Representation. Each of the parties hereto acknowledge that they have been represented by independent legal counsel in connection with the execution of this Amendment, that they are fully aware of the terms and conditions contained herein, and that they have entered into and executed this Amendment as a voluntary action and without coercion or duress of any kind.

8. Partial Invalidity; No Repudiation. If any of the provisions of this Amendment shall contravene or be held invalid under the laws of any jurisdiction, the Amendment shall be construed as if not containing such provisions and the rights, remedies, warranties, representations, covenants, and provisions hereof shall be construed and enforced accordingly in such jurisdiction and shall not in any manner affect such provision in any other jurisdiction, or any other provisions of this Amendment in any jurisdiction.

9. Binding Effect. This Amendment is binding upon the parties hereto and their respective successors and assigns.

10. Full Force and Effect. Except as otherwise modified hereby, the Pledge Agreement shall remain in full force and effect in accordance with its terms.

11. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA; PROVIDED THAT SECURED PARTY SHALL RETAIN ALL RIGHTS UNDER FEDERAL LAW.

12. Counterparts. This Amendment and/or any documentation contemplated or required in connection herewith may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall be considered one and the same document. Delivery of an executed counterpart of a signature page of this document by facsimile shall be effective as delivery of a manually executed counterpart of this document.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, do hereby execute this Amendment the date and year first above written.

GRANTOR:

LM FUNDING, LLC
a Florida limited liability company

By: /s/ Bruce M. Rodgers
Name: Bruce M. Rodgers
Title: Chief Executive Officer of LM Funding
America, Inc., as Manager of LM Funding,
LLC

SECURED PARTY:

HEARTLAND BANK

By: /s/ Mark Hoffpauir
Name: Mark Hoffpauir
Title: Executive Vice President

EXHIBIT A

List of Pledged Equity Units

<u>Grantor</u>	<u>Issuer</u>	<u>Certificate Number</u>	<u>Membership Interests</u>
LM Funding, LLC	LMF SPE#2, LLC	N/A	100%

WPB_ACTIVE 7608523.2

SUBSIDIARIES OF LM FUNDING AMERICA, INC.

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

NAME OF SUBSIDIARY	JURISDICTION OF ORGANIZATION
LM Funding, LLC(1)	Florida
LMF October 2010 Fund, LLC	Florida
REO Management Holdings, LLC	Florida
LM Funding of Colorado, LLC	Colorado
LM Funding of Washington, LLC	Washington
LMF SPE#2, LLC(2)	Florida
LM Funding of Illinois, LLC	Illinois

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

(2) Now owned 100% by LM Funding, LLC

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

I, Bruce Rodgers, certify that:

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

April 4, 2017

/s/ Bruce Rodgers

Bruce Rodgers
CEO and Chief Executive Officer
(Principal Executive Officer)

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

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

I, Steve Weclaw, certify that:

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

April 4, 2017

/s/ Steve Weclaw

Steve Weclaw

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

Written Statement of the Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Executive Officer of LM Funding America, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-K/A of the Company for the annual period ended December 31, 2016 as filed with the Securities and Exchange Commission on April 4, 2017 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Bruce Rodgers

Bruce Rodgers

CEO and Chief Executive Officer

(Principal Executive Officer)

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

Written Statement of the Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Financial Officer of LM Funding America, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-K/A of the Company for the annual period ended December 31, 2016 as filed with the Securities and Exchange Commission on April 4, 2017 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Steve Weclaw

Steve Weclaw

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.