

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

EMERGENT CAPITAL, INC.

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

or

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

Commission file number: 001-35064

EMERGENT CAPITAL, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

30-0663473
(I.R.S. Employer
Identification No.)

5355 Town Center Road—Suite 701
Boca Raton, Florida 33486
(Address of principal executive offices, including zip code)
(561) 995-4200

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of August 17, 2018, the Registrant had 158,420,458 shares of common stock outstanding.

EMERGENT CAPITAL, INC.
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"Forward Looking" Statements

As used in this Form 10-Q, "Emergent Capital," "Company," "we," "us," "its," or "our" refer to Emergent Capital, Inc. and its consolidated subsidiary companies, unless the context suggests otherwise.

This Quarterly Report on Form 10-Q contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "plan," "intend," "believe," "may," "will," "should," "can have," "likely and other words and terms of similar meaning in connection with any discussion of the timing or nature of future cash flows, operating or financial performance or other events. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry and Company, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Although we believe that the expectations reflected in such forward-looking statements are reasonable as of the date made, results may prove to be materially different. Unless otherwise required by law, we disclaim any obligation to update our view of any such risks or uncertainties or to announce publicly the result of any revisions to the forward-looking statements made in this report.

Factors that could cause our actual results and our financial condition to differ materially from those indicated in our forward-looking statements include, but are not limited to, the following:

- our ability to maintain our rights in the policies that serve as the primary assets of the Company and are the collateral under various debt instruments to which we are a party;
- our ability to obtain future financings on favorable terms, or at all;
- our ability to improve our solvency in a manner acceptable to the lender of the White Eagle Revolving Credit Facility which may impact our ability to receive distributions from policy proceeds from life insurance policies pledged as collateral under the facility;
- our ability to meet our debt service obligations;
- delays in the receipt of death benefits from our portfolio of life insurance policies;
- costs related to obtaining death benefits from our portfolio of life insurance policies;
- our ability to continue to comply with the covenants and other obligations, including the conditions precedent for additional fundings under our revolving credit facility;
- increases in premiums on, or the cost of insurance of, life insurance policies that we own;
- changes to actuarial life expectancy tables;
- changes in general economic conditions, including inflation, changes in interest or tax rates;
- our results of operations;
- our ability to continue to make premium payments on the life insurance policies that we own;
- adverse developments, including financial ones, associated with other litigation and judicial actions;
- inaccurate estimates regarding the likelihood and magnitude of death benefits related to life insurance policies that we own;
- lack of mortalities of insureds of the life insurance policies that we own;
- increases to the discount rates used to value the life insurance policies that we own;
- changes in mortality rates and inaccurate assumptions about life expectancies;
- changes in life expectancy calculation methodologies by third party medical underwriters;
- the effect on our financial condition as a result of any lapse of life insurance policies;

- our ability to sell the life insurance policies we own at favorable prices, if at all;
- adverse developments in capital markets;
- deterioration of the market for life insurance policies and life settlements;
- increased carrier challenges to the validity of our life insurance policies;
- adverse court decisions regarding insurable interest and the obligation of a life insurance carrier to pay death benefits or return premiums upon a successful rescission or contest;
- challenges to the ownership of the policies in our portfolio;
- changes in laws and regulations;
- deterioration in the credit worthiness of the life insurance companies that issue the policies included in our portfolio;
- regulation of life settlement transactions as securities;
- liabilities associated with our legacy structured settlement business;
- our failure to maintain the security of personally identifiable information pertaining to insureds and counterparties;
- disruption of our information technology systems;
- our ability to avoid defaulting under the various credit documents to which we are a party;
- our ability to maintain a listing or quotation on a national securities exchange or other trading platform for our common stock;
- cyber security risks and the threat of data breaches;
- loss of the services of any of our executive officers; and
- the effects of United States involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts.

All written and oral forward-looking statements attributable to the Company, or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. See "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2017. You should evaluate all forward-looking statements made in this Form 10-Q in the context of these risks and uncertainties. The Company cautions you that the important factors referenced above may not contain all of the factors that are important to you.

Emergent Capital, Inc.
CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017*
	(Unaudited)	
	(In thousands except share data)	
ASSETS		
Assets		
Cash and cash equivalents	\$ 8,314	\$ 18,131
Cash and cash equivalents (VIE Note 4)	17,949	13,136
Certificates of deposit	1,014	1,010
Prepaid expenses and other assets	934	617
Prepaid expenses and other assets (VIE Note 4)	30	53
Deposits - other	1,377	1,377
Life settlements, at estimated fair value (Note 15)	1,006	750
Life settlements, at estimated fair value (VIE Note 4 & Note 15)	568,367	566,742
Receivable for maturity of life settlements (VIE Note 4)	47,980	30,045
Fixed assets, net	104	145
Investment in affiliates	2,384	2,384
Total assets	\$ 649,459	\$ 634,390
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 2,019	\$ 2,015
Accounts payable and accrued expenses (VIE Note 4)	1,425	753
Other liabilities	182	451
Other liabilities (VIE Note 4)	48	—
Interest payable - 8.5% Convertible Notes (Note 10)	46	46
8.5% Convertible Notes, net of discount and deferred debt costs (Note 10)	1,139	1,098
Interest payable - 5.0% Convertible Notes (Note 11)	1,432	1,432
5.0% Convertible Notes, net of discount and deferred debt costs (Note 11)	69,222	68,654
Interest payable - 8.5% Senior Secured Notes (Note 13)	124	132
8.5% Senior Secured Notes, net of deferred debt costs (Note 13)	34,056	33,927
White Eagle Revolving Credit Facility, at estimated fair value (VIE Note 4 & Note 9)	353,387	329,240
Current tax liability	3,120	—
Total liabilities	466,200	437,748
Commitments and Contingencies (Note 17)		
Stockholders' Equity		
Common stock (par value \$0.01 per share, 415,000,000 authorized at June 30, 2018 and December 31, 2017; 159,028,458 issued and 158,420,458 outstanding as of June 30, 2018; 158,495,399 issued and 157,887,399 outstanding as of December 31, 2017)	1,590	1,585
Preferred stock (par value \$0.01 per share, 40,000,000 authorized; 0 issued and outstanding as of June 30, 2018 and December 31, 2017)	—	—
Treasury Stock, net of issuance cost (608,000 shares as of June 30, 2018 and December 31, 2017)	(2,534)	(2,534)
Additional paid-in-capital	333,844	333,629
Accumulated deficit	(149,641)	(136,038)
Total stockholders' equity	183,259	196,642
Total liabilities and stockholders' equity	\$ 649,459	\$ 634,390

* Derived from audited consolidated financial statements.

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

Emergent Capital, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands, except share and per share data)			
Income				
Change in fair value of life settlements (Notes 8 & 15)	\$ 5,475	\$ 3,382	\$ 10,920	\$ 28,922
Other income	88	79	234	129
Total income	<u>5,563</u>	<u>3,461</u>	<u>11,154</u>	<u>29,051</u>
Expenses				
Interest expense	7,797	8,163	15,401	15,698
Change in fair value of White Eagle Revolving Credit Facility (Notes 9 & 15)	12	(1,785)	(2,377)	10,046
Personnel costs	939	1,049	1,706	2,133
Legal fees	910	657	2,633	1,652
Professional fees	1,660	1,204	2,899	2,807
Insurance	199	198	396	390
Other selling, general and administrative expenses	529	449	974	913
Total expenses	<u>12,046</u>	<u>9,935</u>	<u>21,632</u>	<u>33,639</u>
Income (loss) from continuing operations before income taxes	(6,483)	(6,474)	(10,478)	(4,588)
(Benefit) provision for income taxes	3,120	—	3,120	—
Net income (loss) from continuing operations	<u>\$ (9,603)</u>	<u>\$ (6,474)</u>	<u>\$ (13,598)</u>	<u>\$ (4,588)</u>
Discontinued Operations:				
Income (loss) from discontinued operations before income taxes	(4)	(35)	(5)	(225)
(Benefit) provision for income taxes	—	—	—	—
Net income (loss) from discontinued operations	<u>(4)</u>	<u>(35)</u>	<u>(5)</u>	<u>(225)</u>
Net income (loss)	<u>\$ (9,607)</u>	<u>\$ (6,509)</u>	<u>\$ (13,603)</u>	<u>\$ (4,813)</u>
Basic and Diluted income (loss) per share:				
Continuing operations	\$ (0.06)	\$ (0.23)	\$ (0.09)	\$ (0.16)
Discontinued operations	\$ —	\$ —	\$ —	\$ (0.01)
Net income (loss) - basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.23)</u>	<u>\$ (0.09)</u>	<u>\$ (0.17)</u>
Weighted average shares outstanding:				
Basic and diluted	<u>155,810,449</u>	<u>28,169,414</u>	<u>155,800,082</u>	<u>28,159,080</u>

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

Emergent Capital, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
For the Six Months Ended June 30, 2018

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
	(in thousands, except share data)						
Balance, January 1, 2018	158,495,399	\$ 1,585	(608,000)	\$ (2,534)	\$ 333,629	\$ (136,038)	\$ 196,642
Net loss	—	—	—	—	—	(13,603)	(13,603)
Issue of common stock, net	25,000	—	—	—	9	—	9
Stock-based compensation	550,000	5	—	—	211	—	216
Retirement of common stock	(41,941)	—	—	—	(5)	—	(5)
Balance, June 30, 2018	159,028,458	\$ 1,590	(608,000)	\$ (2,534)	\$ 333,844	\$ (149,641)	\$ 183,259

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

Emergent Capital, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities		
Net income (loss)	\$ (13,603)	\$ (4,813)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	46	52
Amortization of discount and deferred costs for 8.5% Convertible Notes	41	2,048
Amortization of deferred costs for 15.0% Senior Secured Notes	—	184
Amortization of discount and deferred cost for 5.0% Convertible Notes	568	—
Amortization of deferred costs for 8.5% Senior Secured Notes	129	—
Stock-based compensation expense	211	264
Finance cost and fees withheld by borrower	484	441
Interest Paid in Kind on 8.5% Convertible Notes	—	3,477
Change in fair value of life settlements	(10,920)	(28,922)
Change in fair value of White Eagle Revolving Credit Facility	(2,377)	10,046
Interest income	(57)	(12)
Change in assets and liabilities:		
Deposits - other	—	(30)
Prepaid expenses and other assets	(291)	(3,473)
Accounts payable and accrued expenses	685	3,749
Other liabilities	(221)	(115)
Current tax liability	3,120	—
Interest payable - 8.5% Convertible Notes	—	111
Interest payable - 15.0% Senior Secured Notes	—	(13)
Interest payable - 8.5% Senior Secured Notes	(8)	—
Interest payable - 15.0% Promissory Notes	—	11
Net cash used in operating activities	<u>(22,193)</u>	<u>(16,995)</u>
Cash flows from investing activities		
Certificate of deposit	—	5,025
Premiums paid on life settlements	(44,896)	(42,033)
Proceeds from maturity of life settlements	36,045	26,173
Net cash used in investing activities	<u>(8,851)</u>	<u>(10,835)</u>
Cash flows from financing activities		
Borrowings from White Eagle Revolving Credit Facility	45,583	42,959
Repayment of borrowings under White Eagle Revolving Credit Facility	(19,543)	(5,656)
Payment under finance lease obligations	—	(18)
Borrowings under 15.0% Promissory Note	—	1,892
Net cash provided by financing activities	<u>26,040</u>	<u>39,177</u>
Net increase (decrease) in cash and cash equivalents	(5,004)	11,347
Cash and cash equivalents, at beginning of the period	31,267	11,318
Cash and cash equivalents, at end of the period	<u>\$ 26,263</u>	<u>\$ 22,665</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	<u>\$ 14,662</u>	<u>\$ 9,813</u>

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

Emergent Capital, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2018

(1) Description of Business

Emergent Capital, Inc. was founded in December 2006 as a Florida limited liability company, Imperial Holdings, LLC, and converted into Imperial Holdings, Inc. on February 3, 2011, in connection with our initial public offering. Effective September 1, 2015, the name was changed to Emergent Capital, Inc. (with its subsidiary companies, the "Company" or "Emergent Capital").

Emergent Capital, through its subsidiary companies, owns a portfolio of 596 life insurance policies, also referred to as life settlements, with a fair value of \$569.4 million and an aggregate death benefit of approximately \$2.8 billion at June 30, 2018. The Company primarily earns income on these policies from changes in their fair value and through death benefits. 594 of these policies, with an aggregate death benefit of approximately \$2.8 billion and a fair value of approximately \$568.4 million at June 30, 2018, are pledged under a \$370.0 million, revolving credit agreement (the "White Eagle Revolving Credit Facility") entered into by the Company's indirect subsidiary, White Eagle Asset Portfolio, LP ("White Eagle"). At June 30, 2018, two policies owned by the Company, with an aggregate death benefit of approximately \$12.0 million and a fair value of \$1.0 million, were not pledged as collateral under the White Eagle Revolving Credit Facility.

(2) Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company, all of its wholly-owned subsidiary companies and its special purpose entities, with the exception of Imperial Settlements Financing 2010, LLC ("ISF 2010"), an unconsolidated special purpose entity which is accounted for using the cost method of accounting. The special purpose entity was created to fulfill specific objectives. All significant intercompany balances and transactions have been eliminated in consolidation, including income from services performed by subsidiary companies in connection with the White Eagle Revolving Credit Facility (as defined below), as detailed herein. Notwithstanding consolidation, as referenced above, White Eagle is the owner of 594 policies, with an aggregate death benefit of approximately \$2.8 billion and an estimated fair value of approximately \$568.4 million at June 30, 2018.

The unaudited consolidated financial statements have been prepared in conformity with the rules and regulations of the SEC for Form 10-Q and therefore do not include certain information, accounting policies, and footnote disclosure information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. However, all adjustments (consisting of normal recurring accruals), which, in the opinion of management, are necessary for a fair presentation of the financial statements, have been included. Operating results for the three months ended June 30, 2018 are not necessarily indicative of the results that may be expected for future periods or for the year ending December 31, 2018. These interim financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Emergent Capital's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Liquidity

Historically, the Company has incurred substantial losses, which has resulted in an accumulated deficit of approximately \$149.6 million as of June 30, 2018. Cash flows used in operating activities were \$22.2 million for the six month period ended June 30, 2018 and \$34.8 million for the year ended December 31, 2017. As of June 30, 2018, the Company had approximately \$26.3 million of cash and cash equivalents and certificates of deposit of \$1.0 million; of this amount, approximately \$8.3 million is available to pay premiums on the two unencumbered policies and other overhead expenses, with approximately \$17.9 million being restricted by the White Eagle Revolving Credit Facility.

The Company's ability to continue as a going concern is dependent on its ability to meet its liquidity needs through a combination of the receipt of death benefits from life insurance policy maturities, board member affiliate capital commitments, borrowings under the White Eagle Revolving Credit Facility, strategic capital market raises, pledged policy sales (subject to certain asset sale restrictions) and cash on hand.

As of the filing date of this Form 10-Q, the outstanding principal on the White Eagle Revolving Credit Facility was approximately \$365.9 million, with approximately \$4.1 million undrawn and \$12.1 million received in maturity proceeds awaiting distribution through the waterfall to repay principal and interest. The maximum lender's commitment for the facility is

\$370.0 million. White Eagle's current cash flow forecast indicates a probability that it may reach the limit on its ability to make additional borrowings by the end of December 2018, assuming no further collection of receivables. The timing could be later if it receive any maturity proceeds. White Eagle is currently in negotiations with the lender to increase the facility limit, although no assurance can be given that White Eagle will be successful and the limit will be increased sufficiently. Based on the terms of the White Eagle Revolving Credit Facility, if the making of any advance by the lender would cause the aggregate principal amount of all advances outstanding to exceed the borrowing base, White Eagle can sell policies in an amount sufficient to pay scheduled premiums subject to the lender's approval. The proceeds of any such sale would be distributed through the waterfall, and by virtue of the sale, White Eagle would no longer have to pay premiums on the sold policies. White Eagle is in the process of compiling a list of pledged policies to be presented to the lender for approval for sale. The White Eagle Revolving Credit Facility also allows the lender to make protective advances on pledged policies other than those being contemplated for sale. Any such protective advances made by the lender would be reimbursed to the lender through the waterfall and receives priority over interest payments. In addition, Emergent may make an equity infusion to White Eagle to pay the lender.

Distributions to the Company from available proceeds through the waterfall under the White Eagle Revolving Credit Facility will vary based on the respective, then current loan to value ratio. Our current cash flow forecast indicates a probability the Company will not participate in the waterfall distributions until July 2019.

As of the filing date of this Form 10-Q, we had approximately \$28.4 million of cash and cash equivalents and certificates of deposit of \$1.0 million, of this amount, approximately \$6.3 million is available for normal operations, with approximately \$22.1 million being restricted by the White Eagle Revolving Credit Facility. In considering our cash, borrowings under the White Eagle Revolving Credit Facility subject to a sufficient increase in the facility limit and board member affiliate capital commitments, together with the Company's potential internal restructuring for tax-related purposes (see Note 19, "Income Taxes" of the accompanying consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Income Taxes"), we estimate that our liquidity and capital resources will be sufficient for the next twelve months from the date of filing this Form 10-Q.

The accompanying consolidated financial statements are prepared on a going concern basis and do not include any adjustments that might result from uncertainty about the Company's ability to continue as a going concern.

Discontinued Operations

On October 25, 2013, the Company sold substantially all of the assets comprising its structured settlement business. As a result, the Company has discontinued segment reporting and classified its operating results of the structured settlement business, net of income taxes, as discontinued operations. The accompanying consolidated statements of operations for the three months and six months ended June 30, 2018 and 2017, and the related notes to the consolidated financial statements, reflect the classification of its structured settlement business operating results, net of tax, as discontinued operations. See Note 7, "Discontinued Operations," of the accompanying consolidated financial statements for further information. Unless otherwise noted, the following notes refer to the Company's continuing operations.

Foreign Currency

The Company owns certain foreign subsidiary companies formed under the laws of Ireland, the Bahamas and Bermuda. These foreign subsidiary companies utilize the U.S. dollar as their functional currency. The foreign subsidiary companies' financial statements are denominated in U.S. dollars and therefore, there are no translation gains and losses resulting from translating the financial statements at exchange rates other than the functional currency. Any gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiary companies' functional currency) are included in income. These gains and losses are immaterial to the Company's financial statements.

Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America ("GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates and such differences could be material. Significant estimates made by management include income taxes, the valuation of life settlements, the valuation of the debt owing under the White Eagle Revolving Credit Facility and the valuation of equity awards.

(3) Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial *Statements*, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. This ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments." Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met. One of those criteria is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract (the "clearly and closely related" criterion). The guidance in this ASU intends to resolve the diversity in practice resulting from the application of the existing four-step decision sequence defined in ASC 815-15-25-42 to call (put) options that can accelerate the repayment of principal on a debt instrument if they meet the clearly and closely related criterion by clarifying that an entity is required to perform only the four-step decision sequence. The entity does not have to separately assess whether the event that triggers its ability to exercise the contingent option is itself indexed only to interest rates or credit risk. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods beginning after December 15, 2018. Early adoption is permitted including adoption in an interim period, as long as any adjustment is reflected as of the beginning of the fiscal year that includes the interim period. The Company does not expect that this guidance will have a material impact on its financial position, results of operations or cash flows.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging (Topic 815)," which simplifies and clarifies the accounting and disclosure for hedging activities by more closely aligning the results of cash flow and fair value hedge accounting with the risk management activities of an entity. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, with early adoption permitted. We do not expect this standard to have an impact on our consolidated financial position, results of operations or cash flows.

In March 2018, the FASB issued ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" to clarify certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. In addition to amending Topic 825, Financial Instruments, the Board added Topic 321, Investments—Equity Securities, and made a number of consequential amendments to the Codification. The amendments in ASU 2018-03 are effective for public business entities for fiscal years beginning after December 15, 2017 and for interim periods within those fiscal years beginning after June 15, 2018. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" to address stakeholder concerns about the guidance in current generally accepted accounting principles (GAAP) that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 "Compensation-Stock Compensation (Topic 718) - Improvements to Non-employee Share-Based Payment" primarily to simplify certain provisions within Topic 718 addressing share-based payments for acquiring goods and services from non-employees. The amendments in this update are effective for annual periods beginning after December 31, 2018, with early adoption permitted. We are currently evaluating the impact of adopting this new standard on our consolidated financial statements.

Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which converges the FASB and the International Accounting Standards Board ("IASB") standard on revenue recognition. Areas of revenue recognition that will be affected include, but are not limited to, transfer of control, variable consideration, allocation of transfer pricing, licenses, time value of money, contract costs and disclosures. In April 2015, the FASB voted to defer the effective date of the new revenue recognition standard by one year. As a result, the provisions of this ASU are now effective for interim and annual periods beginning after December 15, 2017. This ASU became effective during six months ended June 30, 2018, but did not have any material impact on our financial position, results of operations or cash flows on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This ASU provides specific guidance on eight cash flow classification issues that are either unclear or not included in current GAAP. These cash flow classification issues include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. This ASU became effective during six months ended June 30, 2018, but did not have any material impact on its financial position, results of operations or cash flows on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16 Income Taxes (Topic 740): Intra-entity transfers of assets other than inventory ("ASU 2016-16"). Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The Board decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017. The Company adopted this standard during the six months ended June 30, 2018 which resulted in the elimination of a deferred income tax charge of \$17.6 million gross related to prior year sales of life settlement policies to its Ireland subsidiaries. The adoption resulted in a reduction of the valuation allowance and had no impact on earnings.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805)," to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses by clarifying the definition of a business. The definition of a business affects many areas of accounting including acquisition, disposals, goodwill and consolidation. This amendment covers Phase 1 of a three phase project. The update is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments in this update should be applied prospectively on or after the effective date. This ASU was effective during the period and did not have an impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting" to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective prospectively for annual periods beginning on or after December 15, 2017. This ASU was effective during the period and did not have an impact on our consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)" to amend certain SEC material in Topic 740 for the income tax accounting implications of the recently issued Tax Cuts and Jobs Act (Act). ASU 2018-05 is effective upon inclusion in the FASB Codification. We have adopted this ASU and continue to evaluate the impact of the Tax Cuts and Jobs Act on our consolidated financial statements.

(4) Consolidation of Variable Interest Entities

The Company evaluates its interests in variable interest entities ("VIEs") on an ongoing basis and consolidates those VIEs in which it has a controlling financial interest and is thus deemed to be the primary beneficiary. A controlling financial interest has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact its economic performance; and (ii) the obligation to absorb losses of the VIE that could potentially be significant to it or the right to receive benefits from the VIE that could be potentially significant to the VIE.

The following table presents the consolidated assets and consolidated liabilities of VIEs for which the Company has concluded that it is the primary beneficiary and which are consolidated in the Company's financial statements as of June 30, 2018 and December 31, 2017, as well as non-consolidated VIEs for which the Company has determined it is not the primary beneficiary (in thousands):

	Primary Beneficiary		Not Primary Beneficiary	
	Consolidated VIE		Non-consolidated VIE	
	Assets	Liabilities	Total Assets	Maximum Exposure To Loss
June 30, 2018	\$ 634,326	\$ 354,812	\$ 2,384	\$ 2,384
December 31, 2017	\$ 609,976	\$ 329,993	\$ 2,384	\$ 2,384

As of June 30, 2018, 594 life insurance policies owned by White Eagle with an aggregate death benefit of approximately \$2.8 billion and an estimated fair value of approximately \$568.4 million were pledged as collateral under the White Eagle Revolving Credit Facility. In accordance with ASC 810, *Consolidation*, the Company consolidated White Eagle in its financial statements for the six months ended June 30, 2018 and 2017, and the year ended December 31, 2017.

Imperial Settlements Financing 2010, LLC ("ISF 2010"), which was formed as an affiliate of the Company to serve as a special purpose financing entity to allow the Company to sell structured settlements and assignable annuities, is a non-consolidated special purpose financing entity, as well as a non-consolidated VIE for which the Company has determined it is not the primary beneficiary. Approximately \$2.4 million is included in investment in affiliates in the accompanying balance sheet as of June 30, 2018 and December 31, 2017.

(5) Earnings Per Share

As of June 30, 2018 and 2017, there were 159,028,458 and 29,021,844 shares of common stock issued, respectively, and 158,420,458 and 28,413,844 shares of common stock outstanding, respectively. Outstanding shares as of June 30, 2018 and 2017 have been adjusted to reflect 608,000 treasury shares.

Basic net income per share is computed by dividing the net earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding, increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. Conversion or exercise of the potential common shares is not reflected in diluted earnings per share unless the effect is dilutive. The dilutive effect, if any, of outstanding common share equivalents is reflected in diluted earnings per share by application of the treasury stock method, and if-converted method as applicable.

The following table reconciles actual basic and diluted earnings per share for the three months and six months ended June 30, 2018 and 2017 (in thousands except per share data).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018(1)	2017(2)	2018(1)	2017(2)
Income (loss) per share:				
Numerator:				
Net income (loss) from continuing operations	\$ (9,603)	\$ (6,474)	\$ (13,598)	\$ (4,588)
Net income (loss) from discontinued operations	(4)	(35)	(5)	(225)
Net income (loss)	\$ (9,607)	\$ (6,509)	\$ (13,603)	\$ (4,813)
Basic and diluted (loss) income per common share:				
Basic and diluted (loss) income per share from continuing operations	\$ (0.06)	\$ (0.23)	\$ (0.09)	\$ (0.16)
Basic and diluted (loss) income per share from discontinued operations	\$ —	\$ —	—	(0.01)
Basic and diluted (loss) income per share available to common shareholders	\$ (0.06)	\$ (0.23)	\$ (0.09)	\$ (0.17)
Denominator:				
Basic and Diluted	155,810,449	28,169,414	155,800,082	28,159,080

- (1) The computation of diluted EPS does not include 2,558,522 shares of restricted stock, 85,000 shares of common stock underlying options, 100,000 shares of stock appreciation rights, 44,500,000 shares of common stock underlying warrants, and up to 37,918,483 shares of common stock issuable upon conversion of the 5% Convertible Notes (as defined below) and up to 181,249 shares of common stock issuable upon the conversion of the 8.5% Convertible Notes (as defined below), as the effect of their inclusion would have been anti-dilutive.
- (2) The computation of diluted EPS did not include 200,000 shares of restricted stock, 605,227 shares of common stock underlying options, 6,240,521 shares of common stock underlying warrants, and up to 11,266,011 shares of common stock issuable upon conversion of the 8.5% Convertible Notes, as the effect of their inclusion would have been anti-dilutive.

(6) Stock-based Compensation

On June 27, 2017, the shareholders of the Company voted to amend, and the Company amended, the Amended and Restated 2010 Omnibus Incentive Plan (as amended, the "Omnibus Plan") to increase the number of shares authorized for issuance thereunder by 9,900,000 shares. Awards under the Omnibus Plan may consist of incentive awards, stock options, stock appreciation rights, performance shares, performance units, and shares of common stock, restricted stock, restricted stock units or other stock-based awards as determined by the compensation committee of the Company's board of directors. The Omnibus Plan has an aggregate of 12,600,000 shares of common stock authorized for issuance thereunder, subject to adjustment as provided therein.

Options

As of December 31, 2017, all options to purchase shares of common stock issued by the Company were fully vested. There was no stock-based compensation expense relating to stock options granted under the Omnibus Plan during the three months and six months ended June 30, 2018 and 2017, respectively.

As of June 30, 2018, options to purchase 85,000 shares of common stock were outstanding under the Omnibus Plan at a weighted average exercise price of \$6.94 per share. The following table presents the activity of the Company's outstanding stock options of common stock for the six months ended June 30, 2018:

<u>Common Stock Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price per Share</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding, January 1, 2018	542,102	\$ 8.75	1.33	\$ —
Options granted	—	—	—	—
Options exercised	—	—	—	—
Options forfeited	(457,102)	\$ 9.09	—	—
Options expired	—	—	—	—
Options outstanding, June 30, 2018	85,000	\$ 6.94	1.94	\$ —
Exercisable at June 30, 2018	85,000	\$ 6.94	1.94	—
Unvested at June 30, 2018	—	—	—	\$ —

As of June 30, 2018, all outstanding stock options had an exercise price above the fair market value of the common stock on that date. There are no remaining unamortized amounts to be recognized on these options.

Restricted Stock

The Company incurred additional stock-based compensation expense of approximately \$138,000 and \$125,000 relating to restricted stock granted to its board of directors and certain employees during the three months ended June 30, 2018 and 2017, respectively, and approximately \$211,000 and \$264,000 during the six months ended June 30, 2018 and 2017, respectively.

During the year ended December 31, 2016, the Company granted 65,212 shares of restricted stock to its directors under the Omnibus Plan, which were subject to a one year vesting period that commenced on the date of grant. The fair value of the restricted stock was valued at approximately \$255,000 based on the closing price of the Company's shares on the date prior to the grant date. The Company incurred stock-based compensation expense related to these 65,212 shares of restricted stock of approximately \$47,000 and \$106,000 during the three months and six months ended June 30, 2017, respectively. The 65,212 shares of restricted stock vested during the year ended December 31, 2017.

During the year ended December 31, 2016, the Company granted 200,000 shares of restricted stock units to certain employees under the Omnibus Plan, which are subject to a two year vesting period that commenced on the date of grant. The fair value of the unvested restricted stock was valued at approximately \$674,000 based on the closing price of the Company's shares on the day prior to the grant date. The Company incurred stock-based compensation expense of approximately \$41,000 and \$79,000 related to these 200,000 shares of restricted stock during the three months ended June 30, 2018 and 2017, respectively and \$23,000 and \$158,000 during the six months ended June 30, 2018 and 2017, respectively. Approximately 20,000 shares of restricted stock were forfeited during the six months ended June 30, 2018 with the balance of 74,000 shares of restricted stock vested during the three months and six months ended June 30, 2018.

During the year ended December 31, 2017, the Company granted 51,132 shares of restricted stock to its directors under the Omnibus Plan, which are subject to a one year vesting period that commenced on the date of grant. The fair value of the unvested restricted stock was valued at approximately \$17,000 based on the closing price of the Company's shares on the date prior to the grant date. The Company incurred stock-based compensation expense related to these 51,132 shares of restricted stock of approximately \$0 during the three months and six months ended June 30, 2018. Approximately 42,610 shares of restricted stock vested during the year ended December 31, 2017, with 8,522 pending vesting at June 30, 2018. These shares of restricted stocks did not exist at June 30, 2017.

During the year ended December 31, 2017, the Company granted 2,000,000 shares of restricted stock units to certain employees under the Omnibus Plan, which are subject to a two year vesting period that commenced on the date of grant. The fair value of the unvested restricted stock was valued at approximately \$745,000 based on the closing price of the Company's shares on the day prior to the grant date. The Company incurred stock-based compensation expense of approximately \$88,000 and \$178,000 related to these 2,000,000 shares of restricted stock during the three months and six months ended June 30, 2018. All 2,000,000 shares remained unvested at June 30, 2018. These shares of restricted stocks did not exist at June 30, 2017.

During the three months and six months ended June 30, 2018, the Company granted 50,000 and 150,000 shares of restricted stock units to certain employees under the Omnibus Plan, with 100,000 shares and 50,000 subject to a two and three year vesting period, respectively, that commenced on the date of grant. The fair value of the unvested restricted stock was valued at approximately \$58,000 based on the closing price of the Company's shares on the day prior to the grant date. The Company incurred stock-based compensation expense of approximately \$6,000 and \$7,000 related to these 150,000 shares of restricted stock during the three months and six months ended June 30, 2018. All 150,000 shares remained unvested at June 30, 2018.

During the three months and six months ended June 30, 2018, the Company established an ad hoc Capital Structure Committee, (the "Committee") consisting of members of the board of directors, to undertake a review of the Company's capital structure. As compensation to the sole non-employee member of the Committee, the Company granted 400,000 restricted stock units under the Omnibus Plan, which will vest on the later of (i) September 30, 2018 and (ii) termination of the director's service on the Committee. The fair value of the restricted stock was valued at approximately \$128,000 based on the closing price of the Company's shares on the date prior to the grant date. The Company incurred stock-based compensation expense related to these 400,000 restricted stock units of approximately \$3,000 during the three months and six months ended June 30, 2018. The 400,000 restricted stock units remained unvested at June 30, 2018.

The following table presents the activity of the Company's unvested shares of restricted stock for the six months ended June 30, 2018 :

<u>Common Unvested Shares</u>	<u>Number of Shares</u>
Outstanding January 1, 2018	2,102,522
Granted	550,000
Vested	(74,000)
Forfeited	(20,000)
Outstanding June 30, 2018	2,558,522

The aggregate intrinsic value of the awards of 8,522, 150,000, 400,000 and 2,000,000 shares is \$3,000, \$48,000, \$128,000 and \$640,000, respectively and the remaining weighted average life of these awards is 0.08 years, 2.08 years, 0.25 years and 1.38 years respectively as of June 30, 2018. As of June 30, 2018, a total of \$651,000 in stock based compensation remained unrecognized.

Stock Appreciation Rights (SARs)

During the three months and six months ended June 30, 2018, the Company issued 100,000 SARs to the sole non-employee member of the Committee, which will expire 10 years after the date the SARs were granted. The SARs will vest on the later of (i) September 30, 2018 and (ii) termination of the director's service on the Committee and have a fair value of \$16,800 on the grant date. Each SAR entitles the holder to receive, upon exercise, an amount equal to the excess of (a) the fair market value per share of stock on the exercise date, over (b) the exercise price, which is \$1.00, being not less than the fair market value per share of stock on the grant date. Upon exercise of the SARs, the stock appreciation amount shall be paid, as determined solely at the discretion of the Company, in (a) whole shares, (b) cash, or (c) a combination of both cash and shares. The Company incurred no stock-based compensation expense related to these 100,000 SARs during the three months and six months ended June 30, 2018. The 100,000 SARs remained unvested at June 30, 2018.

(7) Discontinued Operations

On October 25, 2013, the Company sold substantially all of the operating assets comprising its structured settlement business to Majestic Opco LLC pursuant to an Asset Purchase Agreement. No structured settlement receivables were sold and no on-balance sheet liabilities were transferred in connection with the sale. On August 18, 2015, the Company sold its remaining structured settlement receivables asset to the buyer of its operating assets.

As a result of the sale of its structured settlements business, the Company reclassified its structured settlement business operating results as discontinued operations in the accompanying Consolidated Statements of Operations for all periods presented.

Operating results related to the Company's discontinued structured settlement business are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total income	\$ —	\$ 30	\$ 17	\$ 33
Total expenses	4	65	22	258
Income (loss) before income taxes	(4)	(35)	(5)	(225)
(Benefit) provision for income taxes	—	—	—	—
Net income (loss) from discontinued operations, net of income taxes	\$ (4)	\$ (35)	\$ (5)	\$ (225)

(8) Life Settlements (Life Insurance Policies)

The Company accounts for policies it acquires using the fair value method in accordance with ASC 325-30-50 *Investments-Other-Investment in Insurance Contracts*. Under the fair value method, the Company recognizes the initial investment at the purchase price. For policies that were relinquished in satisfaction of premium finance loans at maturity, the initial investment is the loan carrying value. For policies purchased in the secondary or tertiary markets, the initial investment is the amount of cash outlay at the time of purchase. At each reporting period, the Company re-measures the investment at fair value in its entirety and recognizes changes in the Statements of Operations in the periods in which the changes occur.

As of June 30, 2018 and December 31, 2017, the Company owned 596 and 608 policies, respectively, with an aggregate estimated fair value of life settlements of \$569.4 million and \$567.5 million, respectively.

The weighted average life expectancy calculated based on death benefit of insureds in the policies owned by the Company at June 30, 2018 was 8.0 years. The following table describes the Company's life settlements as of June 30, 2018 (dollars in thousands):

Remaining Life Expectancy (In Years)*	Number of Life Settlement Contracts	Estimated Fair Value	Face Value
0 - 1	6	\$ 21,308	\$ 25,906
1 - 2	14	39,019	61,653
2 - 3	29	53,654	101,043
3 - 4	39	66,814	171,401
4 - 5	54	97,243	274,380
Thereafter	454	291,335	2,192,481
Total	596	\$ 569,373	\$ 2,826,864

*Based on remaining life expectancy at June 30, 2018, as derived from reports of third party life expectancy providers, and does not indicate the timing of expected death benefits. See "Life Settlements" in Note 14, "Fair Value Measurements" of the accompanying consolidated financial statements.

The weighted average life expectancy calculated based on death benefit of insureds in the policies owned by the Company at December 31, 2017 was 8.3 years. The following table describes the Company's life settlements as of December 31, 2017 (dollars in thousands):

Remaining Life Expectancy (In Years)*	Number of Life Settlement Contracts	Estimated Fair Value	Face Value
0-1	9	\$ 29,520	\$ 36,474
1-2	13	30,362	42,718
2-3	25	46,609	92,780
3-4	32	68,439	168,946
4-5	60	98,516	281,865
Thereafter	469	294,046	2,257,704
Total	608	\$ 567,492	\$ 2,880,487

*Based on remaining life expectancy at December 31, 2017, as derived from reports of third party life expectancy providers, and does not indicate the timing of expected death benefits. See "Life Settlements" in Note 15, "Fair Value Measurements" of the accompanying consolidated financial statements.

Estimated premiums to be paid for each of the five succeeding fiscal years and thereafter to keep the life insurance policies in force as of June 30, 2018, are as follows (in thousands):

Remainder of 2018	\$ 46,602
2019	100,504
2020	103,676
2021	103,227
2022	99,446
Thereafter	796,849
	\$ 1,250,304

The amount of \$1.25 billion noted above represents the estimated total future premium payments required to keep the life insurance policies in force during the life expectancies of all the underlying insured lives and does not give effect to projected receipt of death benefits. The estimated total future premium payments could increase or decrease significantly to the extent that insurance carriers increase the cost of insurance on their issued policies or that actual mortalities of insureds differs from the estimated life expectancies.

(9) White Eagle Revolving Credit Facility

Effective April 29, 2013, White Eagle entered into a 15-year revolving credit agreement with LNV Corporation, as initial lender, Imperial Finance & Trading, LLC, as servicer and portfolio manager and CLMG Corp., as administrative agent. Proceeds from the initial advance under the facility were used, in part, to retire a bridge facility and to fund a payment to the lender protection insurance provider to release subrogation rights in certain of the policies pledged as collateral for the White Eagle Revolving Credit Facility. On May 16, 2014, White Eagle Asset Portfolio, LLC converted from a Delaware limited liability company to White Eagle Asset Portfolio, LP, a Delaware limited partnership (the "Conversion") and all of its ownership interests were transferred to an indirect, wholly-owned Irish subsidiary of the Company. In connection with the Conversion, the White Eagle Revolving Credit Facility was amended and restated among White Eagle, as borrower, Imperial Finance and Trading, LLC, as the initial servicer, the initial portfolio manager and guarantor, Lamington Road Bermuda Ltd., as portfolio manager, LNV Corporation, as initial lender, the other financial institutions party thereto as lenders, and CLMG Corp., as administrative agent for the lenders. The White Eagle Revolving Credit Facility was amended on November 9, 2015. As amended, the White Eagle Revolving Credit Facility may provide earlier participation in the portfolio cash flows if certain loan to value ("LTV") ratios are achieved. Additionally, the maximum facility limit was reduced from \$300.0 million to \$250.0 million, and the interest rate under the facility was increased by 50 basis points.

On December 29, 2016, White Eagle entered into a Second Amendment to the Amended and Restated Loan and Security Agreement ("White Eagle Second Amendment") and on January 31, 2017, as required by the terms of the White Eagle Second Amendment, White Eagle executed the Second Amended and Restated Loan and Security Agreement, dated January 31, 2017, which consolidated into a single document the amendments evidenced by the White Eagle Amendment and all previous amendments.

As amended, the White Eagle Revolving Credit Facility adjusted the loan-to-value LTV ratios which directed cash flow participation and became subjected to achieving certain financial metrics, as more fully described below under "Amortization & Distributions." Pursuant to the White Eagle Second Amendment, 190 life settlement policies purchased from wholly owned subsidiaries of the Company were pledged as additional collateral under the facility for an additional policy advance of approximately \$71.1 million. The maximum facility limit was increased to \$370.0 million and the term of the facility was extended to December 31, 2031. Additional loan terms and amendment changes are more fully described in the sections that follow.

On October 4, 2017, White Eagle entered into an amendment to the Second Amended and Restated Loan and Security Agreement. The amendment changed the provisions relating to how participation of the proceeds from the maturity of the policies pledged as collateral under the White Eagle Revolving Credit Facility are distributed pursuant to a waterfall. The amendment included an exclusion from the cash interest coverage ratio of at least 2.0:1 for the period of July 1, 2017 through July 28, 2017. As a result of the amendment, the Company was able to participate in the waterfall distribution scheduled during October 2017.

General & Security. The White Eagle Revolving Credit Facility provides for an asset-based revolving credit facility backed by White Eagle's portfolio of life insurance policies with an aggregate lender commitment of up to \$370.0 million, subject to borrowing base availability. 594 life insurance policies with an aggregate death benefit of approximately \$2.8 billion and an estimated fair value of approximately \$568.4 million are pledged as collateral under the White Eagle Revolving Credit Facility at June 30, 2018. In addition, the equity interests in White Eagle have been pledged under the White Eagle Revolving Credit Facility.

Borrowing Base. Borrowing availability under the White Eagle Revolving Credit Facility is subject to a borrowing base, which at any time is equal to the lesser of (A) the sum of all of the following amounts that have been funded or are to be funded through the next distribution date: (i) the initial advance and all additional advances to acquire additional pledged policies that are not for ongoing maintenance advances, plus (ii) 100% of the sum of the ongoing maintenance costs, plus (iii) 100% of fees and expense deposits and other fees and expenses funded and to be funded as approved by the required lenders, less (iv) any required payments of principal and interest previously distributed and to be distributed through the next distribution date; (B) 75% of the valuation of the policies pledged as collateral as determined by the lenders; (C) 50% of the aggregate face amount of the policies pledged as collateral (excluding certain specified life insurance policies); and (D) the then applicable facility limit. At June 30, 2018, \$14.4 million was undrawn and \$6.0 million was available to borrow under the White Eagle Revolving Credit Facility. The amount available to borrow is calculated based on and limited to the premium payments and expenses if any, that are due as of the calculation date. In essence, the amount available is what is required to pay expenses and keep the policies in force as of the calculation date.

Amortization & Distributions. Proceeds from the maturity of the policies pledged as collateral under the White Eagle Revolving Credit Facility are distributed pursuant to a waterfall. After distributions for premium payments, fees to service providers and payments of interest, a percentage of the collections from policy proceeds are to be paid to the Company, which will vary depending on the then LTV ratio as illustrated below where the valuation is determined by the lenders:

LTV	Premiums, Interest &		Distribution to White Eagle	
	Other Fees	Principal	- 55%	Lender Participation - 45%
N/A	100%	—%	—%	—%
>65%	N/A	100%	—%	—%
50-65%	N/A	70%	16.5%	13.5%
35-50%	N/A	55%	24.8%	20.3%
0-35%	N/A	45%	30.3%	24.8%

Provided that (i) if (a) the Company failed to maintain a cash interest coverage ratio of at least 2.0:1 at any time during the immediately preceding calendar quarter or (b) the Company fails to take steps to improve its solvency in a manner acceptable to the required lenders (as determined in their sole and absolute discretion), then the cash flow sweep percentage to

the lenders shall equal one-hundred percent (100%) and (ii) if such distribution date occurs on or after December 29, 2025, then the cash flow sweep percentage shall equal one-hundred percent (100%). As of June 30, 2018, the cash interest coverage ratio was 3.93:1 and the loan to value ratio was 66%, as calculated using the lenders' valuation. It should be noted that although the Company met the required cash interest coverage ratio at quarter end, the loan to value threshold was not met at the end of the quarter, as a result, the Company will not participate in any cash flow sweep subsequent to the quarter end.

The cash interest coverage ratio is the ratio of (i) consolidated cash and cash equivalents maintained by the Company to (ii) the aggregate interest amounts that will be due and payable in cash on (x) the \$35.0 million 8.5% Senior Secured Notes due July 15, 2021 (and any notes issued by the Company or any of its Affiliates in connection with refinancing, replacing, substituting or any similar action with respect to any such notes), the \$75.8 million 5% Convertible Notes due February 15, 2023 (and any notes issued by the Company or any of its Affiliates in connection with refinancing, replacing, substituting or any similar action with respect to any such notes), and the \$1.2 million 8.5% Convertible Notes due February 15, 2019 (and any notes issued by the Company or any of its Affiliates in connection with refinancing, replacing, substituting or any similar action with respect to any such notes) and (y) any additional indebtedness issued by the Company after December 29, 2016, in each case, during the twelve month period following such date of determination. See Note 10, "8.50% Senior Unsecured Convertible Notes", Note 11, "5.0% Senior Unsecured Convertible Notes", Note 12, "15.0% Senior Secured Notes", and Note 13, "8.5% Senior Secured Notes", to the accompanying consolidated financial statements for further information.

With respect to approximately 25% of the face amount of policies pledged as collateral under the White Eagle Revolving Credit Facility, White Eagle has agreed that if policy proceeds that are otherwise due are not paid by an insurance carrier, the foregoing distributions will be altered such that the lenders will receive any "catch-up" payments with respect to amounts that they would have received in the waterfall prior to distributions being made to White Eagle. During the continuance of events of default or unmatured events of default, the amounts from collections of policy proceeds that might otherwise be paid to White Eagle will instead be held in a designated account controlled by the lenders and may be applied to fund operating and third party expenses, interest and principal, "catch-up" payments or percentage payments that would go to the lenders as described above.

Assuming no event of default, funds on account from policy proceeds shall be distributed in specified stages of priority. For the three months and six months ended June 30, 2018, approximately \$23.6 million and \$31.4 million, respectively, of proceeds received from the maturity of policies pledged under the White Eagle Revolving Credit Facility, were distributed through the waterfall in the following stages of priority (in thousands):

Clause	Amount		Use of Proceeds
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	
First:	\$ 83	\$ 167	Custodian and Securities Intermediary
Second:	—	—	White Eagle - Ongoing Maintenance Cost Reimbursable
Third:	—	—	Administrative Agent - Protective Advances
Fourth:	7	17	Administrative Agent - Administrative Agent Fee and Legal Expense Reimbursement
Fifth:	5,685	10,872	Administrative Agent - Accrued and Unpaid Interest
Sixth:	17,780	19,543	Administrative Agent - Required Amortization
Seventh:	—	—	Administrative Agent - Amortization Shortfall
Eighth:	—	340	Administrative Agent - Participation Interest
Ninth:	—	—	Reserved - \$0
Tenth:	—	—	Administrative Agent Aggregate Unpaid Participation Interest
Eleventh:	—	—	Administrative Agent - Remaining Available Amount After Clause First to Tenth
Twelfth:	—	—	Wilmington Trust - Custodian and Securities Intermediary - Unpaid Fees
Thirteenth:	—	416	Borrower - Any Remaining Available Amount After Clause First to Twelfth
Total Distributions	\$ 23,555	\$ 31,355	

Approximately \$7.8 million of the amount distributed during the six months ended June 30, 2018 was from maturity proceeds collected during the year ended December 31, 2017.

For the three months and six months ended June 30, 2017, approximately \$10.0 million and \$12.5 million, respectively, of proceeds received from the maturity of policies pledged under the White Eagle Revolving Credit Facility, were distributed through the waterfall in the following stages of priority (in thousands):

Clause	Amount		Use of Proceeds
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	
First:	\$ 85	\$ 144	Custodian and Securities Intermediary
Second:	—	—	White Eagle - Ongoing Maintenance Cost Reimbursable
Third:	—	—	Administrative Agent - Protective Advances
Fourth:	13	23	Administrative Agent - Administrative Agent Fee and Legal Expense Reimbursement
Fifth:	4,282	6,694	Administrative Agent - Accrued and Unpaid Interest
Sixth:	5,656	5,656	Administrative Agent - Required Amortization
Seventh:	—	—	Administrative Agent - Amortization Shortfall
Eighth:	—	—	Administrative Agent - Participation Interest
Ninth:	—	—	Reserved - \$0
Tenth:	—	—	Administrative Agent Aggregate Unpaid Participation Interest
Eleventh:	—	—	Administrative Agent - Remaining Available Amount After Clause First to Tenth
Twelfth:	—	—	Wilmington Trust - Custodian and Securities Intermediary - Unpaid Fees
Thirteenth:	—	—	Borrower - Any Remaining Available Amount After Clause First to Twelfth
Total Distributions	\$ 10,036	\$ 12,517	

Approximately \$2.5 million of the amount distributed during the six months ended June 30, 2017 was from maturity proceeds collected during the year ended December 31, 2016.

The below is a reconciliation of proceeds collected by the White Eagle Revolving Credit Facility and distributed through the waterfall as shown above (in thousands):

Face value collected in 2017 and distributed in 2018	\$ 7,759
Face value collected in prior quarter and distributed in current quarter	23,345
Face value collected in current quarter	12,700
Other collections*	358
Total waterfall collection	44,162
Less: Total waterfall distribution during the six months ended June 30, 2018	(31,355)
Total to be distributed subsequent to June 30, 2018	12,807

*Includes refund of premiums and interest earned on maturity proceeds

Use of Proceeds. Generally, ongoing advances may be made for paying premiums on the life insurance policies pledged as collateral and to pay the fees of service providers. Effective with the White Eagle Amendment on November 9, 2015, ongoing advances may no longer be used to pay interest, which will now be paid by White Eagle if there is not otherwise sufficient amounts available from policy proceeds to be distributed to pay interest expense pursuant to the waterfall described above in "Amortization and Distributions." Subsequent advances and the use of proceeds from those advances are at the discretion of the lenders. During the three months and six months ended June 30, 2018 and 2017, advances for premium payments and fees to service providers amounted to (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amount drawn for premium payments	\$ 22,653	\$ 21,490	\$ 44,786	\$ 42,249
Amount drawn in fees to service providers	642	626	1,281	1,150
Total amount drawn	\$ 23,295	\$ 22,116	\$ 46,067	\$ 43,399

Interest. Borrowings under the White Eagle Revolving Credit Facility bear interest at a rate equal to LIBOR or, if LIBOR is unavailable, the base rate, in each case plus an applicable margin of 4.50%, which was increased from 4.00% pursuant to the November 9, 2015 amendment, and subject to a rate floor component equal to the greater of LIBOR (or the applicable rate) and 1.5%. The base rate under the White Eagle Revolving Credit Facility equals the sum of (i) the weighted average of the interest rates on overnight federal funds transactions or, if unavailable, the average of three federal funds quotations received by the Agent plus 0.75% and (ii) 0.5%. Based on the loan agreement, the LIBOR portion of the interest rate will re-adjust annually, once the floor has exceeded 1.5%. The applicable rate will be dependent on the rate at the last business day of the preceding calendar year. On December 29, 2017, the LIBOR floor increased from 1.69% to 2.11%. The effective rate at June 30, 2018 and 2017 was 6.61% and 6.19%, respectively.

Interest paid during the period is recorded in the Company's consolidated financial statements. Accrued interest is reflected as a component of the estimated fair value of the White Eagle Revolving Credit Facility debt. Total interest expense on the facility during the three months and six months ended June 30, 2018 and 2017 paid through the waterfall distribution from maturity proceeds or paid directly by White Eagle was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest paid through waterfall	\$ 5,685	\$ 4,282	\$ 10,872	\$ 6,694
Interest paid by White Eagle	—	—	—	782
Participation interest paid through waterfall	—	—	340	—
Total interest expense	\$ 5,685	\$ 4,282	\$ 11,212	\$ 7,476

Maturity. Effective with the White Eagle Second Amendment, the term of the White Eagle Revolving Credit Facility expires December 31, 2031, which is also the scheduled commitment termination date (though the lenders' commitments to fund borrowings may terminate earlier in an event of default). The lenders' interests in and rights to a portion of the proceeds of the policies does not terminate with the repayment of the principal borrowed and interest accrued thereon, the termination of the White Eagle Revolving Credit Facility or expiration of the lenders' commitments.

Covenants/Events of Defaults. The White Eagle Revolving Credit Facility contains covenants and events of default that are customary for asset-based credit agreements of this type, but also includes cross defaults under the servicing, account control, contribution and pledge agreements entered into in connection with the White Eagle Revolving Credit Facility (including in relation to breaches by third parties thereunder), certain changes in law, changes in control of or insolvency or bankruptcy of the Company and relevant subsidiary companies and performance of certain obligations by certain relevant subsidiary companies, White Eagle and third parties. Effective with the White Eagle Second Amendment, and as described above in "Amortization and Distributions", the White Eagle Revolving Credit Facility contains a financial covenant requiring White Eagle to maintain a cash interest coverage ratio of at least 1.75:1 commencing after June 30, 2019. Failure to maintain this ratio for 60 consecutive days after June 30, 2019 constitutes an event of default. There is no cash interest coverage ratio requirement that would result in an event of default prior to this date; however, any failure to maintain a cash interest coverage ratio of at least 2.0:1 does impact the cash flow sweep percentage for proceeds distributed through the waterfall. As of June 30, 2018, the cash interest coverage ratio was 3.93:1. The White Eagle Revolving Credit Facility also contains certain tests relating to asset maintenance, performance and valuation, the satisfaction of which will be determined by the lenders with a high degree of discretion.

Remedies. The White Eagle Revolving Credit Facility and ancillary transaction documents afford the lenders a high degree of discretion in their selection and implementation of remedies, including strict foreclosure, in relation to any event of

default, including a high degree of discretion in determining whether to foreclose upon and liquidate all or any pledged policies, the interests in White Eagle, and the manner of any such liquidation. White Eagle has limited ability to cure events of default through the sale of policies or the procurement of replacement financing.

The Company elected to account for the debt under the White Eagle Revolving Credit Facility in accordance with ASC 820, *Fair Value Measurements and Disclosures*, ("ASC 820") which includes the 45% interest in policy proceeds to the lender, using the fair value method. The fair value of the debt is the amount the Company would have to pay to transfer the debt to a market participant in an orderly transaction. The Company calculated the fair value of the debt using a discounted cash flow model taking into account the stated interest rate of the credit facility and probabilistic cash flows from the pledged policies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the Company's estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. The most significant assumptions are the estimates of life expectancy of the insured and the discount rate. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values.

At June 30, 2018, the fair value of the outstanding debt was \$353.4 million and the borrowing base was approximately \$361.5 million, which includes \$355.6 million of outstanding principal. Approximately \$6.0 million was available to borrow under the White Eagle Revolving Credit Facility. Subsequent to the quarter end, approximately \$6.9 million was repaid towards the outstanding principal.

There are no scheduled repayments of principal prior to maturity although payments are due upon the next distribution date following the receipt of death benefits and distributed pursuant to the waterfall as described above. At June 30, 2018, approximately \$12.8 million included in restricted cash and cash equivalents (VIE) was on account with White Eagle awaiting distribution through the waterfall.

(10) 8.50% Senior Unsecured Convertible Notes

In February 2014, the Company issued \$70.7 million in an aggregate principal amount of 8.50% senior unsecured convertible notes due 2019 (the "Convertible Notes" or "8.5% Convertible Notes"). The Convertible Notes were issued pursuant to an indenture dated February 21, 2014, between the Company and U.S. Bank National Association, as trustee (the "Convertible Note Indenture").

The Convertible Notes are general senior unsecured obligations and rank equally in right of payment with all of the Company's other existing and future senior unsecured indebtedness. The Convertible Notes are effectively subordinate to all of the Company's secured indebtedness to the extent of the value of the assets collateralizing such indebtedness. The Convertible Notes are not guaranteed by the Company's subsidiaries.

The maturity date of the Convertible Notes is February 15, 2019. The Convertible Notes accrue interest at the rate of 8.50% per annum on the principal amount of the Convertible Notes, payable semi-annually in arrears on August 15 and February 15 of each year .

The Convertible Notes are convertible into shares of common stock at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date. Initially, the Convertible Notes were convertible into shares of common stock at a conversion rate of 147.9290 shares of common stock per \$1,000 principal amount of Convertible Notes (equivalent to a conversion price of \$6.76 per share of common stock). In the second quarter of 2015, the conversion rate was adjusted to 151.7912 shares of common stock per \$1,000 principal amount of Convertible Notes (equivalent to a conversion price of \$6.59 per share of common stock) in connection with an anti-dilution adjustment triggered by a rights offering that resulted in the issuance of 6,688,433 shares of the Company's common stock.

On and after February 15, 2017 and prior to the maturity date, the Company may redeem for cash all, but not less than all, of the Convertible Notes if the last reported sale price of the Company's common stock equals or exceeds 130% of the applicable conversion price for at least 20 trading days during the 30 consecutive trading day period ending on the trading day immediately prior to the date the Company delivers notice of the redemption. The redemption price will be equal to 100% of the principal amount of the Convertible Notes, plus any accrued and unpaid interest to, but excluding, the redemption date. In addition, if a make-whole fundamental change occurs prior to maturity date, and a holder elects to convert its Convertible Notes in connection therewith, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares of common stock for holders who convert their notes prior to the redemption date.

The Company determined that an embedded conversion option existed in the Convertible Notes that was required to be separately accounted for as a derivative under ASC 815 which required the Company to bifurcate the embedded conversion option, record it as a liability at fair value and record a debt discount by an equal amount. Upon receipt of shareholder approval to issue shares of common stock upon conversion of the Convertible Notes in an amount that exceeded applicable New York Stock Exchange limits for issuances without shareholder approval, the Company reclassified the embedded conversion derivative liability to equity. The Convertible Notes are recorded at accreted value and will continue to be accreted up to the par value of the Convertible Notes at maturity.

On February 14, 2017, the Company solicited consents (the "Consent Solicitation") to issue additional 8.50% Convertible Notes (the "Additional Convertible Notes") in lieu of a cash payment of interest on February 15, 2017 (the "2017 Interest Payment Date") to holders of the Convertible Notes.

On March 14, 2017, the Company issued Additional Convertible Notes for an aggregate principal amount of \$3.5 million following the Company's receipt of the requisite consents of the holders of approximately 98% of the aggregate principal amount of Convertible Notes (the "Consenting Holders"), pursuant to the Consent Solicitation, whereby each Consenting Holder agreed to accept Additional Convertible Notes in lieu of a cash payment of interest on the Convertible Notes due on the 2017 Interest Payment Date. All Additional Convertible Notes issued by the Company to Consenting Holders were issued under the Convertible Note Indenture and such Additional Convertible Notes have identical terms to the existing Convertible Notes. Interest on the Additional Convertible Notes accrued from February 15, 2017.

On March 15, 2017 and May 12, 2017, the Company entered into a series of separate Master Transaction Agreements (the "Master Transaction Agreements") by and among the Company, PJC Investments, LLC, a Texas limited liability company ("PJC") and each such Consenting Holder that is a party to such Master Transaction Agreement regarding a series of integrated transactions with the intent to effect a recapitalization of the Company (the "Transaction") which included, among other transactions, a Convertible Note Exchange Offer and a New Convertible Note Indenture providing for the issuance of New Convertible Notes to be delivered in connection with the Transaction (each as defined in the Master Transaction Agreements).

As part of the Transaction, on April 18, 2017, the Company launched an exchange offer (the "Convertible Note Exchange Offer") to the existing holders of its outstanding Convertible Notes for 5.0% Senior Unsecured Convertible Notes due 2023 (the "New Convertible Notes" or "5% Convertible Notes"). At least 98% of the holders of the Convertible Notes were required to be tendered in the Convertible Note Exchange Offer as a condition to closing the Transaction.

On July 26, 2017, the Company's offer to exchange its outstanding \$74.2 million aggregate principal amount of Convertible Notes for its New Convertible Notes expired. Holders of at least 98% of the holders of the Convertible Notes tendered in the Convertible Note Exchange Offer. On July 28, 2017, the Company consummated a series of integrated transactions to effect a recapitalization of the Company (the "Transaction Closing") pursuant to the Master Transaction Agreements, which transactions included the consummation of the Convertible Note Exchange Offer. The amount exchanged included approximately \$73.0 million of principal outstanding prior to the exchange and approximately \$2.8 million of interest paid in kind at the exchange date. The outstanding principal amount of the Convertible Notes after the exchange was approximately \$1.2 million.

In connection with the Transaction Closing, the Company entered into a supplemental indenture (the "Supplemental Convertible Note Indenture") to the Convertible Note Indenture governing the Convertible Notes. The purpose of the Supplemental Convertible Note Indenture was to eliminate substantially all of the restrictive covenants, eliminate certain events of default, eliminate the covenant restricting mergers and consolidations and modify certain provisions relating to defeasance contained in the Convertible Note Indenture and the Convertible Notes (collectively, the "Proposed Amendments") promptly after the receipt of the requisite consents for the Proposed Amendments.

The Company performed an assessment of the modification of the Convertible Notes under *ASC 470, Debt*, and determined the transaction is a troubled debt restructuring. The Company did not recognize any gain as a result of the restructuring, therefore, approximately \$7.7 million was reclassified to the New Convertible Notes, including \$6.7 and \$991,000 related to debt discount and origination cost, respectively. See Note 11 "5.0% Senior Unsecured Convertible Notes" for a description of the changes in terms of the Convertible Notes.

As of June 30, 2018, the carrying value of the Convertible Notes was \$1.1 million, net of unamortized debt discounts and origination costs of \$48,000 and \$7,000, respectively. These are being amortized over the remaining life of the Convertible Notes using the effective interest method.

During the three months ended June 30, 2018, the Company recorded \$46,000 of interest expense on the Convertible Notes, including \$25,000, \$18,000 and \$3,000 from interest, amortizing debt discounts and origination costs, respectively, compared to interest expense of \$2.6 million during the three months ended June 30, 2017, which included \$1.6 million, \$922,000 and \$137,000 from interest, amortizing debt discounts and origination costs, respectively.

During the six months ended June 30, 2018, the Company recorded \$92,000 of interest expense on the Convertible Notes, including \$51,000, \$36,000 and \$5,000 from interest, amortizing debt discounts and origination costs, respectively, compared to interest expense of \$5.8 million during the six months ended June 30, 2017, which included \$3.1 million, \$1.8 million and \$264,000 from interest, amortizing debt discounts and origination costs, respectively.

(11) 5.0% Senior Unsecured Convertible Notes

On July 26, 2017, the Company's Convertible Note Exchange Offer expired. Holders of at least 98% of the Convertible Notes tendered in the Convertible Note Exchange Offer.

In connection with the Transaction Closing, the Company caused to be issued the New Convertible Notes in an aggregate amount of approximately \$75.8 million pursuant to an Indenture (the "New Convertible Note Indenture") between the Company and U.S. Bank, National Association, as indenture trustee. The terms of the New Convertible Notes are governed by the New Convertible Note Indenture, which provide, among other things, that the New Convertible Notes are unsecured senior obligations of the Company and will mature on February 15, 2023. The New Convertible Notes bear interest at a rate of 5% per annum from the issue date, payable semi-annually on August 15 and February 15 of each year, beginning on August 15, 2017.

Holders of New Convertible Notes may convert their New Convertible Notes at their option on any day prior to the close of business on the second scheduled trading day immediately preceding February 15, 2023. Upon conversion, the Company will deliver shares of Common Stock, together with any cash payment for any fractional share of Common Stock. The initial conversion rate for the New Convertible Notes denominated in \$1,000 increments will be 500 shares of Common Stock per \$1,000 principal amount of New Convertible Notes, which corresponds to an initial conversion price of approximately \$2.00 per share of Common Stock. The initial conversion rate for the New Convertible Notes denominated in \$1.00 increments will be 0.5 shares of Common Stock per \$1.00 principal amount of New Convertible Notes, which corresponds to an initial conversion price of approximately \$2.00 per share of Common Stock. The conversion rate will be subject to adjustment in certain circumstances.

The Company may redeem, in whole but not in part, the New Convertible Notes at a redemption price of 100% of the principal amount of the New Convertible Notes to be redeemed, plus accrued and unpaid interest and additional interest, if any, if and only if the last reported sale price of the Common Stock equals or exceeds 120% of the conversion price for at least 15 trading days in any period of 30 consecutive trading days. The Company may, at its election, pay or deliver as the case may be, to all Holders of the New Convertible Notes, either (a) solely cash, (b) solely shares of Common Stock, or (c) a combination of cash and shares of Common Stock.

The provisions of the New Convertible Note Indenture include a make-whole provision to compensate the Company's debt holders for the lost option time value and forgone interest payments upon the Company experiencing a Fundamental Change (as defined in the New Convertible Note Indenture). These Fundamental Changes revolve around change in beneficial ownership, the consummation of specified transactions which result in the conversion of common stock into other assets or the sale, transfer or lease of all or substantially all of the Company's assets, a majority change in the composition of the Company's Board of Directors, the Company's stockholders' approval of any plan for liquidation or dissolution of the Company, and the Common Stock ceasing to be listed or quoted on a Trading Market (as defined in the New Convertible Note Indenture). The number of incremental additional shares to be issued as a result of a Fundamental Change is based on a table which calculates the adjustment based on the inputs of time and share value.

The New Convertible Note Indenture provides for customary events of default, which include (subject in certain cases to customary grace and cure periods), among others: nonpayment of principal or interest; breach of covenants or other agreements in the New Convertible Note Indenture; defaults or failure to pay certain other indebtedness; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is continuing under the New Convertible Note Indenture, the trustee or the holders of at least 25% in aggregate principal amount of the New Convertible Notes then outstanding may declare all unpaid principal plus accrued interest on the New Convertible Notes immediately due and payable, subject to certain conditions set forth in the New Convertible Note Indenture. In addition, holders of the New Convertible Notes may require the Company

to repurchase the New Convertible Notes upon the occurrence of certain designated events at a repurchase price of 100% of the principal amount of the New Convertible Notes, plus accrued and unpaid interest.

The New Convertible Note Indenture, among other things, includes provisions such as the Company's failure to timely file any document or report that is required to be filed with the SEC, as well as a registration statement covering the re-sale by holders of the New Convertible Notes not being declared effective by the SEC; the Company's failure to cure such a default within 14 days after the occurrence will result in the Company being required to pay additional interest in cash.

Additional interest on the New Convertible Notes will accrue with respect to the first 90-day period (or portion thereof) following the restricted transfer triggering date, which is 120 days after the last date on which any securities are originally issued under the New Convertible Note Indenture, if certain circumstances occur resulting in a restricted transfer default. For each day that a restricted transfer default is continuing at a rate equal to 0.25% per annum of the principal amount of New Convertible Notes, which rate will increase by an additional 0.25% per annum of the principal amount of the New Convertible Notes for each subsequent 90-day period (or portion thereof) while a restricted transfer default is continuing until all restricted transfer defaults have been cured, up to a maximum of 0.5% of the principal amount of the securities. Following the cure of all restricted transfer defaults, the accrual of additional interest arising from restricted transfer defaults will cease.

The New Convertible Note Indenture states that the sole remedy for an event of default relating to the failure by the Company to comply with the provisions of the New Convertible Note Indenture requiring timely reporting by the Company and for any failure to comply with Section 314(a)(1) of the Trust Indenture Act shall, for the first 365 days after the occurrence of such an Event of Default, consist exclusively of the right to receive special interest on the New Convertible Notes at an annual rate equal to 0.50% of the principal amount of the New Convertible Notes.

As of June 30, 2018, the carrying value of the New Convertible Notes was \$69.2 million, net of unamortized debt discounts and origination costs of \$5.8 million and \$853,000, respectively. These are being amortized over the remaining life of the New Convertible Notes using the effective interest method.

During the three months ended June 30, 2018, the Company recorded \$1.2 million of interest expense on the New Convertible Notes, including \$948,000, \$255,000 and \$38,000 from interest, amortization of debt discount and origination costs, respectively.

During the six months ended June 30, 2018, the Company recorded \$2.5 million of interest expense on the New Convertible Notes, including \$1.9 million, \$495,000 and \$73,000 from interest, amortization of debt discount and origination costs, respectively.

(12) 15.0% Senior Secured Notes

On March 11, 2016, the Company, as issuer, entered into an indenture (the "Senior Secured Indenture") with Wilmington Trust Company, as indenture trustee (the "Senior Secured Note Trustee"). The Senior Secured Indenture provided for the issuance of up to \$30.0 million in senior secured notes (the "15.0% Senior Secured Notes"), of which approximately \$21.2 million were issued on the Initial Closing Date with an additional \$8.8 million issued on March 24, 2016. The 15.0% Senior Secured Notes were purchased in private transactions exempt from the registration requirements of the Securities Act of 1933, as amended, under the note purchase agreements with certain accredited investors and/or non U.S. persons, including certain members of the Company's board of directors, management and their affiliates, who purchased approximately \$3.3 million of the 15.0% Senior Secured Notes issued.

All outstanding principal and interest amounts due under the 15.0% Senior Secured Note were repaid and canceled on July 28, 2017 in connection with the consummation of the Transaction Closing. See Note 13, 8.5% Senior Secured Notes to the consolidated financial statements.

During the three months ended June 30, 2017, the Company recorded approximately \$1.2 million of interest on the 15.0% Senior Secured Note which included \$1.1 million of interest and \$95,000 of amortizing debt issuance costs, respectively.

During the six months ended June 30, 2017, the Company recorded approximately \$2.4 million of interest on the 15.0% Senior Secured Note which included \$2.3 million of interest and \$184,000 of amortizing debt issuance costs, respectively.

(13) 8.5% Senior Secured Notes

In connection with the Transaction Closing, the Company and the Senior Secured Note Trustee entered into an Amended and Restated Senior Secured Note Indenture (the "Amended and Restated Senior Secured Indenture") to amend and restate the Senior Secured Indenture between the Company and the Senior Secured Note Trustee following the Company's receipt of requisite consents of the holders of the 15% Senior Secured Notes. Pursuant to the terms of the Amended and Restated Senior Secured Indenture, the Company caused the cancellation of all outstanding 15% Senior Secured Notes and the issuance of 8.5% Senior Secured Notes due 2021 (the "8.5% Senior Secured Notes") in an aggregate amount of \$30.0 million. The Amended and Restated Senior Secured Indenture allows for an aggregate of \$40.0 million of 8.5% Senior Secured Notes to be issued thereunder. On August 11, 2017 and August 14, 2017 the Company issued an additional \$3.5 million and \$1.5 million of 8.5% Senior Secured Notes which resulted in total notes issued of \$35.0 million. The Amended and Restated Senior Secured Indenture provides, among other things, that the 8.5% Senior Secured Notes will be secured senior obligations of the Company and will mature on July 15, 2021. The 8.5% Senior Secured Notes bear interest at a rate of 8.5% per annum, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning on September 15, 2017. Certain holders of the Company's securities that are party to Board Designation Agreements (as discussed below), purchased approximately \$24.5 million of the 8.5% Senior Secured Notes that were issued in exchange for 15% Senior Secured Notes during the year ended December 31, 2017.

The Amended and Restated Senior Secured Indenture provides that the 8.5% Senior Secured Notes may be optionally redeemed in full by the Company at any time and must be redeemed in full upon additional issuances of debt by the Company, in each case at a price equal to 100% of the principal amount redeemed plus (i) accrued and unpaid interest thereon up to the date of redemption, and (ii) the Applicable Premium, if any, as defined in the Amended and Restated Senior Secured Indenture. Upon a change of control, the Company will be required to make an offer to holders of the 8.5% Senior Secured Notes to repurchase the 8.5% Senior Secured Notes at a price equal to 107.5% of their principal amount, plus accrued and unpaid interest thereon up to the date of redemption.

The Amended and Restated Senior Secured Indenture contains negative covenants restricting additional debt incurred by the Company, creation of liens on the collateral securing the 8.5% Senior Secured Notes, and restrictions on dividends and stock repurchases, among other things. The 8.5% Senior Secured Notes are secured by settlement proceeds, if any, received from certain litigation involving the Company, certain notes issued to the Company, and pledges of 65% of the equity interests in Blue Heron Designated Activity Company ("Blue Heron"), OLIPP IV, LLC and Red Reef Alternative Investments, LLC.

On January 10, 2018, the Company commenced the process of appointing a liquidator to liquidate Blue Heron. The completion of liquidation formalities of Blue Heron under Irish law is expected to take several months and liquidation was still pending at June 30, 2018. Blue Heron is an inactive subsidiary of the Company. In connection with liquidation of Blue Heron, the Company and Wilmington Trust, National Association, as trustee under the Amended and Restated Senior Secured Indenture (the "Trustee"), entered into (i) the First Supplemental Indenture (the "First Supplemental Indenture"), dated as of January 10, 2018, to implement certain amendments to the Indenture and (ii) the Amendment to Pledge and Security Agreement ("Pledge and Security Amendment"), dated as of January 10, 2018, to implement certain amendments to the Pledge and Security Agreement. Pledge and Security Agreement, dated as of March 11, 2016, between the Company and Trustee. The First Supplemental Indenture and the Pledge and Security Amendment amend the Indenture and Pledge and Security Agreement, respectively, to: (i) remove from the assets pledged to the secured parties under the Amended and Restated Senior Secured Indenture, 65% of the equity and certain other assets of Blue Heron; and (ii) reflect the pledge by the Company, in favor of the secured parties under the Indenture, of the promissory note dated as of December 29, 2016 in the principal sum of \$69.6 million issued by OLIPP IV, LLC to Blue Heron and subsequently assigned to the Company.

The Amended and Restated Senior Secured Indenture provides for customary events of default which include (subject in certain cases to customary grace and cure periods), among others: nonpayment of principal or interest; breach of covenants or other agreements in the Amended and Restated Senior Secured Indenture; defaults in failure to pay certain other indebtedness; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs and is continuing under the Amended and Restated Senior Secured Indenture, the Senior Secured Note Trustee or the holders of at least 25% in aggregate principal amount of the 8.5% Senior Secured Notes then outstanding may declare the principal of and accrued but unpaid interest, plus a premium, if any, on all the 8.5% Senior Secured Notes immediately due and payable, subject to certain conditions set forth in the Amended and Restated Senior Secured Indenture.

At June 30, 2018, the outstanding principal of the 8.5% Senior Secured Notes was \$35.0 million with a carrying value of \$34.0 million, net of unamortized debt issuance cost of \$1.0 million.

During the three months ended June 30, 2018, the Company recorded approximately \$818,000 of interest expense on the 8.5% Senior Secured Notes, which includes \$752,000 of interest and \$66,000 of amortizing debt issuance costs.

During the six months ended June 30, 2018, the Company recorded approximately \$1.6 million of interest expense on the 8.5% Senior Secured Notes, which includes \$1.5 million of interest and \$129,000 of amortizing debt issuance costs.

(14) 15.0% Promissory Note

On May 15, 2017, the Company entered into a \$1.5 million Promissory Note with PJC Investments, LLC (the "Bridge Note"), to provide financing to fund the Company's continued operations with a maturity date of July 3, 2017.

The Bridge Note was amended on June 28, 2017 (the "Amended and Restated Bridge Note") to (i) increase the principal amount under the Bridge Note to \$3.3 million and (ii) extend the maturity date from July 3, 2017 to the earlier of (a) July 28, 2017 or (b) the date on which the Master Transaction Agreements are consummated.

Under the Amended and Restated Bridge Note, the Company may request an advance of funds, and PJC shall make an advance to the Company, provided that (i) the aggregate amount of outstanding advances shall not exceed \$3.3 million and (ii) the Company's proposed budgeted use of proceeds for such advance is reasonably acceptable to PJC.

Advances under the Amended and Restated Bridge Note bear interest at an annual rate of 15.0%.

The Amended and Restated Bridge Note includes certain default provisions customary to bridge financing facilities of this type which are subject to customary grace periods, including, among others, (i) defaults related to payment failures; (ii) failure to comply with covenants; (iii) any material misrepresentation of fact made or deemed made by or on behalf of the Company; (iv) failure by the Company to comply with any of its obligations under any Master Transaction Agreement; (v) defaults in payment of any indebtedness of the Company that continues after the applicable grace or cure period; (vi) bankruptcy and related events and; (vii) change of control without the prior written consent of PJC. Default interest accrues at an annual rate of 17.0%.

The Amended and Restated Bridge Note contains certain affirmative and negative covenants customary for bridge financing facilities of this type.

In consideration for the Bridge Note and pursuant to a fee letter agreement by and between the Company and PJC dated May 15, 2017, the Company agreed to pay an additional termination fee equal to \$1.5 million in the event that the Company becomes obligated to pay certain termination fees pursuant to certain termination provisions under the Master Transaction Agreements.

The Company drew approximately \$1.9 million on the Amended and Restated Bridge Note and recorded interest expense of approximately \$11,000 for the three months and six months ended June 30, 2017.

All outstanding principal and interest amounts due under the Amended and Restated Bridge Note were repaid on July 28, 2017 in connection with the Transaction Closing.

(15) Fair Value Measurements

The Company carries life settlements and debt under the Revolving Credit Facility at fair value as shown in the consolidated balance sheets. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Fair value measurements are classified based on the following fair value hierarchy:

Level 1-Valuation is based on unadjusted quoted prices in active markets for identical assets and liabilities that are accessible at the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2-Valuation is determined from pricing inputs that are other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. Observable inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and interest rates and yield curves that are observable at commonly quoted intervals.

Level 3-Valuation is based on inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value generally require significant management judgment or estimation.

Assets and liabilities measured at fair value on a recurring basis

The balances of the Company's assets measured at fair value on a recurring basis as of June 30, 2018, are as follows (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investment in life settlements	\$ —	\$ —	\$ 569,373	\$ 569,373
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 569,373</u>	<u>\$ 569,373</u>

The balances of the Company's liabilities measured at fair value on a recurring basis as of June 30, 2018 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
White Eagle Revolving Credit Facility	\$ —	\$ —	\$ 353,387	\$ 353,387
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 353,387</u>	<u>\$ 353,387</u>

The balances of the Company's assets measured at fair value on a recurring basis as of December 31, 2017, are as follows (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investment in life settlements	\$ —	\$ —	\$ 567,492	\$ 567,492
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 567,492</u>	<u>\$ 567,492</u>

The balances of the Company's liabilities measured at fair value on a recurring basis as of December 31, 2017, are as follows (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
White Eagle Revolving Credit Facility	\$ —	\$ —	\$ 329,240	\$ 329,240
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 329,240</u>	<u>\$ 329,240</u>

The Company categorizes its investment in life settlement portfolio in two classes, non-premium financed and premium financed. In considering the categories, historically, it has generally believed that market participants would require a lower risk premium for policies that were non-premium financed, while a higher risk premium would be required for policies that were premium financed; the Company believes that this risk premium has been declining.

(\$ in thousands)

Quantitative Information about Level 3 Fair Value Measurements

	Fair Value at 6/30/18	Aggregate death benefit at 6/30/18	Valuation Technique	Unobservable Input	Range (Weighted Average)
Non-premium financed	\$ 99,349	\$ 299,719	Discounted cash flow	Discount rate	11.50% - 17.50%
				Life expectancy evaluation	(5.2 years)
Premium financed	\$ 470,024	\$ 2,527,144	Discounted cash flow	Discount rate	15.50% - 21.50%
				Life expectancy evaluation	(8.3 years)
Total Life settlements	\$ 569,373	\$ 2,826,863	Discounted cash flow	Discount rate	15.93%
				Life expectancy evaluation	(8.0 years)
White Eagle Revolving Credit Facility	\$ 353,387	\$ 2,814,863	Discounted cash flow	Discount rate	19.07%
				Life expectancy evaluation	(8.0 years)

Following is a description of the methodologies used to estimate the fair values of assets and liabilities measured at fair value on a recurring basis and within the fair value hierarchy.

Life settlements—The Company has elected to account for the life settlement policies it acquires using the fair value method. The Company uses a present value technique to estimate the fair value of its life settlements, which is a Level 3 fair value measurement as the significant inputs are unobservable and require significant management judgment or estimation. The Company currently uses a probabilistic method of valuing life insurance policies, which the Company believes to be the preferred valuation method in the industry. The most significant assumptions are the estimates of life expectancy of the insured and the discount rate.

The Company provides medical records for each insured to LE providers. Each LE provider reviews and analyzes the medical records and identifies all medical conditions it feels are relevant to the life expectancy determination of the insured. Debits and credits are assigned by each LE provider to the individual's health based on identified medical conditions which are derived from the experience of mortality attributed to relevant conditions in the portfolio of lives that the LE provider monitors. The health of the insured is summarized by the LE provider into a life assessment of the individual's life expectancy expressed both in terms of months and in mortality factor. The mortality factor represents the degree to which the given life can be considered more or less impaired than a life having similar characteristics (e.g. gender, age, smoking, etc.). For example, a standard insured (the average life for the given mortality table) would carry a mortality rating of 100%. A similar but impaired life bearing a mortality rating of 200% would be considered to have twice the chance of dying earlier than the standard life relative to the LE provider's population. Since each provider's mortality factor is based on its own mortality table, the Company calculates its own factors to apply to the table selected by the Company.

The Company calculates mortality factors so that when applied to the mortality table selected by the Company, the resulting LE equals the LE provided by each LE provider. The resulting mortality factors are then blended to determine a factor for each insured.

A mortality curve is then generated based on the calculated mortality factors and the rates from the Company selected mortality table to generate the best estimated probabilistic cash flow stream. The net present value of the cash flows is then calculated to determine the policy value.

If the insured dies earlier than expected, the return will be higher than if the insured dies when expected or later than expected. The calculation allows for the possibility that if the insured dies earlier than expected, the premiums needed to keep the policy in force will not have to be paid. Conversely, the calculation also considers the possibility that if the insured lives longer than expected, more premium payments will be necessary.

The Company uses the 2015 Valuation Basic tables, smoker distinct ("2015 VBT"), mortality tables developed by the U.S. Society of Actuaries (the "SOA"). The mortality tables are created based on the expected rates of death among different groups categorized by factors such as age and gender. The 2015 VBT is based on a large dataset of insured lives, face amount of policies and more current information and its dataset includes 266 million policies. The experience data in the 2015 VBT dataset includes 2.55 million claims on policies from 51 insurance carriers. Life experiences implied by the 2015 VBT are generally longer for male and female nonsmokers between the ages of 65 and 80, while smokers and insureds of both genders over the age of 85 have significantly lower life expectancies. The table shows lower mortality rates in the earlier select periods

at most ages, so while the Company continues to fit the life expectancies from the LE providers to the 2015 VBT, the change in the mortality curve changes the timing of the Company's expected cash flow streams.

Future changes in the life expectancies could have a material adverse effect on the fair value of the Company's life settlements, which could have a material adverse effect on its business, financial condition and results of operations.

Life expectancy sensitivity analysis

If all of the insured lives in the Company's life settlement portfolio lived six months shorter or longer than the life expectancies provided by these third parties, the change in estimated fair value would be as follows (dollars in thousands):

<u>Life Expectancy Months Adjustment</u>	<u>Value</u>	<u>Change in Value</u>
+6	\$ 479,154	\$ (90,219)
-	\$ 569,373	\$ —
-6	\$ 665,721	\$ 96,348

Discount rate

The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and our estimate of the risk premium an investor in the policy would require.

The Company re-evaluates its discount rates at the end of every reporting period in order to reflect the estimated discount rates that could reasonably be used in a market transaction involving the Company's portfolio of life settlements. In doing so, consideration is given to the various factors influencing the rates, including risk tolerance and market activity. The Company relies on management insight, engages third party consultants to corroborate its assessment, engages in discussions with other market participants and extrapolates the discount rate underlying actual sales of policies. In considering these factors, at June 30, 2018, the Company determined that the weighted average discount rate calculated based on death benefit was 15.93% compared to 15.95% at December 31, 2017.

Credit exposure of insurance company

The Company considers the financial standing of the issuer of each life insurance policy. Typically, we seek to hold policies issued by insurance companies that are rated investment grade by the top three credit rating agencies. At June 30, 2018, the Company had 19 life insurance policies issued by three carriers that were rated non-investment grade as of that date. In order to compensate a market participant for the perceived credit and challenge risks associated with these policies, the Company applied an additional 300 basis point risk premium.

The following table provides information about the life insurance issuer concentrations that exceed 10% of total death benefit and 10% of total fair value of the Company's life settlements as of June 30, 2018:

<u>Carrier</u>	<u>Percentage of Total Fair Value</u>	<u>Percentage of Total Death Benefit</u>	<u>Moody's Rating</u>	<u>S&P Rating</u>
Transamerica Life Insurance Company	18.5%	21.1%	A1	AA-
Lincoln National Life Insurance Company	23.4%	19.8%	A1	AA-

Estimated risk premium

As of June 30, 2018, the Company owned 596 policies with an estimated fair value of \$569.4 million. Of these 596 policies, 520 were previously premium financed and are valued using discount rates that range from 15.50% to 21.50%. The remaining 76 policies, which are non-premium financed, are valued using discount rates that range from 11.50% to 17.50%. As of June 30, 2018, the weighted average discount rate calculated based on death benefit used in valuing the policies in the Company's life settlement portfolio was 15.93%.

Market interest rate sensitivity analysis

The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and our estimate of the risk premium an investor in the policy would require. The extent to which the fair value could vary in the near term has been quantified by evaluating the effect of changes in the weighted average discount rate on the death benefit used to estimate the fair value. If the weighted average discount rate was increased or decreased by 1/2 of 1% and the other assumptions used to estimate fair value remained the same, the change in estimated fair value would be as follows (dollars in thousands):

Weighted Average Rate Calculated Based on

<u>Death Benefit</u>	<u>Rate Adjustment</u>	<u>Value</u>	<u>Change in Value</u>
15.43%	-0.50%	\$ 583,330	\$ 13,957
15.93%	—	\$ 569,373	\$ —
16.43%	+0.50%	\$ 555,990	\$ (13,383)

Future changes in the discount rates we use to value life insurance policies could have a material effect on the Company's yield on life settlement transactions, which could have a material adverse effect on our business, financial condition and results of our operations.

At the end of each reporting period we re-value the life insurance policies using our valuation model in order to update our estimate of fair value for investments in policies held on our balance sheet. This includes reviewing our assumptions for discount rates and life expectancies as well as incorporating current information for premium payments and the passage of time.

White Eagle Revolving Credit Facility— As of June 30, 2018, 594 policies are pledged by White Eagle to serve as collateral for its obligations under the White Eagle Revolving Credit Facility. Absent an event of default under the White Eagle Revolving Credit Facility, ongoing borrowings will be used to pay the premiums on these policies and certain approved third party expenses. As more fully described in Note 9, "White Eagle Revolving Credit Facility," proceeds from the maturity of the policies pledged as collateral under the White Eagle Revolving Credit Facility are distributed pursuant to a waterfall. After premium payments, fees to service providers and payments of interest, a percentage of the collections from policy proceeds are to be paid to the Company, which will vary depending on the then LTV ratio.

The Company elected to account for the debt under the White Eagle Revolving Credit Facility in accordance with ASC 820, which includes the 45% interest in policy proceeds payable to the lender, using the fair value method. The fair value of the debt is the amount the Company would have to pay to transfer the debt to a market participant in an orderly transaction. We calculated the fair value of the debt using a discounted cash flow model taking into account the stated interest rate of the White Eagle Revolving Credit Facility and probabilistic cash flows from the pledged policies. Accordingly, our estimates are not necessarily indicative of the amounts that we, or holders of the instruments, could realize in a current market exchange. The most significant assumptions are the estimates of life expectancy of the insured and the discount rate. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values.

Life expectancy sensitivity analysis of the White Eagle Revolving Credit Facility

A considerable portion of the fair value of the White Eagle Revolving Credit Facility is determined by the timing of receipt of future policy proceeds. Should life expectancies lengthen such that policy proceeds are collected further into the future, the fair value of this debt will decline. Conversely, should life expectancies shorten, the fair value of this debt will increase. Considerable judgment is required in interpreting market data to develop the estimates of fair value.

If all of the insured lives in the life settlement portfolio pledged under the White Eagle Revolving Credit Facility live six months shorter or longer than the life expectancies used to calculate the estimated fair value of the White Eagle Revolving Credit Facility debt, the change in estimated fair value would be as follows (dollars in thousands):

<u>Life Expectancy Months Adjustment</u>	<u>Fair Value of White Eagle Revolving Credit Facility</u>	<u>Change in Value</u>
+6	\$ 304,605	\$ (48,782)
	\$ 353,387	\$ —
-6	\$ 401,459	\$ 48,072

Future changes in the life expectancies could have a material effect on the fair value of the White Eagle Revolving Credit Facility, which could have a material adverse effect on its business, financial condition and results of operations.

Discount rate of the White Eagle Revolving Credit Facility

The discount rate incorporates current information about market interest rates, credit exposure to insurance companies and the Company's estimate of the return a lender lending against the policies would require.

Market interest rate sensitivity analysis of the White Eagle Revolving Credit Facility

The extent to which the fair value of the White Eagle Revolving Credit Facility could vary in the near term has been quantified by evaluating the effect of changes in the weighted average discount. If the weighted average discount rate were increased or decreased by 1/2 of 1% and the other assumptions used to estimate fair value remained the same, the change in estimated fair value of the White Eagle Revolving Credit Facility as of June 30, 2018 would be as follows (dollars in thousands):

<u>Discount Rate</u>	<u>Rate Adjustment</u>	<u>Fair Value of White Eagle Revolving Credit Facility</u>	<u>Change in Value</u>
18.57%	-0.50 %	\$ 360,651	\$ 7,264
19.07%	—	\$ 353,387	\$ —
19.57%	+0.50 %	\$ 346,375	\$ (7,012)

Future changes in the discount rates could have a material effect on the fair value of the White Eagle Revolving Credit Facility, which could have a material adverse effect on its business, financial condition and results of its operations.

At June 30, 2018, the fair value of the debt was \$353.4 million and the outstanding principal was approximately \$355.6 million.

Changes in Fair Value

The following table provides a roll-forward in the changes in fair value for the six months ended June 30, 2018, for all life settlement assets for which the Company determines fair value using a material level of unobservable (Level 3) inputs, which consists solely of life settlements (in thousands):

Life Settlements:	
Balance, January 1, 2018	\$ 567,492
Purchase of policies	—
Change in fair value	10,920
Matured/lapsed/sold policies	(53,935)
Premiums paid	44,896
Transfers into level 3	—
Transfer out of level 3	—
Balance, June 30, 2018	<u>\$ 569,373</u>
Changes in fair value included in earnings for the period relating to assets held at June 30, 2018	<u>\$ (20,728)</u>

The following table provides a roll-forward in the changes in fair value for the six months ended June 30, 2018, for the White Eagle Revolving Credit Facility for which the Company determines fair value using a material level of unobservable (Level 3) inputs (in thousands):

White Eagle Revolving Credit Facility:	
Balance, January 1, 2018	\$ 329,240
Draws under the White Eagle Revolving Credit Facility	46,067
Payments on White Eagle Revolving Credit Facility	(19,543)
Unrealized change in fair value	(2,377)
Transfers into level 3	—
Transfer out of level 3	—
Balance, June 30, 2018	<u>\$ 353,387</u>
Changes in fair value included in earnings for period relating to liabilities held at June 30, 2018	<u>\$ (2,377)</u>

The following table provides a roll-forward in the changes in fair value for the six months ended June 30, 2017, for all assets for which the Company determines fair value using a material level of unobservable (Level 3) inputs, which consists solely of life settlements (in thousands):

Life Settlements:	
Balance, January 1, 2017	\$ 498,400
Purchase of policies	—
Change in fair value	28,922
Matured/sold policies	(43,073)
Premiums paid	42,033
Transfers into level 3	—
Transfers out of level 3	—
Balance, June 30, 2017	<u>\$ 526,282</u>
Changes in fair value included in earnings for the period relating to assets held at June 30, 2017	<u>\$ 9,730</u>

The following table provides a roll-forward in the changes in fair value for the six months ended June 30, 2017, for the White Eagle Revolving Credit Facility for which the Company determines fair value using a material level of unobservable (Level 3) inputs (in thousands):

White Eagle Revolving Credit Facility:	
Balance, January 1, 2017	\$ 257,085
Draws under the White Eagle Revolving Credit Facility	43,399
Payments on White Eagle Revolving Credit Facility	(5,656)
Unrealized change in fair value	10,046
Transfers into level 3	—
Transfer out of level 3	—
Balance, June 30, 2017	<u>\$ 304,874</u>
Changes in fair value included in earnings for the period relating to liabilities at June 30, 2017	<u>\$ 10,046</u>

There were no transfers of financial assets or liabilities between levels of the fair value hierarchy during the six months ended June 30, 2018 and 2017.

Other Fair Value Considerations - Carrying value of certificate of deposits, prepaid expenses and other assets, receivable for maturity of life settlements, investment in affiliates, 8.5% Senior Secured Notes, 8.5% Senior Unsecured Convertible Notes, 5.0% Senior Unsecured Convertible Notes, accounts payable and accrued expenses approximate fair value due to their short-term maturities and/or low credit risk.

(16) Segment Information

On October 25, 2013, the Company sold its structured settlement business, which was previously reported as an operating segment. The operating results related to the Company's structured settlement business have been included in discontinued operations in the Company's Consolidated Statements of Operations for all periods presented and the Company has discontinued segment reporting. See Note 7 "Discontinued Operations" to the accompanying consolidated financial statements for further information. Management views its current operations as one segment.

(17) Commitments and Contingencies

Lease Agreements

The Company leases office space under a lease that commenced on October 1, 2014. The lease expires on September 30, 2020. The annual base rent is \$246,000, with a provision for a 3% increase on each anniversary of the rent commencement date. Rent expense was approximately \$115,000 and \$106,000 for the three months ended June 30, 2018 and 2017, respectively, \$230,000 and \$212,000 for the six months ended June 30, 2018 and 2017, respectively.

Employment Agreements

The Company has entered into employment agreements with certain of its officers, including with its chief financial officer, whose agreement provides for payments in the event that the executive terminates her employment with the Company due to a material change in the geographic location where the chief financial officer performs her duties or upon a material diminution of her base salary or responsibilities, with or without cause (the "2018 Martinez Agreement"). If the Company terminates Ms. Martinez's employment without cause or she resigns with Good Reason (as defined in the 2018 Martinez Agreement), she will be entitled to receive her base salary or \$352,229, whichever is greater, through the twelve (12) months following such termination (the "Martinez Severance Period") as well as any bonus earned but not yet paid. If Ms. Martinez resigns for good reason, she will also be entitled to have the Company continue to pay its portion of healthcare premiums for plans in which she is participating immediately prior to the termination through the Martinez Severance Period. If such termination or resignation occurs within two years after a change in control (as defined in the 2018 Martinez Agreement), then in lieu of receiving her base salary, Ms. Martinez would be entitled to receive (i) accrued vacation days, (ii) a lump sum payment equal to the sum of two times her then base salary, (iii) a portion of her bonus prorated through the termination date that would be due to her when bonus payments are otherwise made for the year in which the termination occurs, (iv) any unpaid portion of a bonus for the year preceding the termination, and (v) reimbursement of COBRA healthcare costs through the Martinez Severance Period.

The Company does not have any general policies regarding the use of employment agreements, but has and may, from time to time, enter into such a written agreement to reflect the terms and conditions of employment of a particular named executive officer, whether at the time of hire or thereafter.

Litigation

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. As a litigation or regulatory matter develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. If, at the time of evaluation, the loss contingency related to a litigation or regulatory matter is not both probable and estimable, the matter will continue to be monitored for further developments that would make such loss contingency both probable and estimable. When a loss contingency related to a litigation or regulatory matter is deemed to be both probable and estimable, the Company will establish an accrued liability with respect to such loss contingency and record a corresponding amount of litigation-related expense. The Company will then continue to monitor the matter for further developments that could affect the amount of any such accrued liability.

Sun Life

On April 18, 2013, Sun Life Assurance Company of Canada ("Sun Life") filed a complaint against the Company and several of its affiliates in the United States District Court for the Southern District of Florida, entitled *Sun Life Assurance Company of Canada v. Imperial Holdings, Inc., et al.* ("Sun Life Case"), asserting, among other things, that at least 28 life insurance policies issued by Sun Life and owned by the Company through certain of its subsidiary companies were invalid. The Sun Life complaint, as amended, asserted the following claims: (1) violations of the federal Racketeer Influenced and Corrupt Organizations ("RICO") Act, (2) conspiracy to violate the RICO Act, (3) common law fraud, (4) aiding and abetting fraud, (5) civil conspiracy to commit fraud, (6) tortious interference with contractual obligations, and (7) a declaration that the policies issued were void. Following the filing of a motion by the Company to dismiss the Sun Life Case, on December 9, 2014, counts (2), (4), (5), (6) and (7) of the Sun Life Case were dismissed with prejudice. The Company then filed a motion for summary judgment on the remaining counts. On February 4, 2015, the Court issued an order (the "Order") granting the Company's motion for summary judgment on counts (1) and (3), resulting in the Company prevailing on all counts in the Sun Life Case.

On July 29, 2013, the Company filed a separate complaint against Sun Life in the United States District Court for the Southern District of Florida, captioned *Imperial Premium Finance, LLC v. Sun Life Assurance Company of Canada* ("Imperial Case"), which was subsequently consolidated with the Sun Life Case. The Imperial Case asserted claims against Sun Life for breach of contract, breach of the covenant of good faith and fair dealing, and fraud, and sought a judgment declaring that Sun Life is obligated to comply with the promises made by it in certain insurance policies. The Imperial complaint also sought compensatory damages amounting to at least \$30.0 million and an award of punitive damages. On August 23, 2013, Sun Life moved to dismiss the complaint, but the Court denied Sun Life's motion in early 2015. Subsequently, on February 26, 2015, Sun Life appealed the denial to the United States Court of Appeals for the Eleventh Circuit. The Company moved to dismiss Sun Life's appeal and, on December 17, 2015, the Court of Appeals ruled in favor of the Company, dismissing Sun Life's appeal. The Imperial Case therefore returned to the District Court.

On September 22, 2016, however, the District Court granted summary judgment in favor of Sun Life on the entirety of the Imperial Case. Subsequently, on January 12, 2017, the Company appealed the District Court's decision, and on January 24, 2017, Sun Life filed its own notice of appeal. As part of these two appeals, the Court of Appeals will review every dispositive order issued by the District Court throughout the consolidated case. Per the Court of Appeals, oral argument will be scheduled in the near future.

In January 2018, oral argument was held in the Eleventh Circuit Court of Appeals and the decision is pending.

Other Litigation

Other litigation is defined as smaller claims or litigations that are neither individually nor collectively material. It does not include lawsuits that relate to collections.

The Company is party to various other legal proceedings that arise in the ordinary course of business, separate from normal course accounts receivable collections matters. Due to the inherent difficulty of predicting the outcome of these litigations and other legal proceedings, the Company cannot predict the eventual outcome of these matters, and it is reasonably possible that some of them could be resolved unfavorably to the Company. As a result, it is possible that the Company's results of operations or cash flows in a particular fiscal period could be materially affected by an unfavorable resolution of pending litigation or contingencies. However, the Company believes that the resolution of these other proceedings will not, based on information currently available, have a material adverse effect on the Company's financial position or results of operations.

(18) Stockholders' Equity

The Company has reserved an aggregate of 12,600,000 shares of common stock under its Omnibus Plan, pursuant to which, as of June 30, 2018, options to purchase 85,000 shares of common stock granted to existing employees were outstanding, 100,000 shares of stock appreciation rights had been granted to directors with 100,000 shares subject to vesting, 633,215 shares of restricted stock had been granted to directors with 408,522 shares subject to vesting and 2,270,000 shares of restricted stock units had been granted to certain employees, with a total of 2,150,000 shares subject to vesting, approximately 120,000 shares have been vested since granted. There were 9,511,785 securities remaining for future issuance under the Omnibus Plan as of June 30, 2018.

On September 1, 2015, the Company announced that its Board of Directors authorized a \$10.0 million share and note repurchase program. The program had a two-year expiration date, and authorized the Company to repurchase up to \$10.0 million of its common stock and/or its Convertible Notes due 2019. During 2015, the Company purchased 608,000 shares for a total cost of approximately \$2.5 million, which is an average cost of \$4.17 per share, including transaction fees. As of December 31, 2017, the repurchase program has terminated.

Warrants

On February 11, 2011, three shareholders received warrants that may be exercised for up to a total of 4,240,521 shares of the Company's common stock at a weighted average exercise price of \$14.51 per share. The warrants expired seven years after the date of issuance during the six months ended June 30, 2018.

In connection with a settlement of class action litigation arising in connection with the investigation by the U.S. Attorney's Office for District of New Hampshire ("USAO") into the Company's now legacy premium finance business (the "USAO Investigation"), the Company issued warrants to purchase 2,000,000 shares of the Company's stock into an escrow account in April of 2014. The estimated fair value as of the measurement date of such warrants was \$5.4 million, which is included in stockholders' equity. The warrants were distributed in October 2014 and have a five-year term from the date they were distributed to the class participants with an exercise price of \$10.75. The Company is obligated to file a registration statement to register the shares underlying the warrants with the SEC if shares of the Company's common stock have an average daily trading closing price of at least \$8.50 per share for a 45 day period. The warrants will be exercisable upon effectiveness of the registration statement.

On July 28, 2017, in connection with the recapitalization transaction, the Company issued common stock purchase warrants to certain investors to purchase up to an aggregate of 42,500,000 shares of the Company's common stock at an exercise price of \$0.20 per share (the "Warrant Shares"). The warrants shall vest and become exercisable as follows: (i) with respect to 17,500,000 Warrant Shares, immediately upon the issuance of the warrants, and (ii) with respect to the remaining 25,000,000 Warrant Shares, at later times tied to the conversion of the Company's Convertible Notes and New Convertible Notes (each as defined below) outstanding on July 28, 2017 into shares of the Company's common stock or, if earlier, upon the date that all Convertible Notes or New Convertible Notes are no longer outstanding. The warrants have an eight year term. The Warrant are subject to anti-dilution adjustment provisions.

Recapitalization Transactions

On July 28, 2017, the Company consummated a series of integrated transactions to effect a recapitalization of the Company (the "Transaction Closing") pursuant to the Master Transaction Agreements.

Common Stock Purchase Agreement

In connection with the Transaction Closing, the Company entered into a Common Stock Purchase Agreement (the "Stock Purchase Agreement") by and among the Company, PJC, certain investors jointly designated by PJC and Triax Capital Advisors LLC, a New York limited liability company ("Triax"), to be party to the Stock Purchase Agreement (collectively, the "Common Stock Investors"), and certain Convertible Note Holders that were a party to the Stock Purchase Agreement (collectively, the "Convertible Note Holder Purchasers," and together with PJC and the Common Stock Investors, the "Purchasers"). Pursuant to the Stock Purchase Agreement, the Company issued and sold to the Purchasers 115,000,000 shares (the "Stock Purchase Agreement Shares") of the Company's Common Stock at a price of \$0.20 per share for an aggregate purchase price of \$23.0 million, of which PJC and the Common Stock Investors purchased 75,000,000 Stock Purchase Agreement Shares for an aggregate purchase price of \$15.0 million and the Convertible Note Holder Purchasers, pursuant to the previously announced rights offering which expired on July 26, 2017, purchased 40,000,000 Stock Purchase Agreement Shares for an aggregate purchase price of \$8.0 million, of which PJC purchased 19,320,038 shares in connection with the exercise of rights assigned to it by certain Convertible Note Holder Purchasers. The Stock Purchase Agreement contained customary representations, warranties, and covenants.

In August 2017, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") by and between the Company and Brennan Opportunities Fund I LP ("Brennan"). Pursuant to the Securities Purchase Agreement, Brennan purchased from the Company (i) 12,500,000 shares (the "Brennan Shares") of Common Stock at a price of \$0.40 per share for an aggregate purchase price of \$5.0 million.

Articles Amendment

Effective on July 17, 2017, the Company filed an Articles of Amendment to Articles of Incorporation (the "Articles Amendment") to increase the authorized Common Stock from 80,000,000 shares to 415,000,000 shares. As previously disclosed, the Articles Amendment was approved by the Company's shareholders at the Company's 2017 Annual Meeting. The adoption of the Articles Amendment results in a greater number of shares of Common Stock available for issuance.

Change in Significant Holders

As a result of the consummation of the Master Transaction Agreements, on the date of the Transaction Closing, a change in significant holders of the Company's common stock occurred. PJC and Triax, together with certain of their affiliates, acquired beneficial ownership of approximately 38.9% of the then outstanding Common Stock, based on their aggregate acquisition of 39,320,038 shares of Common Stock and warrants to purchase 27,150,000 shares of Common Stock. Other investors designated by PJC and Triax acquired beneficial ownership of approximately 43.6% of the then outstanding Common Stock, based on their aggregate acquisition of 55,000,000 shares of Common Stock and warrants to purchase 13,350,000 shares of Common Stock. Additionally, pursuant to the Board Designation Agreements, PJC and Triax designated two of seven directors to the Company's Board, two other investors designated a third new director and a fourth new director, and a fifth new director was designated by a holder of New Convertible Notes, collectively resulting in a change in the majority of the Company's Board.

(19) Income Taxes

The Company's provision for income taxes from continuing operations is estimated to result in an annual effective tax rate of 29.77% and a total tax expense of approximately \$3.1 million for the six months ended June 30, 2018. The analysis for the current period took into consideration various provisions within the Tax Cuts & Jobs Act enacted on December 22, 2017 ("TCJA") that are expected to impact the Company, including the Company's accounting policy election to treat the tax effect of income generated from the Company's Ireland subsidiary as a period cost. The Company's quarterly effective income tax rates are based upon the Company's annual estimated tax rate. The Company's annual estimated tax rate varies based upon the Company's expected annual federal taxable earnings, as well as on a mix of taxable earnings in the various state and foreign jurisdictions. The Company's estimated annual effective rate is principally due to expected income inclusions under the GILTI tax regime, limitations imposed on the use of historical NOLs, and interest expense limitations under IRC Sec. 264(a)(4) that are expected to apply when determining tested income for the GILTI inclusion. The Company is evaluating a number of tax planning strategies to help mitigate the impact of the GILTI provisions including its intent and ability to restructure its operations. Evaluation of possible tax planning strategies is a priority and will be monitored closely for the potential impact to the annualized effective tax rate. During this quarter the Company engaged the services of legal counsel to evaluate the potential to restructure out of GILTI in addition to exploring other tax efficiencies planning.

Based on the Company's evaluation, a deferred tax valuation allowance was established against its net deferred tax assets. In its evaluation, management considers taxable loss carryback availability, expectations of sufficient future taxable income, trends in earnings, existence of taxable income in recent years, the future reversal of temporary differences, and available tax planning strategies that could be implemented, if required. Valuation allowances are established based on the consideration of all available evidence using a more likely than not standard. This valuation allowance was determined to be necessary as an offset to the full amount of the federal and state deferred tax asset. During the three month period ended June 30, 2018, the Company does not expect that position to change and therefore is not recording any income tax benefit.

Due to the complexities inherent in the tax law changes, the SEC released Staff Accounting Bulletin (SAB) No. 118 on December 22, 2017, to address the application of ASC 740 where a company does not have the requisite information available, prepared or analyzed in reasonable detail to properly account for items under the TCJA. The SAB has provided that where a company can make a reasonable estimate, it should record that estimate and make appropriate disclosures with updates during a measurement period of no more than a year from enactment. The Company made its best estimate with respect to the estimated Transition Tax charge as of December 31, 2017 and as of June 30, 2018 based on guidance available as of the date of the filing. Upon gathering all necessary data, interpreting any additional guidance from tax authorities, and completing the analysis, our provisional amount may be adjusted in the measurement period allowable in accordance with SAB No. 118 and such adjustment could be material.

In October 2016, the FASB issued ASU No. 2016-16 Income Taxes (Topic 740): Intra-entity transfers of assets other than inventory ("ASU 2016-16"). Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of

comprehensive recognition of current and deferred income taxes in GAAP. The Board decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017. The Company adopted this standard in the March 31, 2018 reporting period which resulted in the elimination of a deferred income tax charge of \$17.6 million, gross related to prior year sales of life settlement policies to its Ireland subsidiaries. The adoption resulted in a reduction of the valuation allowance and had no impact on earnings.

The Company and its subsidiary companies are subject to U.S. federal income tax, as well as to income tax in Florida and other states and foreign jurisdictions in which it operates.

(20) Subsequent Events

On July 10, 2018, Company, SB Holdings, Inc. ("Holdings") and Sherman, Clay & Co. ("Sherman, Clay") and, with the Company and Holdings, the "Parties") entered into a letter agreement (the "Letter") terminating the Stock Purchase Agreement (the "Agreement"), dated as of January 22, 2018, by and among the Parties, pursuant to which the Company had agreed to purchase all of the issued and outstanding capital stock of Sherman, Clay from Holdings. The termination was effected by mutual written consent of the Parties pursuant to Section 7.01 of the Agreement, without any liability, obligation or penalty incurred by any Party.

Commitment Letters

On August 20, 2018, the Company received commitment letters from Evermore Global Advisors, LLC and River City Capital, LLC, entities affiliated with certain members of the board of directors, for an aggregate investment of \$10.0 million under certain circumstances through August 20, 2019. In addition, PJC Investments, LLC, an entity affiliated with our CEO that has previously provided such a letter with respect to \$2.0 million, provided a new letter committing for the same amount through August 20, 2019.

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

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of our Company as of and for the periods presented below and should be read in conjunction with the financial statements and accompanying notes included with this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors. See "Forward-Looking Statements."

Business Overview

Incorporated in Florida, Emergent Capital owns a portfolio of 596 life insurance policies, also referred to as life settlements, with a fair value of approximately \$569.4 million and an aggregate death benefit of approximately \$2.8 billion at June 30, 2018. The Company primarily earns income on its life insurance policies from changes in their fair value and through death benefits.

The Company has incurred substantial losses, which has resulted in an accumulated deficit of approximately \$149.6 million as of June 30, 2018. Cash flows used in operating activities were \$22.2 million for the six months ended June 30, 2018 and \$34.8 million for the year ended December 31, 2017. As of June 30, 2018, the Company had approximately \$26.3 million of cash and cash equivalents and certificates of deposit of \$1.0 million; of this amount, approximately \$8.3 is available to pay premiums on the two unencumbered policies and other overhead expenses, with approximately \$17.9 million being restricted by the White Eagle Revolving Credit Facility.

Liquidity

The Company's ability to continue as a going concern is dependent on its ability to meet its liquidity needs through a combination of the receipt of death benefits from life insurance policy maturities, board member affiliate capital commitments, borrowings under the White Eagle Revolving Credit Facility, strategic capital market raises, pledged policy sales (subject to certain asset sale restrictions) and cash on hand.

As of the filing date of this Form 10-Q, the outstanding principal on the White Eagle Revolving Credit Facility was approximately \$365.9 million, with approximately \$4.1 million undrawn and \$12.1 million received in maturity proceeds awaiting distribution through the waterfall to repay principal and interest. The maximum lender's commitment for the facility is \$370.0 million. White Eagle's current cash flow forecast indicates a probability that it may reach the limit on its ability to make additional borrowings by the end of December 2018, assuming no further collection of receivables. The timing could be later if it receive any maturity proceeds. White Eagle is currently in negotiations with the lender to increase the facility limit, although no assurance can be given that White Eagle will be successful and the limit will be increased sufficiently. Based on the terms of the White Eagle Revolving Credit Facility, if the making of any advance by the lender would cause the aggregate principal amount of all advances outstanding to exceed the borrowing base, White Eagle can sell policies in an amount sufficient to pay scheduled premiums subject to the lender's approval. The proceeds of any such sale would be distributed through the waterfall, and by virtue of the sale, White Eagle would no longer have to pay premiums on the sold policies. White Eagle is in the process of compiling a list of pledged policies to be presented to the lender for approval for sale. The White Eagle Revolving Credit Facility also allows the lender to make protective advances on pledged policies other than those being contemplated for sale. Any such protective advances made by the lender would be reimbursed to the lender through the waterfall and receives priority over interest payments. In addition, Emergent may make an equity infusion to White Eagle to pay the lender.

Distributions to the Company from available proceeds through the waterfall under the White Eagle Revolving Credit Facility will vary based on the respective, then current loan to value ratio. Our current cash flow forecast indicates a probability the Company will not participate in the waterfall distributions until July 2019.

As of filing date of this Form 10-Q, we had approximately \$28.4 million of cash and cash equivalents and certificates of deposit of \$1.0 million, of this amount, approximately \$6.3 million is available for normal operations, with approximately \$22.1 million being restricted by the White Eagle Revolving Credit Facility. In considering our cash, borrowings under the White Eagle Revolving Credit Facility subject to a sufficient increase in the facility limit and board member affiliate capital commitments, together with the Company's potential internal restructuring for tax-related purposes (see Note 19, "Income Taxes" of the accompanying consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Income Taxes"), we estimate that our liquidity and capital resources will be sufficient for the next twelve months from the date of filing this Form 10-Q.

The accompanying consolidated financial statements are prepared on a going concern basis and do not include any adjustments that might result from uncertainty about the Company's ability to continue as a going concern.

Recent Events

On January 22, 2018, the Company entered into a stock purchase agreement (the "Agreement") with SB Holdings, Inc., a California corporation ("Holdings"), and Sherman, Clay & Co., an Indiana corporation and wholly-owned Subsidiary of Holdings ("Sherman, Clay") pursuant to which the Company agreed to purchase all of the issued and outstanding capital stock of Sherman, Clay from Holdings for an initial purchase price of 18,000,000 shares (the "Initial Shares") of the Company's common stock of which 2,700,000 shares will be held back for up to 18 months from closing to offset potential indemnified claims. The initial purchase price is subject to increase pursuant to earn-outs based on financial performance during the first year after the acquisition closes (the "Additional Shares") and, together with the Initial Shares, the "Consideration Shares") as provided for in the Agreement.

The Agreement contains standard representations and warranties related to each party, and may be terminated prior to the closing under certain circumstances. The closing of the purchase of Sherman, Clay under the Agreement (the "Purchase") is subject to a number of closing conditions, including certain regulatory approvals and obtaining financing for working capital and general corporate purposes.

In connection with the consummation of the Purchase, the Company also agreed to, among other things, enter into a registration rights agreement pursuant to which it will register the resale of the Consideration Shares.

Subsequent Events

On July 10, 2018, Company, Holdings and Sherman, Clay & Co. entered into a letter agreement (the "Letter") terminating the Agreement. The termination was effected by mutual written consent of the Parties pursuant to Section 7.01 of the Agreement, without any liability, obligation or penalty incurred by any Party.

During the six months ended June 30, 2018, the Company received approval for its common stocks to move to the OTCQX® Best Market from the OTCQB Venture Market. Trading on the OTCQX commenced on May 29, 2018. The common stock will continue to trade under the ticker symbol "EMGC."

Revolving Credit Facility Events

Our indirect subsidiary, White Eagle, is the owner of 594 life insurance policies with an aggregate death benefit of approximately \$2.8 billion and a fair value of approximately \$568.4 million at June 30, 2018. White Eagle pledged its policies as collateral to secure borrowings made under the White Eagle Revolving Credit Facility, which is used, among other things, to pay premiums on the life insurance policies owned by White Eagle. Borrowings under the White Eagle Revolving Credit Facility fund the payment of premiums on the life insurance policies that have been pledged as collateral for the White Eagle Revolving Credit Facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

During the six months ended June 30, 2018, 12 life insurance policies with face amounts totaling \$53.9 million matured, resulting in a net gain of approximately \$28.0 million. The gains related to these maturities are included in income from changes in the fair value of life settlements in the consolidated statements of operations for the six months ended June 30, 2018. All policy maturities during the quarter served as collateral under the White Eagle Revolving Credit Facility. Proceeds from maturities totaling \$36.0 million were received during the six months ended June 30, 2018, with \$12.7 million awaiting distribution through the waterfall. Approximately \$31.4 million inclusive of \$7.8 million collected during the year ended December 31, 2017, was utilized to repay borrowings, interest and expenses under the White Eagle Revolving Credit Facility for the six months ended June 30, 2018. Assuming we recognize no policy maturities, our estimated premiums for the remainder of 2018 would be \$47.6 million. White Eagle would be eligible to borrow approximately \$47.5 million of this amount to pay premiums on policies secured by the White Eagle Revolving Credit Facility with approximately \$80,000 in estimated premiums required to maintain the policies not pledged as collateral under the White Eagle Revolving Credit Facility as of June 30, 2018.

Critical Accounting Policies

Critical Accounting Estimates

The preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. We base our judgments, estimates and assumptions on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions and conditions. We evaluate our judgments, estimates and assumptions on a regular basis and make changes accordingly. We believe that the judgments, estimates and assumptions involved in the accounting for income taxes, the valuation of life settlements, the valuation of the debt owing under the White Eagle Revolving Credit Facility have the greatest potential impact on our financial statements and accordingly believe these to be our critical accounting estimates.

Fair Value Measurement Guidance

We follow ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value as an exit price representing the amount that would be received if an asset were sold or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. Level 1 relates to quoted prices in active markets for identical assets or liabilities. Level 2 relates to observable inputs other than quoted prices included in Level 1. Level 3 relates to unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Our investments in life insurance policies and Revolving Credit Facility debt are considered Level 3 as there is currently no active market where we are able to observe quoted prices for identical assets/liabilities and our valuation model incorporates significant inputs that are not observable. See Note 15, "Fair Value Measurements" of the notes to Consolidated Financial Statements for a discussion of our fair value measurement.

Fair Value Option

We have elected to account for life settlements using the fair value method. The fair value of the asset is the estimated amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date. We calculate the fair value of the asset using a present value technique to estimate the fair value of its life settlements. The Company currently uses a probabilistic method of valuing life insurance policies, which the Company believes to be the preferred valuation method in the industry. The most significant assumptions are the estimates of life expectancy of the insured and the discount rate. See Note 8, "Life Settlements (Life Insurance Policies)" and Note 15, "Fair Value Measurements" of the notes to Consolidated Financial Statements for further information.

We have elected to account for the debt under the White Eagle Revolving Credit Facility, which includes the interest in policy proceeds to the lender, using the fair value method. The fair value of the debt is the estimated amount that would have to be paid to transfer the debt to a market participant in an orderly transaction. We calculated the fair value of the debt using a discounted cash flow model taking into account the stated interest rate of the credit facility and probabilistic cash flows from the pledged policies. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, our estimates are not necessarily indicative of the amounts that we, or holders of the instruments, could realize in a current market exchange. The most significant assumptions are the estimates of life expectancy of the insured and the discount rate. The use of assumptions and/or estimation methodologies could have a material effect on the estimated fair values.

Income Recognition

Our primary sources of income are in the form of changes in fair value of life settlements and gains on life settlements, net. Our income recognition policies for this source of income is as follows:

- *Changes in Fair Value of Life Settlements*—When we acquire certain life insurance policies, we initially record these investments at the transaction price, which is the fair value of the policy for those acquired upon relinquishment or the amount paid for policies acquired for cash. The fair value of the investment in insurance policies is evaluated at the end of each reporting period. Changes in the fair value of the investment based on evaluations are recorded as changes in fair value of life settlements in our consolidated statement of operations. The fair value is determined on a discounted cash flow basis that incorporates current life expectancy assumptions. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and our estimate of the risk premium an investor in the policy would require. The Company recognizes income from life settlement maturities on the date we are in receipt of death notice or verified obituary of the insured. This income is the difference between the death benefits and fair values of the policy at the time of maturity.

Deferred Debt Costs

Deferred debt costs include costs incurred in connection with acquiring and maintaining debt arrangements. These costs are directly deducted from the carrying amount of the liability in the consolidated balance sheets, are amortized over the life of the related debt using the effective interest method and are classified as interest expense in the accompanying consolidated statement of operations. These deferred costs are related to the Company's 8.5% Convertible Notes, 5% Convertible Notes and 8.5% Senior Secured Notes. The Company did not recognize any deferred debt costs on the White Eagle Revolving Credit Facility given all costs were expensed due to electing the fair value option in valuing the White Eagle Revolving Credit Facility.

Income Taxes

We account for income taxes in accordance with ASC 740, Income Taxes. Under ASC 740, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies varies, adjustments to the carrying value of the deferred tax assets and liabilities may be required. Valuation allowances are based on the "more likely than not" criteria of ASC 740.

Our provision for income taxes results in an annual effective tax rate of 29.77% and 0% for 2018 and 2017, respectively. The accounting for uncertain tax positions guidance under ASC 740 requires that we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. We recognize interest and penalties (if any) on uncertain tax positions as a component of income tax expense.

On December 22, 2017 the United States enacted the Tax Cuts and Jobs Act ("TCJA"). Effective for 2018, under certain circumstances, Section 245A enacted by the TCJA eliminates U.S. federal income tax on dividends received from foreign subsidiaries of domestic corporations under a new participation exemption. However, the TCJA also creates a new tax on certain taxed foreign income under new Section 951A. Specifically, income earned in excess of a deemed return on tangible assets held by a controlled foreign corporation (such excess called Global Intangible Low-Taxed Income ("GILTI")) must now generally be included as U.S. taxable income on a current basis by its U.S. shareholders. Based on the Company's life settlement assets held within Ireland, management expects the net income generated from these activities to qualify entirely as GILTI. On January 10, 2018, the FASB provided guidance on how to account for deferred tax assets and liabilities expected to reverse in future years as GILTI. The FASB provided that a company may either (1) elect to treat taxes due on future U.S. inclusions of GILTI as a current-period expense when incurred or (2) factor such amounts into the Company's measurement of its deferred taxes. For ASC 740 purposes, the Company intends to adopt an accounting policy to treat any future GILTI inclusion as a current-period expense instead of providing for U.S. deferred taxes on all temporary differences related to future GILTI items. The Company is in the process of exploring certain tax planning strategies to assist them in lessening the potential effect of this GILTI tax. The Company has made reasonable estimate under the provisions of SAB 118 as noted above.

In October 2016, the FASB issued ASU No. 2016-16 Income Taxes (Topic 740): Intra-entity transfers of assets other than inventory ("ASU 2016-16"). Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. The Board decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017. The Company adopted this standard during the six months ended June 30, 2018 which resulted in the elimination of a deferred income tax charge of \$17.6 million related to prior year sales of life settlement policies to its Ireland subsidiaries. The adoption resulted in a reduction of the valuation allowance and had no impact on earnings.

Stock-Based Compensation

We have adopted ASC 718, *Compensation—Stock Compensation*. ASC 718 addresses accounting for share-based awards, including stock options, restricted stock, performance shares and warrants, with compensation expense measured using fair value and recorded over the requisite service or performance period of the award. The fair value of equity instruments will be determined based on a valuation using an option pricing model that takes into account various assumptions that are subjective. Key assumptions used in the valuation will include the expected term of the equity award taking into account both the contractual term of the award, the effects of expected exercise and post-vesting termination behavior, expected volatility, expected dividends and the risk-free interest rate for the expected term of the award. Compensation expense associated with performance shares is only recognized to the extent that it is probable the performance measurement will be met.

Held-for-sale and discontinued operations

The Company reports a business as held-for-sale when management has approved or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the ensuing year and certain other specified criteria are met. A business classified as held-for-sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. Depreciation is not recorded on assets of a business classified as held-for-sale. Assets and liabilities related to a business classified as held-for-sale are segregated in the Consolidated Balance Sheet and major classes are separately disclosed in the notes to the Consolidated Financial Statements commencing in the period in which the business is classified as held-for-sale. The Company reports the results of operations of a business as discontinued operations if the business is classified as held-for-sale, the operations and cash flows of the business have been or will be eliminated from the ongoing operations of the Company as a result of a disposal transaction and the Company will not have any significant continuing involvement in the operations of the business after the disposal transaction. The results of discontinued operations are reported in Discontinued Operations in the Consolidated Statement of Operations for current and prior periods commencing in the period in which the business meets the criteria of a discontinued operation, and include any gain or loss recognized on closing or adjustment of the carrying amount to fair value less cost to sell. During the fourth quarter of 2013, the Company sold substantially all of our structured settlements business. As a result, the Company has classified its structured settlement operating results as discontinued operations.

Foreign Currency

The Company owns certain foreign subsidiaries formed under the laws of Ireland, Bahamas and Bermuda. These foreign subsidiaries utilize the U.S. dollar as their functional currency. The foreign subsidiaries' financial statements are denominated in U.S. dollars and therefore, there are no translation gains and losses resulting from translating the financial statements at exchange rates other than the functional currency. Any gains and losses resulting from foreign currency transactions (transactions denominated in a currency other than the subsidiaries' functional currency) are included in income. These gains and losses are immaterial to the Company's financial statements.

Accounting Changes

Note 3, "*Recent Accounting Pronouncements*," of the Notes to Consolidated Financial Statements discusses accounting standards adopted in 2018, as well as accounting standards recently issued but not yet required to be adopted and the expected impact of these changes in accounting standards. Any material impact of adoption is discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements.

Selected Operating Data (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
End of Period — Policies Owned				
Number of policies owned	596	614	596	614
Average age of insured	83.9	82.9	83.9	82.9
Average death benefit per policy	\$ 4,743	\$ 4,729	\$ 4,743	\$ 4,729
Average Life Expectancy — Calculated LE (Years)	8.0	8.7	8.0	8.7
Aggregate Death Benefit	\$ 2,826,863	\$ 2,903,899	\$ 2,826,863	\$ 2,903,899
Aggregate fair value	\$ 569,373	\$ 526,282	\$ 569,373	\$ 526,282
Monthly premium — average per policy	\$ 13.5	\$ 11.5	\$ 13.5	\$ 11.5
Period Maturities				
Number of policies matured	7	3	12	7
Average age of insured at maturity	84.6	88.8	84.7	83.5
Average life expectancy - Calculated LE (Years)	3.0	3.5	4.7	3.5
Aggregate death benefit	\$ 26,235	\$ 5,223	\$ 53,935	\$ 43,073
Gains on maturity	\$ 10,761	\$ 2,743	\$ 28,000	\$ 19,007
Proceeds collected	\$ 12,700	\$ 16,173	\$ 36,045	\$ 26,173

Results of Operations

The following is our analysis of the results of operations for the periods indicated below. This analysis should be read in conjunction with our financial statements, including the related notes to the financial statements. Our results of operations are discussed below in two parts: (i) our consolidated results of continuing operations and (ii) our results of discontinued operations.

Results of Continuing Operations
Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Net loss from continued operations for the quarter ended June 30, 2018 was \$9.6 million as compared to a net loss of \$6.5 million for the same period last year. The following is our analysis of net loss for the period.

	Three Months Ended June 30,				
	2018	2017	Change	% Change	
Income	\$ 5,563	\$ 3,461	\$ 2,102	61%	increase
Expenses	12,046	9,935	2,111	21%	increase
Provision for income taxes	(3,120)	—	(3,120)	100%	increase
Net income (loss)	\$ (9,603)	\$ (6,474)	\$ (3,129)	48%	increase

Income from continuing operations for the three months ended June 30, 2018 was mainly comprised of a gain on maturity of seven policies with a net gain of approximately \$10.8 million compared to a net gain on maturity of \$2.7 million of three policies for the same period in 2017. Income for the three months ended June 30, 2018 was negatively impacted by updated life expectancies procured by the Company in respect to the insureds' lives and maturities.

Total expenses from continuing operations for the three months ended June 30, 2018 were mainly comprised of interest expense on the White Eagle Revolving Credit Facility of \$5.7 million, \$46,000 on the 8.5% Convertible Notes, \$1.2 million on the 5% Convertible Notes and \$818,000 on the 8.5% Senior Secured Notes.

Total expenses from continuing operations for the three months ended June 30, 2017 mainly consisted of interest expense of \$4.3 million on the White Eagle Revolving Credit Facility, \$2.6 million on the 8.5% Convertible Notes, and \$1.2 million on the 15.0% Senior Secured Notes offset by a gain in the fair value of the White Eagle Revolving Credit Facility of \$1.8 million.

Our loss three months ended June 30, 2018 was impacted by an estimated tax expense of approximately \$3.1 million. This amount is principally due to expected income inclusions under the GILTI tax regime, limitations imposed on the use of historical NOLs, and interest expense limitations under IRC Sec. 264(a)(4) that are expected to apply when determining tested income for the GILTI inclusion. The Company is evaluating a number of tax planning strategies to help mitigate the impact of the GILTI provisions including its intent and ability to restructure its operations. See Note 19, "Income Taxes."

Change in fair value of life settlements (in thousands)

	Three Months Ended June 30,				
	2018	2017	Change	% Change	
Change in fair value of life settlements	\$ 5,475	\$ 3,382	\$ 2,093	62%	increase

During the quarter ended June 30, 2018, seven life insurance policies with face amounts totaling \$26.2 million matured compared to three policies with face amounts of \$5.2 million for the same period in 2017. The net gain of these maturities was \$10.8 million and \$2.7 million and is recorded as a change in fair value of life settlements in the consolidated statements of operations for the quarters ended June 30, 2018 and 2017, respectively. Of the maturities during the quarter ended June 30, 2018, all served as collateral under the White Eagle Revolving Credit Facility. Proceeds from maturities totaling \$12.7 million were received during the quarter ended June 30, 2018 and await distribution through the waterfall subsequent to the quarter end. Approximately \$23.6 million in policy proceeds collected in prior quarter were utilized to repay interest and credit facility expenses under the White Eagle Revolving Credit Facility during the quarter ended June 30, 2018. The Company recorded a \$48.0 million receivable for maturity of life settlements at June 30, 2018 relating to policies pledged under the White Eagle Revolving Credit Facility.

Other items impacting the change in fair value include updated life expectancies procured by the Company in respect to the insureds' lives and maturities. The updated life expectancy reports implied that in aggregate, the insureds' health improved, therefore, lengthening their life expectancies relative to the prior life expectancies.

The Company re-evaluates its discount rates at the end of each reporting period in order to reflect the estimated discount rates that could reasonably be used in a market transaction involving the Company's portfolio of life settlements. In doing so, consideration is given to the various factors influencing the rates, including risk tolerance, market activity, credit exposure of the insurance company that issued the life insurance policy, and the estimated risk premium an investor in the policy would require, among other factors. In considering these factors, at June 30, 2018, the Company determined that the weighted average discount rate calculated based on death benefit was 15.93%, compared to 15.95% at December 31, 2017, which is lower than the rate at June 30, 2017 of 16.39%.

As of June 30, 2018, we owned 596 policies with an estimated fair value of \$569.4 million compared to 608 policies with an estimated fair value of \$567.5 million at December 31, 2017, an increase in estimated fair value of \$1.9 million. Of the 596 policies, 594 policies were pledged pursuant to the White Eagle Revolving Credit Facility. There were no policy acquisitions during the three months ended June 30, 2018 and June 30, 2017. As of June 30, 2018, the aggregate death benefit of our life settlements was approximately \$2.8 billion.

Of these 596 policies owned as of June 30, 2018, 520 were previously premium financed and are valued using discount rates that range from 15.50% – 21.50%. The remaining 76 policies are valued using discount rates that range from 11.50% – 17.50%.

See Note 15, "Fair Value Measurements," to the accompanying consolidated financial statements for further information.

Expenses (in thousands)

	Three Months Ended June 30,				
	2018	2017	Change	% Change	
Interest expense	\$ 7,797	\$ 8,163	\$ (366)	(4)%	decrease
Change in fair value of White Eagle Revolving Credit Facility	12	(1,785)	1,797	(101)%	increase
SG&A expenses	4,237	3,557	680	19 %	increase
Total Expense	\$ 12,046	\$ 9,935	\$ 2,111	21 %	increase

Interest expense (in thousands)

	Three Months Ended June 30,				
	2018	2017	Change	% Change	
White Eagle Revolving Credit Facility	\$ 5,685	\$ 4,282	\$ 1,403	33 %	increase
8.5% Convertible Notes	46	2,636	(2,590)	(98)%	decrease
5% Convertible Notes	1,241	—	1,241	100 %	increase
15.0% Senior Secured Notes	—	1,232	(1,232)	(100)%	decrease
8.5% Senior Secured Notes	818	—	818	100 %	increase
15.0% Promissory Note	—	11	(11)	100 %	decrease
Other	7	2	5	250 %	increase
Total Interest Expense	\$ 7,797	\$ 8,163	\$ (366)	(4)%	decrease

Outstanding debt for the quarter ended June 30, 2018 included \$355.6 million of outstanding principal on the White Eagle Revolving Credit Facility, \$1.2 million of 8.5% Convertible Notes, \$75.8 million of 5% Convertible Notes and \$35.0 million of 8.5% Senior Secured Notes.

The Company's outstanding debt increased by \$62.4 million from \$405.2 million at June 30, 2017 to \$467.6 million at June 30, 2018. The increase is mainly attributable to a net increase in principal of \$56.4 million on the White Eagle Revolving Credit Facility, a \$75.8 million increase in the 5% Convertible Notes, a \$73.0 million decrease in the 8.5% Convertible Notes, a \$35.0 million increase in the 8.5% Senior Secured Notes, and a repayment of \$30.0 million decrease on the 15.0% Senior Secured Notes.

The White Eagle Revolving Credit Facility interest expense shows an increase of approximately \$1.4 million which is attributable to additional draws under the facility as well as an increase in the interest rate at December 31, 2017. Based on the White Eagle Revolving Credit Facility loan agreement, the LIBOR portion of the interest rate will re-adjust annually once the floor has exceeded 1.5%. The applicable rate will be dependent on the rate on the last business day of the preceding calendar year. At June 30, 2018, the applicable LIBOR rate was 2.11%.

The Company recorded \$46,000 of interest expense on the 8.5% Convertible Notes, including \$25,000, \$18,000 and \$3,000 from interest, amortizing debt discounts and origination costs, respectively, during the three months ended June 30, 2018.

The Company recorded approximately \$2.6 million of interest expense on the 8.5% Convertible Notes, including \$1.6 million, \$922,000 and \$137,000 from interest and amortizing debt discounts and origination costs, respectively, during the three months ended June 30, 2017.

The Company recorded \$1.2 million of interest expense on the 5% Convertible Notes, including \$948,000, \$255,000 and \$38,000 from interest, amortization of debt discount and origination costs, during the three months ended June 30, 2018.

respectively. The 5% Convertible Notes were originated after June 30, 2017 and therefore, there was no related interest expense during the three months ended June 30, 2017.

The Company recorded approximately \$1.2 million of interest expense on the 15.0% Senior Secured Notes during the three months ended June 30, 2017, which included \$1.1 million of interest and \$95,000 of amortizing debt issuance costs, respectively. The debt was fully repaid during the year ended December 31, 2017.

The Company recorded approximately \$818,000 of interest expense on the 8.5% Senior Secured Notes, during the three months ended June 30, 2018 which includes \$752,000 of interest and \$66,000 of amortizing debt issuance costs, respectively. The 8.5% Senior Secured Notes originated after March 31, 2017 and therefore, there was no related interest expense during the three months ended June 30, 2017.

See Notes 9, "White Eagle Revolving Credit Facility," 10, "8.50% Senior Unsecured Convertible Notes," 11, "5.0% Senior Unsecured Convertible Notes," 12, "15.0% Senior Secured Notes," and 13 "8.5% Senior Secured Notes," to the accompanying consolidated financial statements for further information.

Change in fair value of Revolving Credit Facility (in thousands)

	Three Months Ended June 30,				
	2018	2017	Change	% Change	
White Eagle Revolving Credit Facility	\$ 12	\$ (1,785)	\$ 1,797	(101)%	increase
Total Change in Fair Value of Revolving Credit Facility	\$ 12	\$ (1,785)	\$ 1,797	(101)%	increase

At June 30, 2018, the White Eagle Revolving Credit Facility incurred a loss of approximately \$12,000 compared to a gain of \$1.8 million for the same period in 2017. The loss in 2018 and gain 2017 are attributable to a combination of offsetting factors as discussed below.

During the three months ended June 30, 2018, the fair value of the White Eagle Revolving Credit Facility was impacted by increased borrowings, the lengthening of life expectancies of certain insureds' underlying policies pledged under the White Eagle Revolving Credit Facility and a slight increase in the discount rate used to value the facility.

During the three months ended June 30, 2017, the fair value was also impacted by increased borrowings and the lengthening of life expectancy estimates for the policies pledged under the White Eagle Revolving Credit Facility, which was offset by a slight decrease in the discount rates.

The White Eagle Revolving Credit Facility is valued at June 30, 2018 using a discount rate of 19.07% compared to 18.31% for the three months ended June 30, 2017.

See Note 15, "Fair Value Measurements," to the accompanying consolidated financial statements for further information.

Selling, general, and administrative expenses (in thousands)

	Three Months Ended June 30,				
	2018	2017	Change	% Change	
Personnel costs	\$ 939	\$ 1,049	\$ (110)	(10)%	decrease
Legal fees	910	657	253	39 %	increase
Professional fees	1,660	1,204	456	38 %	increase
Insurance	199	198	1	1 %	increase
Other SG&A expenses	529	449	80	18 %	increase
Total SG&A Expenses	\$ 4,237	\$ 3,557	\$ 680	19 %	increase

The increase in operating expenses was primarily a result of an increase in legal expense of \$253,000, an increase in professional fees of \$456,000, an increase in other operating expenses of \$80,000, offset by a decrease in personnel costs of \$110,000.

Results of Discontinued Operations

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

	Three Months Ended June 30,				
	2018	2017	Change	% Change	
Total income	\$ —	\$ 30	\$ (30)	(100)%	decrease
Total expenses	4	65	(61)	(94)%	decrease
Income (loss) before income taxes	(4)	(35)	31	(89)%	decrease
Net income (loss), net of income taxes	\$ (4)	\$ (35)	\$ 31	(89)%	decrease

Net loss from our discontinued structured settlement operations for the quarter ended June 30, 2018 was \$4,000 compared to a net loss of \$35,000 for the same quarter in 2017. Total income from our discontinued structured settlement operations was \$0 and \$30,000 for the quarters ended June 30, 2018 and 2017, respectively.

Total expenses from our discontinued structured settlement operations were \$4,000 for the quarter ended June 30, 2018 compared to \$65,000 during the same period in 2017.

Results of Continuing Operations

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Net loss from continued operations for the six months ended June 30, 2018 was \$13.6 million compared to \$4.6 million for the same period last year. The following is our analysis for the period.

	Six Months Ended June 30,				
	2018	2017	Change	% Change	
Income	\$ 11,154	\$ 29,051	\$ (17,897)	(62)%	decrease
Expenses	21,632	33,639	(12,007)	(36)%	decrease
Provision for income taxes	(3,120)	—	(3,120)	100%	increase
Net income/(loss)	\$ (13,598)	\$ (4,588)	\$ (9,010)	196 %	increase

Income for the six months ended June 30, 2018 was comprised mainly of a gain on maturity of twelve life settlements of \$28.0 million compared to a net gain of \$19.0 million on maturity of seven life settlements during the same period in 2017. Income for the six months ended June 30, 2018 was negatively impacted by updated life expectancies procured by the Company in respect to the insureds' lives and maturities.

Total expenses from continuing operations for the six months ended June 30, 2018 were mainly comprised of interest expense on the White Eagle Revolving Credit Facility of \$10.9 million; \$92,000 on the 8.5% Convertible Notes; \$2.5 million on the 5% Convertible Notes; and \$1.6 million on the 8.5% Senior Secured Notes offset by a change in the fair value of the White Eagle Revolving Credit Facility of \$2.4 million.

Our loss for the six months ended June 30, 2018 was impacted by an estimated tax expense of approximately \$3.1 million. This amount is principally due to expected income inclusions under the GILTI tax regime, limitations imposed on the use of historical NOLs, and interest expense limitations under IRC Sec. 264(a)(4) that are expected to apply when determining tested income for the GILTI inclusion. The Company is however, evaluating a number of tax planning strategies to help mitigate the impact of the GILTI provisions including its intent and ability to restructure its operations. See Note 19, "Income Taxes."

Change in fair value of life settlements (in thousands)

	Six Months Ended June 30,				
	2018	2017	Change	% Change	
Change in fair value of life settlements	\$ 10,920	\$ 28,922	\$ (18,002)	(62)%	decrease

During the six months ended June 30, 2018, twelve life insurance policies with face amounts totaling \$53.9 million matured compared to seven policies with face amounts totaling \$43.1 million for the same period in 2017. The net gain of these maturities was \$28.0 million and \$19.0 million for 2018 and 2017, respectively, and is recorded as a change in fair value of life settlements in the consolidated statements of operations for the six months ended June 30, 2018 and 2017. All twelve of the maturities served as collateral under the White Eagle Revolving Credit Facility. Proceeds from maturities totaling \$36.0 million were received during the six months ended June 30, 2018. Of this amount, approximately \$31.4 million inclusive of approximately \$7.8 million collected during the year ended December 31, 2017 was utilized to repay borrowings, interest and credit facility expenses under the White Eagle Revolving Credit Facility. The Company also recorded a \$48.0 million receivable for maturity of life settlements at June 30, 2018.

Other items impacting the change in fair value include updated life expectancies procured by the Company in respect to the insureds' lives and maturities. The updated life expectancy reports implied that in aggregate, the insureds' health decreased, therefore lengthening their life expectancies relative to the prior life expectancies, which resulted in a decrease in fair value.

The Company re-evaluates its discount rates at the end of each reporting period in order to reflect the estimated discount rates that could reasonably be used in a market transaction involving the Company's portfolio of life settlements. In doing so, consideration is given to the various factors influencing the rates, including risk tolerance, market activity, credit exposure of the insurance company that issued the life insurance policy, and the estimated risk premium an investor in the policy would require, among other factors. At June 30, 2018, the Company determined that the weighted average discount rate calculated based on death benefit was 15.93%, compared to 15.95% at December 31, 2017, which is lower than the rate at June 30, 2017 of 16.39%.

As of June 30, 2018, we owned 596 policies with an estimated fair value of \$569.4 million compared to 608 policies with a fair value of \$567.5 million at December 31, 2017, an increase of \$1.9 million. Of the 596 policies, 594 policies were pledged to the White Eagle Revolving Credit Facility. As of June 30, 2018 the aggregate death benefit of our life settlements was approximately \$2.8 billion.

Of the 596 policies owned as of June 30, 2018, 520 were previously premium financed and are valued using discount rates that range from 15.50% to 21.50%. The remaining 76 policies are valued using discount rates that range from 11.50% to 17.50%.

See Note 15, Fair Value Measurements," to the accompanying consolidated financial statements for further information.

Expenses (in thousands)

	Six Months Ended June 30,				
	2018	2017	Change	% Change	
Interest expense	\$ 15,401	\$ 15,698	\$ (297)	(2)%	decrease
Change in fair value of Revolving Credit Facilities	(2,377)	10,046	(12,423)	(124)%	increase
SG&A expenses	8,608	7,895	713	9 %	increase
Total Expense	\$ 21,632	\$ 33,639	\$ (12,007)	(36)%	decrease

Interest expense (in thousands)

	Six Months Ended June 30,				
	2018	2017	Change	% Change	
White Eagle Revolving Credit Facility	\$ 10,872	\$ 7,476	\$ 3,396	45 %	increase
8.5% Convertible Notes	92	5,760	(5,668)	(98)%	decrease
5% Convertible Notes	2,464	—	2,464	100 %	increase
15.0% Senior Secured Notes	—	2,447	(2,447)	(100)%	decrease
8.5% Senior Secured Notes	1,625	—	1,625	100 %	increase
15.0% Promissory Note	—	11	(11)	(100)%	decrease
Participation Interest - White Eagle Revolving Credit Facility	340	—	340	100 %	increase
Other	8	4	4	100 %	increase
Total Interest Expense	\$ 15,401	\$ 15,698	\$ (297)	(2)%	decrease

Outstanding debt for the six months ended June 30, 2018 included \$355.6 million of outstanding principal on the White Eagle Revolving Credit Facility, \$1.2 million of 8.5% Convertible Notes, \$75.8 million of 5% Convertible Notes and \$35.0 million of 8.5% Senior Secured Notes.

The Company's outstanding debt increased by \$62.4 million from \$405.2 million at June 30, 2017 to \$467.6 million at June 30, 2018. The increase is attributable to a net increase in principal of \$56.4 million on the White Eagle Revolving Credit Facility, a \$75.8 million increase in the 5% Convertible Notes, a \$35.0 million increase in the 8.5% Senior Secured Notes, offset by a repayment of \$30.0 million on the 15.0% Senior Secured Notes and a \$73.0 million decrease in the 8.5% Convertible Notes.

Of the interest expense of \$15.4 million for the six months ended June 30, 2018, approximately \$10.9 million represents interest paid on the White Eagle Revolving Credit Facility. The increase in interest expense resulted from an increase in the principal balance of the facility and an increase in the LIBOR floor from 1.69% to 2.11% at June 30, 2018.

Interest expense on the 8.5% Convertible Notes totaled \$92,000, including \$51,000, \$36,000 and \$5,000 from interest, amortizing debt discounts and origination costs, respectively during the six months ended June 30, 2018.

The Company recorded \$2.5 million of interest expense on the 5% Convertible Notes, including \$1.9 million, \$495,000 and \$73,000 from interest, amortization of debt discount and origination costs, during the six months ended June 30, 2018, respectively. The 5% Convertible Notes originated in 2017 and therefore, there was no related interest expense during the six months ended June 30, 2017.

The Company recorded approximately \$1.6 million of interest expense on the 8.5% Senior Secured Notes, during the six months ended June 30, 2018 which includes \$1.5 million of interest and \$129,000 of amortizing debt issuance costs, respectively. The 8.5% Senior Secured Notes originated in 2017 and therefore, there was no related interest expense during the six months ended June 30, 2017.

Of the interest expense of \$15.7 million for the six months ended June 30, 2017, approximately \$7.5 million of interest expense was attributable to the White Eagle Revolving Credit Facility. The increase in interest expense resulted from an increase in the principal balance of the facility and an increase in the LIBOR floor from 1.5% to 1.69% at June 30, 2017.

Interest expense on the 8.5% Convertible Notes totaled \$5.8 million, including \$3.7 million, \$1.8 million and \$264,000 representing interest, amortization of debt discount and issuance costs, respectively during six months ended June 30, 2017.

We recorded \$2.4 million of interest expense on the 15.0% Senior Secured Notes, including \$2.3 million, and \$184,000, from interest and amortizing debt issuance costs, respectively, during the six months ended June 30, 2017.

See Notes 9, "White Eagle Revolving Credit Facility," 10, "8.50% Senior Unsecured Convertible Notes," 11, "5% Senior Unsecured Convertible Notes," 12, "15.0% Senior Secured Notes," 13, "8.5% Senior Secured Notes," and 14, "15.0% Promissory Note," to the accompanying consolidated financial statements for further information.

Change in fair value of Revolving Credit Facilities (in thousands)

	Six Months Ended June 30,				
	2018	2017	Change	% Change	
White Eagle Revolving Credit Facility	\$ (2,377)	\$ 10,046	\$ (12,423)	(124)%	decrease
Total Change in Fair Value of Revolving Credit Facility	\$ (2,377)	\$ 10,046	\$ (12,423)	(124)%	decrease

During the six months ended June 30, 2018, the White Eagle Revolving Credit Facility incurred a gain of approximately \$2.4 million compared to a loss of \$10.0 million for the same period in 2017. The gain in 2018 and loss 2017 are attributable to a combination of offsetting factors as discussed below.

During the six months ended June 30, 2018, the fair value of the White Eagle Revolving Credit Facility was impacted by increased borrowings, the lengthening of life expectancies of certain insureds' underlying policies pledged under the White Eagle Revolving Credit Facility, and a slight increase in the discount rate used to value the facility.

During the six months ended June 30, 2017, the fair value was also impacted by increased borrowings, offset by the shortening of life expectancy estimates for the policies pledged under the White Eagle Revolving Credit Facility, and a decrease in the discount rate.

See Note 15, "Fair Value Measurements," to the accompanying consolidated financial statements for further information.

Selling, general, and administrative expenses (in thousands)

	Six Months Ended June 30,				
	2018	2017	Change	% Change	
Personnel costs	\$ 1,706	\$ 2,133	\$ (427)	(20)%	decrease
Legal fees	2,633	1,652	981	59 %	increase
Professional fees	2,899	2,807	92	3 %	increase
Insurance	396	390	6	2 %	increase
Other SG&A	974	913	61	7 %	increase
Total SG&A Expenses	\$ 8,608	\$ 7,895	\$ 713	9 %	increase

The increase in SG&A expenses was primarily a result of an increase in legal expense of \$981,000, an increase in professional fees of \$92,000, offset by a decrease in personnel cost of \$427,000.

Results of Discontinued Operations

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

	Six Months Ended June 30,				
	2018	2017	Change	% Change	
Total income (loss)	\$ 17	\$ 33	\$ (16)	(48)%	decrease
Total expenses	22	258	(236)	(91)%	decrease
Income (loss) before income taxes	(5)	(225)	220	(98)%	decrease
Income tax benefit	—	—	—	—%	
Net income (loss), net of income taxes	\$ (5)	\$ (225)	\$ 220	(98)%	decrease

Net loss from our discontinued structured settlement operations for the six months ended June 30, 2018 was \$5,000 as compared to a net loss of \$225,000 for the same period in 2017. Total income from our discontinued structured settlement operations was \$17,000 compared to \$33,000 for the six months ended June 30, 2018 and 2017, respectively.

Total expenses from our discontinued structured settlement operations were \$22,000 for the six months ended June 30, 2018 compared to \$258,000 incurred during the same period in 2017.

Liquidity and Capital Resources

Our consolidated financial statements have been prepared assuming the realization of assets and the satisfaction of liabilities in the normal course of business, as well as continued compliance with the covenants contained in the White Eagle Revolving Credit Facility, the indentures governing our 8.5% Convertible Notes, 5% Convertible Notes, 8.5% Senior Secured Notes and other financing arrangements.

At June 30, 2018, we had approximately \$26.3 million of cash and cash equivalents and certificates of deposit of \$1.0 million. Of this amount, approximately \$8.3 million was available to pay premiums on two policies that have not been pledged as collateral under the White Eagle Revolving Credit Facility and for other overhead expenses, with approximately \$17.9 million restricted to the White Eagle Revolving Credit Facility. We expect to meet our liquidity needs for the foreseeable future, to the extent we are able to do so, primarily through a combination of the receipt of death benefits from life insurance policy maturities, borrowings under the White Eagle Revolving Credit Facility, policy sales (subject to the asset sale restrictions in our debt arrangements) and cash on hand and board member capital commitments (see discussion on liquidity below).

For the six months ended June 30, 2018, we paid \$44.9 million in premiums to maintain our policies in force. Of this amount, approximately \$44.8 million was paid by White Eagle through its borrowings. While the liquidity risk associated with the policies that have been pledged as collateral under the White Eagle Revolving Credit Facility has been mitigated, any distributions from available proceeds under the White Eagle Revolving Credit Facility will vary based on the respective, then current loan to value ratio. Accordingly, there can be no assurance as to when the proceeds from maturities of the policies pledged as collateral under the White Eagle Revolving Credit Facility will be distributed to the Company. Additionally, White Eagle cannot borrow under the facility to pay interest. To the extent there are insufficient collections from policy proceeds to cover these amounts, these required payments will stress our available cash. Assuming no policy maturities, as of June 30, 2018, we expect to pay \$80,000 in premiums during the remainder of 2018 on the two policies that have not been pledged under the White Eagle Revolving Credit Facility. As of June 30, 2018, the cash interest coverage ratio was 3.93:1 and the loan to value ratio was 66%, as calculated using the lenders' valuation. It should be noted that although the Company met the required cash interest coverage ratio at quarter end, the loan to value threshold was not met at the end of the quarter, and as a result, the Company will not participate in any cash flow sweep subsequent to the quarter end.

At June 30, 2018, we had \$75.8 million, \$35 million and \$1.2 million and in aggregate principal amount of outstanding 5% Convertible Notes, 8.5% Senior Secured Notes and 8.5% Convertible Notes, which accrue interest at 5.0%, 8.5%, and 8.5%, respectively. Interest on the 5.0% Convertible Notes and the 8.5% Convertible Notes are due semi-annually while interest on the 8.5% Senior Secured Notes is due quarterly.

Liquidity

The Company's ability to continue as a going concern is dependent on its ability to meet its liquidity needs through a combination of the receipt of death benefits from life insurance policy maturities, board member affiliate capital commitments, borrowings under the White Eagle Revolving Credit Facility, strategic capital market raises, pledged policy sales (subject to certain asset sale restrictions) and cash on hand.

As of the filing date of this Form 10-Q, the outstanding principal on the White Eagle Revolving Credit Facility was approximately \$365.9 million, with approximately \$4.1 million undrawn and \$12.1 million received in maturity proceeds awaiting distribution through the waterfall to repay principal and interest. The maximum lender's commitment for the facility is \$370.0 million. White Eagle's current cash flow forecast indicates a probability that it may reach the limit on its ability to make additional borrowings by the end of December 2018, assuming no further collection of receivables. The timing could be later if it receive any maturity proceeds. White Eagle is currently in negotiations with the lender to increase the facility limit, although no assurance can be given that White Eagle will be successful and the limit will be increased sufficiently. Based on the terms of the White Eagle Revolving Credit Facility, if the making of any advance by the lender would cause the aggregate principal amount of all advances outstanding to exceed the borrowing base, White Eagle can sell policies in an amount sufficient to pay scheduled premiums subject to the lender's approval. The proceeds of any such sale would be distributed through the waterfall, and by virtue of the sale, White Eagle would no longer have to pay premiums on the sold policies. White Eagle is in the process of compiling a list of pledged policies to be presented to the lender for approval for sale. The White Eagle Revolving Credit Facility also allows the lender to make protective advances on pledged policies other than those being contemplated for sale. Any such protective advances made by the lender would be reimbursed to the lender through the waterfall and receives priority over interest payments. In addition, Emergent may make an equity infusion to White Eagle to pay the lender.

Distributions to the Company from available proceeds through the waterfall under the White Eagle Revolving Credit Facility will vary based on the respective, then current loan to value ratio. Our current cash flow forecast indicates a probability the Company will not participate in the waterfall distributions until July 2019.

As of filing date of this Form 10-Q, we had approximately \$28.4 million of cash and cash equivalents and certificates of deposit of \$1.0 million, of this amount, approximately \$6.3 million is available for normal operations, with approximately \$22.1 million being restricted by the White Eagle Revolving Credit Facility. In considering our cash, borrowings under the White Eagle Revolving Credit Facility subject to a sufficient increase in the facility limit and board member affiliate capital commitments, together with the Company's potential internal restructuring for tax-related purposes (see Note 19, "Income Taxes" of the accompanying consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Income Taxes"), we estimate that our liquidity and capital resources will be sufficient for the next twelve months from the date of filing this Form 10-Q.

Subsequent Event

Commitment Letters

On August 20, 2018, the Company received commitment letters from Evermore Global Advisors, LLC and River City Capital, LLC, entities affiliated with certain members of the board of directors, for an aggregate investment of \$10.0 million under certain circumstances through August 20, 2019. In addition, PJC Investments, LLC, an entity affiliated with our CEO that has previously provided such a letter with respect to \$2.0 million, provided a new letter committing for the same amount through August 20, 2019.

Financing Arrangements Summary

White Eagle Revolving Credit Facility

White Eagle is the borrower under a \$370.0 million revolving credit facility, with Imperial Finance and Trading, LLC, as the initial servicer, the initial portfolio manager and guarantor, Lamington Road Bermuda Ltd., as portfolio manager, LNV Corporation, as initial lender, the other financial institutions party thereto as lenders, and CLMG Corp., as administrative agent for the lenders.

Borrowing availability under the White Eagle Revolving Credit Facility is subject to a borrowing base, which, among other items, is capped at 75% of the valuation of the policies pledged as collateral. This loan to value calculation is determined by the lenders with a high degree of discretion. At June 30, 2018, \$14.4 million was undrawn and \$6.0 million was available to

borrow under the White Eagle Revolving Credit Facility. For a discussion of the calculation of the facility's borrowing base availability, see Note 9, "White Eagle Revolving Credit Facility—Borrowing Base & Availability" of the accompanying consolidated financial statements for further information.

At June 30, 2018, the fair value of the debt under the White Eagle Revolving Credit Facility was \$353.4 million, the borrowing base was approximately \$361.5 million, including \$355.6 million in outstanding principal. Interest calculated as LIBOR (subject to a floor of 1.5%) plus an applicable margin of 4.5% is due quarterly. Interest totaling \$11.2 million inclusive of approximately \$340,000 in participation interest was paid during the six months ended June 30, 2018 from policy proceeds. There are no scheduled repayments of principal prior to maturity although payments are due upon receipt of death benefits and distributed pursuant to the waterfall. At June 30, 2018, approximately \$12.8 million included in cash and cash equivalents -VIE was on account with White Eagle for distribution through the waterfall.

Based on the loan agreement, the LIBOR portion of the interest rate will re-adjust annually once the floor has exceeded 1.5%. The applicable rate will be dependent on the rate at the last business day of the preceding calendar year. Future increase in LIBOR could have a material adverse effect on the Company's financial position and results of operations. At June 30, 2018, LIBOR was 2.11%.

8.50% Senior Unsecured Convertible Notes

At June 30, 2018, there was \$1.2 million in aggregate principal amount of the Company's 8.50% Senior Unsecured Convertible Notes due 2019 outstanding (the "Convertible Notes"). For a description of the Convertible Notes see Note 10, "8.50% Senior Unsecured Convertible Notes," of the accompanying consolidated financial statements for further information.

5.0% Senior Unsecured Convertible Notes

At June 30, 2018, there was \$75.8 million in aggregate principal amount of the Company's 5.0% Senior Unsecured Convertible Notes due 2023 outstanding (the "New Convertible Notes" or "5% Convertible Notes"). For a description of the New Convertible Notes see Note 11, "5.0% Senior Unsecured Convertible Notes," of the accompanying consolidated financial statements for further information.

8.5% Senior Secured Notes

At June 30, 2018, there was \$35.0 million in aggregate principal amount of the Company's 8.5% Senior Secured Notes due 2021 outstanding (the "8.5% Senior Secured Notes"). For a description of the 8.5% Senior Secured Notes see Note 13, "8.5% Senior Secured Notes," of the accompanying consolidated financial statements for further information.

Cash Flows

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for the six months ended June 30, 2018 and 2017 (in thousands):

	Six Months Ended June 30,	
	2018	2017
Statement of Cash Flows Data:		
Total cash (used in) provided by:		
Operating activities	\$ (22,193)	\$ (16,995)
Investing activities	(8,851)	(10,835)
Financing activities	26,040	39,177
Increase (decrease) in cash and cash equivalents	\$ (5,004)	\$ 11,347

Operating Activities

During the six months ended June 30, 2018, operating activities used cash of \$22.2 million. Our net loss of \$13.6 million was adjusted for the following: change in fair value of life settlement gain of \$10.9 million that is mainly attributable to maturities of 12 policies; change in fair value of the White Eagle Revolving Credit Facility gain of \$2.4 million that is mainly attributable to increased borrowings, increase in life expectancies of certain insureds underlying policies pledged as collateral in the facility and a slight increase in the discount rate; and a net positive change in the components of operating assets and liabilities of \$3.3 million. This \$3.3 million change in operating assets and liabilities is partially attributable to a \$3.1 million increase in current tax liability, a \$684,000 increase in accounts payable and accrued expenses, a \$291,000 increase in prepaid and other assets and a \$221,000 decrease in other liabilities.

During the six months ended June 30, 2017, operating activities used cash of \$17.0 million. Our net loss of \$4.8 million was adjusted for the following: amortization of discount and deferred cost for the 8.5% Convertible Notes of \$2.0 million, change in fair value of life settlement gain of \$28.9 million that is mainly attributable to maturities of seven policies; change in fair value of the White Eagle Revolving Credit Facility loss of \$10.0 million that is mainly attributable to increased borrowings offset by the shortening of life expectancies of certain insureds underlying policies pledged as collateral in the facility and a slight decrease in the discount rate; interest paid in kind on the 8.5% Convertible Notes of \$3.5 million; and a net positive change in the components of operating assets and liabilities of \$241,000. This \$241,000 change in operating assets and liabilities is partially attributable to a \$111,000 increase in interest payable for the 8.5% Convertible Notes, a \$3.5 million increase in prepaid and other assets, and a \$3.7 million increase in accounts payable and accrued expenses.

Investing Activities

Net cash provided by investing activities for the six months ended June 30, 2018 was \$8.9 million and includes proceeds of \$36.0 million from the maturity of life settlements, offset by \$44.9 million for premiums paid on life settlements.

Net cash used in investing activities for the six months ended June 30, 2017 was \$10.8 million and includes proceeds of \$26.2 million from the maturity of life settlements and redemption proceeds of \$5.0 million from certificates of deposit. This was offset by \$42.0 million for premiums paid on life settlements.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2018 was \$26.0 million and includes \$45.6 million of borrowings from the White Eagle Revolving Credit Facility, offset by \$19.5 million in repayment of borrowings under the White Eagle Revolving Credit Facility.

Net cash provided by financing activities for the six months ended June 30, 2017 was \$39.2 million and includes \$43.0 million of borrowings from the White Eagle Revolving Credit Facility and \$1.9 million of borrowings from the Amended and Restated Bridge Notes. These were offset by \$5.7 million in repayment under the White Eagle Revolving Credit Facility.

Inflation

Our assets and liabilities are, and will be in the future, interest-rate sensitive in nature. As a result, interest rates may influence our performance far more than inflation. Changes in interest rates do not necessarily correlate with inflation or changes in inflation rates. We do not believe that inflation had any material impact on our results of operations in the periods presented in our financial statements presented in this report.

Off-Balance Sheet Arrangements

At June 30, 2018, there were no off-balance sheet arrangements between us and any other entity that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to shareholders.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk are credit risk, interest rate risk and foreign currency risk. As of June 30, 2018, we did not hold a material amount of financial instruments for trading purposes.

Credit Risk

Credit risk consists primarily of the potential loss arising from adverse changes in the financial condition of the issuers of the life insurance policies that we own. Although we may purchase life settlements from carriers rated below investment grade, to limit our credit risk, we generally only purchase life settlements from companies that are investment grade.

The following table provides information about the life insurance issuer concentrations that exceed 10% of total death benefit and 10% of total fair value of our life settlements as of June 30, 2018:

Carrier	Percentage of Total Fair Value	Percentage of Total Death Benefit	Moody's Rating	S&P Rating
Transamerica Life Insurance Company	18.5%	21.1%	A1	AA-
Lincoln National Life Insurance Company	23.4%	19.8%	A1	AA-

Interest Rate Risk

At June 30, 2018, fluctuations in interest rates did not impact interest expense in the life finance business. The White Eagle Revolving Credit Facility accrues interest at LIBOR plus an applicable margin. LIBOR is subject to a floor of 1.5%.

Based on the White Eagle Revolving Credit Facility loan agreement, the LIBOR portion of the interest rate will re-adjust annually once the floor has exceeded 1.5%. The applicable rate will be dependent on the rate at the last business day of the preceding calendar year. At June 30, 2018, the applicable LIBOR rate was 2.11%.

Future increases in LIBOR could have a material adverse effect on the Company's financial position and results of operations. Increases in LIBOR above the floor provided in the White Eagle Revolving Credit Facility will also affect the calculation of the fair value of the debt under the White Eagle Revolving Credit Facility. Additional increases in interest rates may impact the rates at which we are able to obtain financing in the future.

We earn income on the changes in fair value of the life insurance policies we own. However, if the fair value of the life insurance policies we own decreases, we record this reduction as a loss.

As of June 30, 2018, we owned life settlements with a fair value of \$569.4 million. A rise in interest rates could potentially have an adverse impact on the sale price if we were to sell some or all of these assets, which could also decrease the borrowing base available to White Eagle under the applicable White Eagle Revolving Credit Facility. There are several factors that affect the market value of life settlements, including the age and health of the insured, investors' demand, available liquidity in the marketplace, duration and longevity of the policy, and interest rates. We currently do not view the risk of a decline in the sale price of life settlements due to normal changes in interest rates as a material risk.

Foreign Currency Exchange Rate Risk

Changes in the exchange rate between transactions denominated in a currency other than our foreign subsidiaries' functional currency are immaterial to our operating results. Exposure to foreign currency exchange rate risk may increase over time as our business evolves.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based on certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. *Litigation*

For a description of developments to legal proceedings during the six months ended June 30, 2018, see "Litigation" under Note 17, "Commitments and Contingencies" to our consolidated financial statements.

Item 1A. *Risk Factors*

In addition to our risk factors disclosed in our Annual Report on Form 10-K filed for the year ended December 31, 2017, investors should also consider the following additional risk factor.

We may not have sufficient resources to pay the premiums on our policies.

Generally, White Eagle borrows under the White Eagle Revolving Credit Facility to pay premiums on all of the life insurance policies pledged as collateral thereunder, which constitute approximately 99% of our policies. If we do not have sufficient funds available to pay the premiums, we may be forced to obtain such funds by an alternative method, such as increasing the capacity of the White Eagle Revolving Credit Facility, selling some pledged policies in accordance with the terms of the White Eagle Revolving Credit Facility, or otherwise. There can be no assurance that we will be able to achieve such an alternative in time to make timely premium payments or at all.

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

None

Item 3. *Default Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

None.

Item 5. *Other Information*

None

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Exhibit	Filing Date	Filed/ Furnished Herewith	SEC File #
3.1	Amendment No 2 to Bylaws of Emergent Capital, Inc.	8-K	3.1	6/5/2018		001-35064
4.1	First Supplemental Indenture Dated as of January 10, 2018, by and between Emergent Capital, Inc., and Wilmington Trust, National Association, as Indenture Trustee		4.1		*	
10.1	Letter Agreement dated July 10, 2018 by and among Emergent Capital Inc, SB Holdings, Inc. and Sherman, Clay & Co.	8-K	10.1	7/16/2018		001-35064
10.2	2010 Omnibus Incentive Plan Form Stock Appreciation Rights Award Agreement.		10.2		*	
10.3	Commitment Letter from PJC Investments, LLC dated August 20, 2018.		10.3		*	
10.4	Commitment Letter from River City Capital, LLC dated August 20, 2018.		10.4		*	
10.5	Commitment Letter from Evermore Global Advisor, LLC dated August 20, 2018.		10.5		*	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				*	
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				*	
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				**	
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				**	
101	Interactive Data Files				*	
101.INS	XBRL Instance Document				*	
101.SCH	XBRL Taxonomy Extension Schema Document				*	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				*	
101.DEF	XBRL Taxonomy Definition Linkbase Document				*	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document 10.1 & 10.2				*	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				*	

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

/s/ Miriam Martinez

Miriam Martinez

Date August 20, 2018

Emergent Capital, Inc.

Chief Financial Officer

(Principal Financial Officer)

EMERGENT CAPITAL, INC., as
Issuer and
WILMINGTON TRUST, NATIONAL ASSOCIATION, as
Indenture Trustee
First Supplemental Indenture
Dated as of January 10, 2018
to
Amended and Restated Indenture
Dated as of July 28, 2017

FIRST SUPPLEMENTAL INDENTURE, dated as of January 10, 2018 (the "First Supplemental Indenture"), between EMERGENT CAPITAL, INC., a corporation duly organized and existing under the laws of the State of Florida (herein called the "Issuer"), having its principal office at 5355 Town Center Road, Suite 701, Boca Raton, Florida 33486, and WILMINGTON TRUST, NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America, as Indenture Trustee (solely in such capacity, the "Indenture Trustee").

RECITALS OF THE ISSUER

The Issuer and the Indenture Trustee are parties to that certain Amended and Restated Indenture dated as of July 28, 2017 (the "Indenture"), providing for the issuance of the Issuer's 8.5% senior secured notes due July 15, 2021.

Section 8.02(a) of the Indenture provides that, with the written consent of each affected Holder, the Issuer and the Indenture Trustee may enter into an indenture supplement to amend certain provisions of the Indenture.

All the conditions and requirements necessary to make this First Supplemental Indenture, when duly executed and delivered, a valid and binding agreement in accordance with its terms and for the purposes herein expressed, have been performed and fulfilled.

NOW, THEREFORE, for and in consideration of the premises, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders, from time to time, of the Notes, as follows:

ARTICLE I

RELATION TO INDENTURE; DEFINITIONS

Section 1.1. Relation to Indenture. This First Supplemental Indenture constitutes an integral part of the Indenture.

Section 1.2. Definitions. For all purposes of this First Supplemental Indenture, except as otherwise expressly provided for or unless the context otherwise requires, capitalized terms used but not defined herein shall have the respective meanings assigned to them in the Indenture; and all references herein to Articles and Sections, unless otherwise specified, refer to the corresponding Articles and Sections of this First Supplemental Indenture.

ARTICLE II

AMENDMENTS

Section 2.1. Definition of Trust Estate. Clauses (ii) and (iii) of the definition of "**Trust Estate**" set forth in the Granting Clause of the Indenture are hereby amended and restated in their entirety as follows:

"(ii) (a) 65% of the issued and outstanding Equity Interests of Red Reef, (b) 65% of the issued and outstanding Equity Interests of OLIPP IV, and (c) the Pledged OLIPP Note (the "**Pledged Collateral**");

(iii) (a) 65% of any dividends and distributions of OLIPP IV and (b) 65% of any dividends and distributions of Red Reef;"

Section 2.2. Deletion of Defined Terms. Section 1.01 of the Indenture is hereby amended by deleting the following defined terms in their entirety: "**Blue Heron**", "**Irish Profit Participating Notes**", "**Irish Share Charge**", "**Non-Pledged Irish Profit Participating Note**", "**Pledged Irish Profit Participating Note**" and "**Pledged Irish Profit Participating Note Assignment**".

Section 2.3. Definition of Change of Control. Clause (vi) of the definition of "**Change of Control**" set forth in Section 1.01 of the Indenture is hereby amended and restated in its entirety as follows:

"(vi) the direct or indirect sale, transfer, conveyance or other disposition of any Equity Interest in any Pledged Subsidiary to a Person that is not an Affiliate of the Issuer."

Section 2.4. Definition of Excluded Property. The definition of "**Excluded Property**" set forth in Section 1.01 of the Indenture is hereby amended and restated in its entirety as follows:

"**Excluded Property**" means:

(a) any distributions from OLIPP IV or Red Reef not derived from the Pledged Collateral; and

(b) any property or assets owned by the Issuer or any of its Affiliates, including rights to any Litigation Proceeds, that, if included as part of the Collateral, would result in a default or event of default under the Credit Facility."

Section 2.5. Definition of Pledge Agreement. The definition of "**Pledge Agreement**" set forth in Section 1.01 of the Indenture is hereby amended and restated in its entirety as follows:

"**Pledge Agreement**" means the pledge and security agreement made by Issuer in favor of Indenture Trustee as secured party, dated as of March 11, 2016 and as reaffirmed as of July 28, 2017, and as further amended by the amendment to pledge and security agreement dated January 10, 2018."

Section 2.6. Definition of Pledged OLIPP Note Section 1.01 of the Indenture is hereby amended by adding the following definition in the appropriate alphabetical order:

“**Pledged OLIPP Note**” means that certain Promissory Note, dated as of December 29, 2016, in the principal sum of \$69,629,940 issued by OLIPP IV to Blue Heron Designated Activity Company and assigned to Issuer, and pledged by Issuer to the Indenture Trustee as part of the Trust Estate for the benefit and security of the Secured Parties.”

Section 2.7. Definition of Pledged Subsidiary. The definition of “**Pledged Subsidiaries**” set forth in Section 1.01 of the Indenture is hereby amended and restated in its entirety as follows:

“**Pledged Subsidiaries**” means Red Reef and OLIPP IV, as more particularly described on Schedule 1.01(B).”

Section 2.8. Definition of Security Documents. The definition of “**Security Documents**” set forth in Section 1.01 of the Indenture is hereby amended and restated in its entirety as follows:

“**Security Documents**” means this Indenture, the Pledge Agreement, the Pledged OLIPP IV Note together with note power annexed thereto, any Account Control Agreement, and any other security agreement of any kind, as amended, supplemented, restated, renewed, refunded, replaced, restructured, repaid, refinanced or otherwise modified from time to time, creating security interests in the Collateral as contemplated by this Indenture.

Section 2.9. Amendment and Restatement of Section 5.05 Section 5.05 of the Indenture is hereby amended and restated in its entirety as follows:

“SECTION 5.05. Control by Specified Percentage of Holders The Required Holders (or such other percentage as expressly provided for herein) may direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee or of exercising any trust or power conferred on the Indenture Trustee. However, the Indenture Trustee may refuse to follow any direction that conflicts with law or this Indenture or that the Indenture Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Indenture Trustee in personal liability. Prior to taking any action under this Indenture, the Indenture Trustee shall be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action. The Holders understand and agree that in fulfilling its role as Indenture Trustee under any Account Control Agreement, the Pledged OLIPP Note and the Pledge Agreement, the Indenture Trustee shall act solely in accordance with the written direction of the Required Holders, except as expressly set forth in Section 5.03 and 5.06(a)(ii). Without limiting the generality of the foregoing, by accepting delivery of a Note or any portion thereof the Holders hereby authorize and direct the Indenture Trustee to execute and deliver the Pledge Agreement, in the form presented to it by the Issuer or its purported counsel or other representative on the date hereof. The delivery to the Indenture Trustee of an Opinion of Counsel as described in Section 4.11 with respect to the Pledged OLIPP Note, any Deposit Account Control Agreement or any Litigation Proceeds Account Control Agreement or as described in Section 4.13 with respect to any New Issuer Deposit Account Control Agreement shall be deemed to be conclusive

authorization by the Holders on which the Indenture Trustee may exclusively rely, and by its receipt of such an Opinion of Counsel the Indenture Trustee shall be fully protected, in executing and delivering each such agreement and any document or instrument contemplated thereby, without any obligation to determine or confirm the advisability or suitability thereof on behalf of the Holders.”

Section 2.10. Amendment and Restatement of Section 6.02(t). Section 6.02(t) of the Indenture is hereby amended by deleting the reference to the phrase “and the Irish Share Charge” therein.

Section 2.11. Schedule 1.01(B). Schedule 1.01(B) of the Indenture is hereby amended and restated in its entirety in the form set forth in Exhibit A attached hereto.

ARTICLE III MISCELLANEOUS PROVISIONS

Section 3.1. Ratification of Indenture. Except as expressly modified or amended hereby, the Indenture continues in full force and effect and is in all respects confirmed and preserved.

Section 3.2. Recitals, etc. The recitals contained herein shall not be taken as the statements of the Indenture Trustee, and the Indenture Trustee does not assume any responsibility for their correctness. The Indenture Trustee does not make any representation as to the validity or sufficiency of this First Supplemental Indenture or any related document or as to the perfection or priority of any security interest herein or therein. The Indenture Trustee shall not be accountable for the use or application by the Issuer of the proceeds from the Notes.

Section 3.3. Direction to Indenture Trustee. The Issuer hereby authorizes and directs the Indenture Trustee to execute and deliver this First Supplemental Indenture.

Section 3.4 Governing Law. This First Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 3.5. Counterparts. This First Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed by their respective officers hereunto duly authorized, all as of the day and year written above.

EMERGENT CAPITAL, INC.

NG-2TSFKRLD 4833-7606-6647v3

By: /s/ Miriam Martinez
Name: Miriam Martinez
Title: Senior Vice President and CFO

WILMINGTON TRUST NATIONAL ASSOCIATION,
solely as Indenture Trustee and not in its individual capacity

By: /s/ Robert J. Donaldson
Name: Robert J. Donaldson
Title: Vice President

Exhibit A

Schedule 1.01(B)

Pledged Subsidiaries

Company Name	Jurisdiction of Organization	Organizational Identification Number	Federal Identification Number
Red Reef Alternative Investments, LLC*	Delaware	5433325	46-4120302
OLIPP IV, LLC*	Delaware	4966935	45-3115563

*65% Pledge

Exhibit 10.2

**EMERGENT CAPITAL, INC.
2010 OMNIBUS INCENTIVE PLAN AS AMENDED AND RESTATED
STOCK APPRECIATION RIGHTS AWARD**

[ADDRESS]
[ADDRESS]
[ADDRESS]

Dear _____:

You have been granted a Stock Appreciation Rights Award (the "Award") under the Emergent Capital, Inc. 2010 Omnibus Incentive Plan, as amended and restated (the "Plan"), with terms and conditions described below. This Award is granted under and governed by the terms and conditions of the Plan. Additional provisions regarding your Award and definitions of capitalized terms used and not defined in this Award can be found in the Plan.

Grant Date: _____

Number of Stock Appreciation Rights _____
("SARs"):

Terms of Award: Each SAR entitles you to receive, upon exercise, an amount (referred to as the "Stock Appreciation Amount") equal to the excess of (a) the Fair Market Value per Share of Stock on the exercise date, over (b) \$_____, being not less than the Fair Market Value per Share of Stock on the Grant Date (the amount in (b) referred to as the "Exercise Price"). Such SARs will be exercisable and settled as hereinafter provided.

Service Vesting Period: Grant Date through _____ [referred to herein as the "Vesting Date"]

Vesting Schedule: The SARs will vest and become exercisable in full on the Vesting Date, provided you are continuously **[for non-employees—performing services OR serving on a Committee]** **[for employees--employed by the Company]** through the Service Vesting Period.

Notwithstanding the foregoing, the SARs will also vest and become exercisable upon the earlier to occur of the following events:

- The date of a Change in Control prior to the Vesting Date, if you are continuously ~~for non-employees—performing services OR serving on a Committee~~ **[for employees--employed by the Company]** through the date preceding the date of the Change in Control (“CIC Vesting Event”); and
- The date prior to the Vesting Date on which your ~~for employees -- employment or~~ service relationship with the Company is terminated ~~for non-employees—in all capacities including but not limited to, as a board member, employee consultant or otherwise (“Termination of Service”)]~~ **[for employees--employment or]** (1) as a result of your death or Disability or (2) by the Company other than for Cause (“Early Termination Vesting Event”).

Except as otherwise provided above, upon your ~~for non-employees—Termination of Service~~ **[for employees--termination of employment with, or cessation of services to, the Company]**, prior to the date the SARs are vested, you will forfeit the unvested SARs. In addition, if ~~for non-employees—you have a Termination of Service other than for Cause~~ **[for employees--your employment or service relationship with the Company is terminated due to an Early Termination Vesting Event]** but the Company later learns facts that could have permitted it to terminate your ~~for employees--employment or~~ service for Cause if such facts had been known at the time of your termination, then any SARs that have not yet been exercised (whether vested or unvested) shall be forfeited immediately on the date of such determination and with respect to any vested SARs that have been exercised, any amounts or Shares you received upon exercise of this Award shall be forfeited and shall be returned to the Company without payment therefor.

Expiration Date:

The Expiration Date of the SARs is the date that is ten (10) years from the Grant Date. The SARs may not be exercised on or after the Expiration Date.

Exercisability of SARs:

The SARs shall become exercisable at the time they become vested. Once the SARs have become exercisable in accordance with the preceding sentence, they shall continue to be exercisable until the termination of your rights hereunder or until the Expiration Date, if earlier. A partial exercise of the SARs shall not affect your right to exercise the SARs with respect to the remaining Shares, subject to the terms and conditions of the Plan and those set forth herein.

Method of Exercising SARs and Form of Payment of Stock

The SARs shall be exercised pursuant to procedures established by the Company for exercising the SARs. Upon exercise of the SARs, the Stock Appreciation Amount, ~~for employees only--less any amounts withheld for the payment of taxes as described below,]~~ **[for employees only--less any amounts withheld for the payment of taxes as described below,]** shall be paid, as determined solely at the discretion of the Company, in (a) whole Shares, (b) cash, or (c) a combination of both cash and Shares.

Exercise of Vested SARs After Termination:

In the event you have ~~[for non-employees—a Termination of Service]~~ ~~[for employees—a termination of employment or service]~~ on or after some or all of your SARs are vested, the rules under this paragraph shall apply.

(a) Except as provided in subparagraphs (b) and (c), if you have a ~~[for non-employees—Termination of Service]~~ ~~[for employees—termination of employment or service]~~ after the SARs are vested, but prior to the Expiration Date, you may exercise the SARs with respect to the Shares you are entitled to exercise, within sixty (60) days of the date of such ~~[for non-employees—Termination of Service]~~ ~~[for employees—termination of employment or service]~~ (but in no event later than the Expiration Date). Any portion of the vested SARs that is not exercised within the foregoing sixty (60) day period shall be immediately forfeited.

(b) If you experience an Early Termination Vesting Event prior to the Expiration Date, you or your beneficiary (or estate as the case may be) may exercise the SARs with respect to the Shares you are entitled to exercise, within six months of the date of such Early Termination Vesting Event (but in no event later than the Expiration Date). Any portion of the vested SARs that is not exercised within the foregoing six months period shall be immediately forfeited. You shall have the right to designate your beneficiary in accordance with procedures established under the Plan for such purpose. If you fail to designate a beneficiary, or if at the time of your death there is no surviving beneficiary, the exercisable SARs may be exercised by your estate.

(c) Except as otherwise determined in accordance with the terms of the CIC transaction and the Plan, the portion of the SARs vested pursuant to a CIC Vesting Event may be exercised beginning on the date the SAR becomes vested and shall remain exercisable according to the other terms of this Award Notice, and you may exercise this SAR during the remainder of the period preceding the Expiration Date.

Rights as Shareholder:

You will not be deemed for any purposes, including voting rights, to be a shareholder of the Company with respect to any of the SARs unless and until a certificate for Shares is issued, or an appropriate book entry made, upon exercise of the SARs.

Transferability of Award:

You may not transfer or assign this Award for any reason, other than as set forth in the Plan. Any attempted transfer or assignment of this Award, other than as set forth in the Plan, will be null and void.

Transferability of SARs:

You may not sell, transfer or otherwise alienate or hypothecate any of your SARs. In addition, by accepting this Award, you agree not to sell any Shares acquired under this Award other than as set forth in the Plan and at a time when applicable laws, Company policies or an agreement between the Company and its underwriters do not prohibit a sale. The Company also may require you to enter into a shareholder's agreement that will include additional restrictions on the transfer of Shares acquired under this Award.

Market Stand-Off:

In connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, you agree that you shall not directly or indirectly sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any option or other contract for the purchase of, purchase any option or other contract for the sale of, or otherwise dispose of or transfer or agree to engage in any of the foregoing transactions with respect to, any Shares acquired under this Award without the prior written consent of the Company and the Company's underwriters. Such restriction shall be in effect for such period of time following the date of the final prospectus for the offering as may be determined by the Company. In no event, however, shall such period exceed one hundred eighty (180) days.

[Tax Withholding:

Include this paragraph for employees only--To the extent that the exercise of the SARs, or any other event with respect to this Award, results in income to you for Federal, state or local income tax purposes, you shall deliver to the Company at the time the Company is obligated to withhold taxes in connection with such taxable event, such amount as the Company requires to meet its withholding obligation under applicable tax laws or regulations, and if you fail to do so, the Company has the right and authority to deduct or withhold from any compensation payable to you, including compensation due under this Award, an amount sufficient to satisfy its withholding obligations. You may satisfy the withholding requirement, in whole or in part, by electing to have the Company withhold for its own account that number of Shares otherwise deliverable to you under the Award having an aggregate Fair Market Value on the date the tax is to be determined equal to the tax that the Company must withhold; provided that the amount to be withheld may not exceed the total maximum statutory tax rates associated with the transaction. Your election must be irrevocable, in writing, and submitted to the Secretary of the Company before the date of the applicable event triggering the withholding obligation. The Fair Market Value of any fractional Share not used to satisfy the withholding obligation (as determined on the date the tax is determined) will be paid to you in cash.]

Miscellaneous:

- This Award may be amended only by written consent signed by both you and the Company, unless the amendment is not to your detriment. Notwithstanding the foregoing, this Award may be amended or terminated by the Board or the Committee without your consent in accordance with the provisions of the Plan.
- The failure of the Company to enforce any provision of this Award at any time shall in no way constitute a waiver of such provision or of any other provision hereof.
- In the event any provision of this Award is held illegal or invalid for any reason, such illegality or invalidity shall not affect the legality or validity of the remaining provisions of this Award, and this Award shall be construed and enforced as if the illegal or invalid provision had not been included in this Award.
- The SARs constitute a mere promise by the Company to provide benefits in the future if such benefits come due under the Award. You will have the status of a general creditor of the Company with respect to any vested Award.
- As a condition to the grant of this Award, you agree (with such agreement being binding upon your legal representatives, guardians, legatees or beneficiaries) that this Award shall be interpreted by the Committee and that any interpretation by the Committee of the terms of this Award or the Plan, and any determination made by the Committee pursuant to this Award or the Plan, shall be final, binding and conclusive.
- This Award may be executed in counterparts.

BY SIGNING BELOW AND ACCEPTING THIS STOCK APPRECIATION RIGHTS AWARD, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED HEREIN AND IN THE PLAN. YOU ALSO ACKNOWLEDGE HAVING READ THE PLAN.

By: _____

Name: _____

Date: _____

PJC Investments, LLC
204 Woodhew Drive
Waco, TX 76712

August 20, 2018

Emergent Capital, Inc.
Board of Directors
c/o Ms. Miriam Martinez, CFO
5355 Town Center Road
Suite 701
Boca Raton, FL 33486

Confidential

Ladies and Gentlemen:

PJC Investments, LLC ("PJC") hereby confirms it, or its designee(s), will invest, on the terms and subject to the conditions set forth in this letter, up to \$2 million (the "Investment") in Emergent Capital, Inc. (the "Company"), at any time during the period from the date of this letter to August 20, 2019, in accordance with the terms below.

The conditions precedent for such an investment are:

1. The Investment will be required upon a determination by the Company's Board of Directors (the "Board") that the Company is in need of capital in order to meet its current financial obligations and requires an immediate capital infusion;
2. The Investment will be in the form of either (i) Senior Secured 8.5% Note (a "Senior Note") issued pursuant to the Company's Amended and Restated Senior Secured Note Indenture dated as of July 28, 2017 (the "Indenture"), (ii) another form of debt that will not mature earlier than August 20, 2019, (iii) an equity investment, or (iv) a combination of (i) – (iii) above, in any case, as mutually agreed between PJC and the Company;
3. The Company must request the Investment by delivering to PJC a written request for funding from PJC indicating the requested amount and form of the Investment (a "Request");
4. PJC shall have 30 days from the date of the Request to fund the Investment;
5. PJC and the Company agree that the amount of the Investment committed by PJC pursuant to this letter may be reduced based on the achievement by the Company of certain liquidity targets to be agreed upon between PJC and the Company; provided that any such reduced commitment does not directly result in further liquidity shortfalls or insolvency by the Company; and
6. Management of the Company has developed cash flow estimates which, based on the nature of the business, can be uncertain as to both timing and amount. This Investment as outlined above is intended to only cover operating cash flow shortfalls based on

management's current projections in the ordinary course of business. Shortfalls arising from extraordinary events including events outside of the Company's control are not contemplated under this support letter.

This letter replaces and supersedes that certain letter to the Company from PJC dated May 9, 2018 relating to a similar commitment, and such prior letter is of no further force and effect.

This letter is for the sole benefit of PJC and the Company. A copy of this letter is being provided to Grant Thornton LLP, 1301 International Parkway, Suite 300, Fort Lauderdale, FL 33323.

Very truly yours,

/s/ Patrick J. Curry
Name: Patrick J. Curry
Title: Chief Executive Officer

River City Capital, LLC
13616 California Street, Suite 110
Omaha, NE 68154

August 20, 2018

Emergent Capital, Inc.
Board of Directors
c/o Ms. Miriam Martinez, CFO
5355 Town Center Road
Suite 701
Boca Raton, FL 33486

Confidential

Ladies and Gentlemen:

River City Capital, LLC ("RCC") hereby confirms it, or its designee(s), will invest, on the terms and subject to the conditions set forth in this letter, up to \$2.5 million (the "Investment") in Emergent Capital, Inc. (the "Company"), at any time during the period from the date of this letter to August 20, 2019, in accordance with the terms below.

The conditions precedent for such an investment are:

1. The Investment will be required upon a determination by the Company's Board of Directors (the "Board") that the Company is in need of capital in order to meet its current financial obligations and requires an immediate capital infusion;
2. The Investment will be in the form of either (i) Senior Secured 8.5% Note (a "Senior Note") issued pursuant to the Company's Amended and Restated Senior Secured Note Indenture dated as of July 28, 2017 (the "Indenture"), (ii) another form of debt that will not mature earlier than August 20, 2019, (iii) an equity investment, or (iv) a combination of (i) – (iii) above, in any case, as mutually agreed between RCC and the Company;
3. The Company must request the Investment by delivering to RCC a written request for funding from RCC indicating the requested amount and form of the Investment (a "Request");
4. RCC shall have 30 days from the date of the Request to fund the Investment;
5. RCC and the Company agree that the amount of the Investment committed by RCC pursuant to this letter may be reduced based on the achievement by the Company of certain liquidity targets to be agreed upon between RCC and the Company; provided that any such reduced commitment does not directly result in further liquidity shortfalls or insolvency by the Company; and
6. Management of the Company has developed cash flow estimates which, based on the nature of the business, can be uncertain as to both timing and amount. This Investment as outlined above is intended to only cover operating cash flow shortfalls based on

management's current projections in the ordinary course of business. Shortfalls arising from extraordinary events including events outside of the Company's control are not contemplated under this support letter.

This letter replaces and supersedes that certain letter to the Company from RCC dated May 9, 2018 relating to a similar commitment, and such prior letter is of no further force and effect.

This letter is for the sole benefit of RCC and the Company. A copy of this letter is being provided to Grant Thornton LLP, 1301 International Parkway, Suite 300, Fort Lauderdale, FL 33323.

Very truly yours,

/s/ Roy Patterson
Name: Roy Patterson
Title: Managing Member

Evermore Global Advisors
89 Summit Avenue
Summit, New Jersey 07901
908.378.2880
www.evermoreglobal.com

August 20, 2018

Emergent Capital, Inc.
Board of Directors
c/o Ms. Miriam Martinez, CFO
5355 Town Center Road
Suite 701
Boca Raton, FL 33486

Confidential

Ladies and Gentlemen:

Evermore Global Advisors, LLC ("EGA") hereby confirms it, or its designee(s), will invest, on the terms and subject to the conditions set forth in this letter, up to \$7.5 million (the "Investment") in Emergent Capital, Inc. (the "Company"), at any time during the period from the date of this letter to August 20, 2019, in accordance with the terms below.

The conditions precedent for such an investment are:

1. The Investment will be required upon a determination by the Company's Board of Directors (the "Board") that the Company is in need of capital in order to meet its current financial obligations and requires an immediate capital infusion;
2. The Investment will be in the form of either (i) Senior Secured 8.5% Note (a "Senior Note") issued pursuant to the Company's Amended and Restated Senior Secured Note Indenture dated as of July 28, 2017 (the "Indenture"), (ii) another form of debt that will not mature earlier than August 20, 2019, (iii) an equity investment, or (iv) a combination of (i) – (iii) above, in any case, as mutually agreed between EGA and the Company;
3. The Company must request the Investment by delivering to EGA a written request for funding from EGA indicating the requested amount and form of the Investment (a "Request");
4. EGA shall have 30 days from the date of the Request to fund the Investment;
5. EGA and the Company agree that the amount of the Investment committed by EGA pursuant to this letter may be reduced based on the achievement by the Company of certain liquidity targets to be agreed upon between EGA and the Company; provided that any such reduced commitment does not directly result in further liquidity shortfalls or insolvency by the Company; and
6. Management of the Company has developed cash flow estimates which, based on the nature of the business, can be uncertain as to both timing and amount. This Investment as outlined above is intended to only cover operating cash flow shortfalls based on management's current projections in the ordinary course of business. Shortfalls arising

from extraordinary events including events outside of the Company's control are not contemplated under this support letter.

This letter replaces and supersedes that certain letter to the Company from EGA dated May 9, 2018 relating to a similar commitment, and such prior letter is of no further force and effect.

This letter is for the sole benefit of EGA and the Company. A copy of this letter is being provided to Grant Thornton LLP, 1301 International Parkway, Suite 300, Fort Lauderdale, FL 33323.

Very truly yours,

/s/ David Marcus
Name: David Marcus
Title: Chief Executive Officer

CERTIFICATIONS

I, Patrick J. Curry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Emergent Capital, 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(s) 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 subsidiary companies, 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(s) 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.

/s/ Patrick J. Curry

Patrick J. Curry

Chief Executive Officer and Director

(Principal Executive Officer)

August 20, 2018

CERTIFICATIONS

I, Miriam Martinez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Emergent Capital, 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(s) 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 subsidiary companies, 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(s) 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.

/s/ Miriam Martinez

Miriam Martinez

Chief Financial Officer

(Principal Financial Officer)

August 20, 2018

**Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Emergent Capital, Inc. (the Registrant) on Form 10-Q for the period ended June 30, 2018 as filed with the U.S. Securities and Exchange Commission on the date hereof (the Report), I, Patrick J. Curry, Chief Executive Officer of the Registrant, certify to the best of my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Patrick J. Curry

Patrick J. Curry

Chief Executive Officer and Director

August 20, 2018

**Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Emergent Capital, Inc. (the Registrant) on Form 10-Q for the period ended June 30, 2018 as filed with the U.S. Securities and Exchange Commission on the date hereof (the Report), I, Miriam Martinez, Chief Financial Officer of the Registrant, certify to the best of my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Miriam Martinez

Miriam Martinez

Chief Financial Officer

August 20, 2018