

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 February 28, 2019

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of April 9, 2019, the Registrant had 158,051,803 shares of common stock outstanding.

EMERGENT CAPITAL, INC.
FORM 10-Q REPORT FOR THE QUARTER ENDED February 28, 2019
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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;
- We may not 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;
- our ability to exit the current bankruptcy proceedings of certain of our subsidiaries upon satisfactory terms;
- delays in the receipt of death benefits from our portfolio of life insurance policies;
- costs related to securing death benefits from our portfolio of life insurance policies;
- increases in premiums on, or the cost of insurance of, life insurance policies that we own;
- changes in general economic conditions, including inflation, changes in interest or tax rates;
- our actual 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 litigation and judicial actions;
- changes to actuarial life expectancy tables including 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;
- 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 resulting in disruption of our information technology systems; and
- loss of the services of any of our executive officers;

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 Transition Report on Form 10-KT for the eleven months ended November 30, 2018. 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

	February 28, 2019	November 30, 2018*
	(Unaudited)	
	(In thousands except share data)	
ASSETS		
Assets		
Cash and cash equivalents	\$ 3,813	\$ 1,209
Certificates of deposit	503	500
Prepaid expenses and other assets	1,012	657
Deposits - other	1,377	1,377
Life settlements, at estimated fair value	1,213	1,172
Fixed assets, net	63	78
Investment in deconsolidated subsidiaries (Note 4)	95,541	128,795
Investment in affiliates	2,384	2,384
Deferred tax asset	576	576
Total assets	\$ 106,482	\$ 136,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 1,919	\$ 2,446
Other liabilities	750	194
Interest payable - 8.5% Convertible Notes (Note 12)	63	37
8.5% Convertible Notes, net of discount and deferred debt costs (Note 12)	1,194	1,173
Interest payable - 5.0% Convertible Notes (Note 13)	169	1,116
5.0% Convertible Notes, net of discount and deferred debt costs (Note 13)	70,036	69,742
Interest payable - 8.5% Senior Secured Notes (Note 14)	941	628
8.5% Senior Secured Notes, net of deferred debt costs (Note 14)	41,546	34,170
Total liabilities	116,618	109,506
Commitments and Contingencies (Note 17)		
Stockholders' Equity		
Common stock (par value \$0.01 per share, 415,000,000 authorized at February 28, 2019 and November 30, 2018; 158,659,803 issued and 158,051,803 outstanding as of February 28, 2019; 158,733,928 issued and 158,125,928 outstanding as of November 30, 2018)	1,587	1,587
Preferred stock (par value \$0.01 per share, 40,000,000 authorized; 0 issued and outstanding as of February 28, 2019 and November 30, 2018)	—	—
Treasury Stock, net of issuance cost (608,000 shares as of February 28, 2019 and November 30, 2018)	(2,534)	(2,534)
Additional paid-in-capital	334,296	334,198
Accumulated deficit	(343,485)	(306,009)
Total stockholders' deficit/equity	(10,136)	27,242
Total liabilities and stockholders' deficit/equity	\$ 106,482	\$ 136,748

* 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 February 28,	
	2019	2018
	(in thousands, except share and per share data)	
Income		
Change in fair value of life settlements (Notes 10 & 15)	\$ 2	\$ 11,480
Other income	10	125
Total income	12	11,605
Expenses		
Interest expense	2,763	7,602
Change in fair value of White Eagle Revolving Credit Facility (Notes 10 & 15)	—	(1,624)
Change in fair value of investment in deconsolidated subsidiaries (Note 4)	33,965	—
Personnel costs	169	786
Legal fees	(5)	1,551
Professional fees	335	955
Insurance	179	196
Other selling, general and administrative expenses	65	480
Total expenses	37,471	9,946
Income (loss) from continuing operations before income taxes	(37,459)	1,659
(Benefit) provision for income taxes	—	(3,210)
Net income (loss) from continuing operations	\$ (37,459)	\$ 4,869
Discontinued Operations:		
Income (loss) from discontinued operations before income taxes	(17)	(17)
(Benefit) provision for income taxes	—	—
Net income (loss) from discontinued operations	(17)	(17)
Net income (loss)	\$ (37,476)	\$ 4,852
Basic income (loss) per share:		
Continuing operations	\$ (0.24)	\$ 0.03
Discontinued operations	\$ —	\$ —
Net income (loss) - basic	\$ (0.24)	\$ 0.03
Diluted income (loss) per share:		
Continuing operations	\$ (0.24)	\$ 0.03
Discontinued operations	\$ —	\$ —
Net income (loss) - diluted	\$ (0.24)	\$ 0.03
Weighted average shares outstanding:		
Basic	156,919,099	155,893,843
Diluted	156,919,099	216,029,455

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

Emergent Capital, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT/EQUITY (UNAUDITED)
For the Three Months Ended February 28, 2019

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
	(in thousands, except share data)						
Balance, December 1, 2018	158,733,928	1,587	(608,000)	\$ (2,534)	\$ 334,198	\$ (306,009)	\$ 27,242
Net income/loss	—	—	—	—	—	(37,476)	(37,476)
Stock-based compensation	—	—	—	—	98	—	98
Retirement of common stock	(74,125)	—	—	—	—	—	—
Balance, February 28, 2019	<u>158,659,803</u>	<u>\$ 1,587</u>	<u>(608,000)</u>	<u>\$ (2,534)</u>	<u>\$ 334,296</u>	<u>\$ (343,485)</u>	<u>\$ (10,136)</u>

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

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

	For the Three Months Ended February 28,	
	2019	2018
	(In thousands)	
Cash flows from operating activities		
Net income (loss)	\$ (37,476)	\$ 4,852
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	20	21
Amortization of discount and deferred costs for 8.5% Convertible Notes	21	21
Amortization of discount and deferred costs for 5.0% Convertible Notes	294	273
Amortization of deferred costs for 8.5% Senior Secured Notes	121	63
Change in fair value of investment in deconsolidated subsidiaries	33,965	—
Stock-based compensation expense	98	49
Finance cost and fees withheld by borrower	—	243
Interest paid in kind on 8.5% Senior Secured Notes	779	—
Change in fair value of life settlements	(2)	(11,480)
Change in fair value of White Eagle Revolving Credit Facility	—	(1,624)
Interest income	(56)	(56)
Deferred tax liability	—	(2,332)
Change in assets and liabilities:		
Prepaid expenses and other assets	193	(335)
Accounts payable and accrued expenses	(524)	879
Other liabilities	(654)	206
Current tax liability	—	(878)
Interest payable - 8.5% Convertible Notes	25	(25)
Interest payable - 5.0% Convertible Notes	(948)	(948)
Interest payable - 8.5% Senior Secured Notes	313	(8)
Net cash used in operating activities	<u>(3,831)</u>	<u>(11,079)</u>
Cash flows from investing activities		
Purchase of fixed assets, net of disposals	(2)	—
Premiums paid on life settlements	(39)	(20,826)
Proceeds from maturity of life settlements	—	10,104
Net cash used in investing activities	<u>(41)</u>	<u>(10,722)</u>
Cash flows from financing activities		
Borrowings from White Eagle Revolving Credit Facility	—	23,091
Repayment of borrowings under White Eagle Revolving Credit Facility	—	(1,763)
Proceeds from 8.5% Senior Secured Notes	6,476	—
Net cash provided by financing activities	<u>6,476</u>	<u>21,328</u>
Net increase (decrease) in cash and cash equivalents	2,604	(473)
Cash and cash equivalents, at beginning of the period	1,209	31,208
Cash and cash equivalents, at end of the period	<u>\$ 3,813</u>	<u>\$ 30,735</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	<u>\$ 2,072</u>	<u>\$ 7,600</u>

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

Emergent Capital, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
February 28, 2019

(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 consolidated and deconsolidated subsidiaries, owns a portfolio of 584 life insurance policies, also referred to as life settlements, with a fair value of \$495.9 million and an aggregate death benefit of approximately \$2.8 billion at February 28, 2019. The Company primarily earns income on these policies from changes in their fair value and through death benefits. 582 of these policies, with an aggregate death benefit of approximately \$2.8 billion and a fair value of approximately \$494.7 million at February 28, 2019, 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 February 28, 2019, two policies owned by the Company, with an aggregate death benefit of approximately \$12.0 million and a fair value of \$1.2 million, were not pledged as collateral under the White Eagle Revolving Credit Facility.

Change in Financial Year End

On September 7, 2018, the Board of Directors of the Company (the "Board") adopted resolutions to change the Company's fiscal year end, and therefore the Company and its direct and indirect subsidiaries changed their fiscal year ends, from December 31 to November 30, effective immediately. The Company filed a Transition Report on Form 10-KT in accordance with SEC rules and regulations for the fiscal period ended November 30, 2018, which covered transactions from January 1, 2018 to November 30, 2018. This Form 10Q covers the period beginning December 1, 2018 and ending February 28, 2019 compared to December 1, 2017 to February 28, 2018. As a result, the Form 10Q will not be comparable to the results filed for the first quarter of 2018 covering January 1, 2018 to March 31, 2018.

Voluntary Petitions for Relief Under Chapter 11 and De-consolidation of Subsidiaries

On November 14, 2018 (the "Petition Date"), Lamington Road Designated Activity Company (formerly known as Lamington Road Limited), the Company's wholly-owned indirect Irish subsidiary ("Lamington" or "Lamington Road DAC"), and White Eagle General Partner, LLC, the Company's wholly-owned indirect Delaware subsidiary ("WEGP"), filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). Lamington is the limited partner and owns 99.99%, and WEGP is the general partner and owns 0.01%, of White Eagle. In its capacity as general partner, WEGP manages the affairs of White Eagle. The Lamington and WEGP filings are referred to as the "November Chapter 11 Cases."

The commencement of the November Chapter 11 Cases would constitute defaults and events of default under the terms of the Company's Amended and Restated Senior Secured Indenture and the New Convertible Note Indenture (each as defined below). However, such defaults and events of default and their consequences were waived in advance of the November Chapter 11 Cases by holders of a majority of the outstanding principal amounts of each of the 8.5% Senior Secured Notes and the New Convertible Notes, and consequently, the Company believes that no defaults, events of default or acceleration of the payment obligations thereunder, including principal or accrued interest, occurred under either the Amended and Restated Senior Secured Indenture or the New Convertible Note Indenture. The commencement of the November Chapter 11 Cases constitutes an event of default under the White Eagle Revolving Credit Facility, resulting in the principal and accrued interest due from White Eagle thereunder becoming immediately due and payable. Lamington and WEGP have pledged their respective interests in White Eagle to secure its obligations under the White Eagle Revolving Credit Facility. Any efforts by LNV Corporation, the lender under the White Eagle Revolving Credit Facility ("LNV"), or CLMG Corp., the administrative agent under the White Eagle Revolving Credit Facility ("CLMG"), to enforce such pledges by Lamington and WEGP of their respective interests in White Eagle in connection with the White Eagle Revolving Credit Facility are automatically stayed as a result of the commencement of the November Chapter 11 Cases and LNV's and CLMG's rights of enforcement in respect of the White Eagle Revolving Credit Facility are subject to the applicable provisions of the Bankruptcy Code. In addition, on November 15, 2018, White Eagle, LNV and CLMG entered into an Agreement Regarding Rights and Remedies (the "Standstill Agreement"), pursuant to which LNV and CLMG agreed to refrain from exercising their rights and remedies in connection with the White Eagle Revolving Credit Facility, subject to the terms and provisions of the Standstill Agreement, until 12:00 p.m. noon Pacific time

on November 26, 2018, to facilitate negotiations. The effective period under the Standstill Agreement was extended several times, finally to December 13, 2018.

On December 13, 2018, White Eagle filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "White Eagle Chapter 11 Case" and, together with the November Chapter 11 Cases, the "Chapter 11 Cases"). The Company obtained waivers from the requisite holders of each of the 8.5% Senior Secured Notes and the New Convertible Notes with respect to the White Eagle Chapter 11 Case, similar to the waivers for the November Chapter 11 Cases, and believes that no defaults, events of default or acceleration of the payment obligations thereunder, including principal or accrued interest, occurred with respect to both the 8.5% Senior Secured Notes and the New Convertible Notes.

Lamington and its subsidiaries' (White Eagle, WEGP and Lamington Road Bermuda Limited), financial results are excluded from the Company's consolidated results for the period from November 14, 2018, the Petition Date. ASC 810, *Consolidation* require that an entity whose financial statements were previously consolidated with those of its parent that files for protection under the U.S. Bankruptcy Code, whether solvent or insolvent, generally must be prospectively deconsolidated from the parent and presented as an equity investment (deconsolidation applies to Lamington and all subsidiaries owned, directly or indirectly, by Lamington, including WEGP, White Eagle and Lamington Road Bermuda which collectively are referred to herein as the "Deconsolidated Entities") or the "Debtors". Therefore, our 2019 results are not comparable with our 2018 results. Under ASC 810, this loss of control would likely trigger a gain or loss for the parent as the parent would remeasure its retained noncontrolling investment at fair value each reporting period. We assessed the inherent uncertainties associated with the outcome of the Chapter 11 reorganization process and the anticipated duration thereof, and concluded that it was appropriate to deconsolidate Lamington and its subsidiaries effective on the Petition Date.

Beal Litigation

On January 25, 2019, the Company, White Eagle, Lamington, and WEGP, collectively the "Plaintiffs", filed suit (the "Suit") against LNV Corporation ("LNV"), Silver Point Capital L.P. ("Silver Point") and GWG Holdings, Inc. ("GWG" and, with LNV and Silver Point, the "Defendants") in the Bankruptcy Court, where the Suit will be administered together with the Chapter 11 Cases. LNV, a subsidiary of Beal Bank ("Beal"), is the lender under the White Eagle Revolving the Credit Facility.

In the Suit, the Plaintiffs allege that the Defendants engaged in a scheme to coerce the Plaintiffs into selling their valuable portfolio of life insurance policies to defendants for well below its true value. Pursuant to the White Eagle Revolving Credit Facility, LNV agreed to lend \$370 million to White Eagle, and in connection therewith received a 45% equity stake in White Eagle. That equity stake, and LNV's significant control over White Eagle under the Credit Facility, creates a joint venture, and gives rise to fiduciary duties to White Eagle and Emergent, on the part of LNV. The Plaintiffs further allege that LNV has been engaged in a concerted campaign to "squeeze" White Eagle and Emergent by improperly restricting their cash flow, in the hopes that White Eagle and Emergent will have no choice but to sell the valuable policy portfolio to LNV or one of its proxies, including Silver Point and/or GWG, at below its true value.

In connection with the White Eagle Chapter 11 Case, on January 15, 2019, the Court authorized the Debtors to use the proceeds of pre-petition cash collateral for a period of twenty (20) weeks (the "Cash Collateral"). The Cash Collateral may be used solely for the purposes permitted under the budget approved by the Court, including (i) to provide working capital needs of the Debtors and general corporate purposes of the Debtors, (ii) to make the payments or fund amounts otherwise permitted in the final order that authorized such uses and such budget, (iii) to fund amounts necessary to pay certain fees; and (iv) to fund amounts necessary to pay certain professional fees in accordance with such Budget.

(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 the Deconsolidated Entities and Imperial Settlements Financing 2010, LLC ("ISF 2010"), an unconsolidated special purpose entity which is accounted for using the measurement alternative, which is measured at cost less impairment. The special purpose entity was to fulfill specific objectives. All significant intercompany balances and transactions except those related to Lamington after November 13, 2018 (see Note 4) have been eliminated in consolidation, including income from services performed by subsidiary companies in connection with the White Eagle Revolving Credit Facility, as detailed herein. Notwithstanding consolidation, as referenced above, White Eagle is the owner of 582 policies, with an aggregate death benefit of approximately \$2.8 billion and an estimated fair value of approximately \$494.7 million which has been deconsolidated as of November 13, 2018, the date prior to the Petition Date.

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 February 28, 2019 are not necessarily indicative of the results that may be expected for future periods or for the year ending November 30, 2019. These interim financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Emergent Capital's Transition Report on Form 10-KT for the fiscal year ended November 30, 2018.

Liquidity

Historically, the Company has incurred substantial losses, which has resulted in an accumulated deficit of approximately \$343.5 million as of February 28, 2019. Cash flows used in operating activities were \$3.8 million for the three months ended February 28, 2019 and \$41.2 million for the eleven months ended November 30, 2018. As of February 28, 2019, the Company had approximately \$3.8 million of cash and cash equivalents and certificates of deposit of \$503,000; of this amount, approximately \$3.8 million is available to pay premiums on the two unencumbered policies of which such expenses will approximate \$124,000 in 2019 and other overhead expenses.

The Company's ability to continue as a going concern is dependent on its ability to meet its liquidity needs through a combination of factors including but not limited to, the receipt of death benefits from life insurance policy maturities, strategic capital market raises, pledged policy sales (subject to certain asset sale restrictions by the Bankruptcy Court), obtaining financing needed to exit the bankruptcy process, the approval of the Bankruptcy Court to continue utilizing death benefits for payment of premiums and cash on hand. Management's current plan is to exit the bankruptcy process with a financing arrangement that is viable to the Company and will allow it to pay overhead and other necessary expenses and to keep the policies in force.

As of the filing date of this Form 10-Q, we had approximately \$2.8 million of cash and cash equivalents inclusive of certificates of deposit of \$503,000. Our deconsolidated subsidiaries hold approximately \$17.6 million in cash and cash equivalents which is restricted by the Bankruptcy Court. In considering our forecast for the next twelve months and the pending approval of the Debtors' Chapter 11 reorganization plan by the Bankruptcy Court, these facts, aggregated with the current cash balance as of the filing for this Form 10-Q, create a substantial doubt of the Company's ability to meet their financial needs and continue as a going concern. In considering the factors above, management plans to continue to operate our business and to seek Bankruptcy Court approval to continue to use cash collateral after the expiration of the initially approved twenty (20) week period.

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.

Reorganization

On the Petition Date, Lamington and WEGP filed the November Chapter 11 Cases in the Bankruptcy Court. Once a reporting entity has filed a petition for bankruptcy under Chapter 11 of the Bankruptcy Code, its accounting and financial reporting fall under the scope of ASC 852-10, *Reorganizations*, which will serve as the foundation for accounting during bankruptcy. In accordance with ASC 852-10, transactions and events directly associated with the Chapter 11 Cases are required

to be distinguished from the ongoing operations of the business. In addition, ASC 852-10 requires changes in the accounting and presentation of liabilities, as well as expenses and income directly associated with the Chapter 11 Cases.

Deconsolidation

Lamington's and its subsidiaries' (White Eagle and WEGP) filing reorganization of the Chapter 11 Cases was a reconsideration event for Emergent Capital to reevaluate whether consolidation of Lamington and its subsidiaries (White Eagle, WEGP and Lamington Road Bermuda Limited) (the Deconsolidated Entities) continued to be appropriate. Under ASC 810, *Consolidation*, specifically ASC 810-10-15, consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners, for instance, where the subsidiary is in legal reorganization or bankruptcy. Accordingly, when a subsidiary files for bankruptcy, it is appropriate for the parent to deconsolidate the subsidiary. Under ASC 810, this loss of control would likely trigger a gain or loss for the parent as the parent would remeasure its retained noncontrolling investment at fair value. We assessed the inherent uncertainties associated with the outcome of the Chapter 11 reorganization process and the anticipated duration thereof, and concluded that it was appropriate to deconsolidate Lamington and its subsidiaries effective on the Petition Date.

Related Party Relationship

Upon filing for Chapter 11 and the subsequent deconsolidation, transactions with Lamington are no longer eliminated in consolidation and are treated as related party transactions for Emergent Capital. See [Note 5](#) "Condensed and Consolidated Financial Statements For Entities in Bankruptcy" for all transactions between Emergent Capital and Lamington.

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 ended February 28, 2019 and 2018, 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 9, "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, the valuation of equity awards and the valuation investment in deconsolidated entities.

(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. In December 2018, the Board released the amendments related to 1) sales taxes and other similar taxes collected from lessees that affect all lessors electing the accounting policy election; 2) lessor costs affecting all lessor entities that have lease contracts that either require lessees to pay lessor costs directly to a third party or require lessees to reimburse lessors for costs paid by lessors directly to third parties; and 3) recognition of variable payments for contracts with lease and nonlease components affecting all lessor entities with variable payments related to both lease and nonlease components. During the first quarter of 2019, the FASB issued targeted amendments to ASC 842 that affect how (1) financial institution lessors present lessee payments in their statements of cash flows and (2) lessors that are not manufacturers or dealers determine the fair value of the underlying asset. The FASB also clarified that companies transitioning to ASC 842 do not need to provide the interim transition disclosures required by ASC 250 (accounting changes and error corrections). All entities, including early adopters, must apply the amendments in this Update to all new and existing leases. This ASU is effective for annual periods beginning after December 15, 2019, 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. We do not expect that it will have a material impact.

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 July 2018, the FASB issued ASU 2018-11, "Targeted Improvements to Leases" (Topic 842) primarily to provide another transition method in addition to the existing transition method by allowing entities to initially apply the new leases standard at the adoption date (such as January 1, 2019, for calendar year-end public business entities) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers' requests. The amendments in this Update address stakeholders' concerns about the requirement for lessors to separate components of a contract by providing lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component, similar to the expedient provided for lessees. The amendments in this Update also clarify which Topic (Topic 842 or Topic 606) applies for the combined component. For entities that have not adopted Topic 842 before the issuance of this Update, the effective date and transition requirements for the amendments in this Update related to separating components of a contract are the same as the effective date and transition requirements in Update 2016-02

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement" which modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The following disclosure requirements were removed from Topic 820 among others: 1) The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy 2) The policy for timing of transfers between levels. The following disclosure requirements were part of the modifications in Topic 820: 1) For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. The amendments also clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. Lastly, the following disclosure requirements were added to Topic 820: 1) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; 2) the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities ("ASU 2018-17"). ASU 2018-17 provides that indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. ASU 2018-17 is effective for public companies for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction Between Topic 808 and Topic 606 ("ASU 2018-18"). ASU 2018-18 clarifies when certain transactions between collaborative arrangement participants should be accounted for under ASC 606 and incorporates unit-of-account guidance consistent with ASC 606 to aid in this determination. ASU 2018-18 is effective for public companies for annual and interim periods beginning after December 15, 2019, with early adoption permitted. ASU 2018-18 should generally be applied retrospectively to the date of initial application of Topic 606. We do not expect this standard to have an impact on our consolidated financial position, results of operations or cash flows.

(4) Deconsolidation of Subsidiaries

On the "Petition Date, Lamington States and WEGP filed the November Chapter 11 Cases in the Bankruptcy Court. Lamington is the limited partner and owns 99.99%, and WEGP is the general partner and owns 0.01%, of White Eagle. In its capacity as general partner, WEGP manages the affairs of White Eagle. Lamington and WEGP will continue to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. Emergent Capital (exclusive of its subsidiaries) is a separate entity, and has not filed for bankruptcy relief and is continuing to operate in the ordinary course.

The Deconsolidated Entities' financial results are included in the Company's consolidated results through November 13, 2018, the day prior the Petition Date. However, under ASC 810, *Consolidation*, specifically ASC 810-10-15, consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners, for instance, where the subsidiary is in legal reorganization or bankruptcy. Accordingly, when a subsidiary files for bankruptcy, it is appropriate for the parent to deconsolidate the subsidiary. Under ASC 810, this loss of control would likely trigger a gain or loss for the parent as the parent would remeasure its retained noncontrolling investment at fair value. We assessed the inherent uncertainties associated with the outcome of the Chapter 11 reorganization process and the anticipated duration thereof, and concluded that it was appropriate to deconsolidate Lamington and its subsidiaries effective on the Petition Date.

At November 13, 2018, the pre-petition date, the Company valued its investment in Lamington to be \$278.4 million, of which \$127.3 million represents equity, \$145.9 million represents promissory notes and interest receivable and \$5.2 million represents other liabilities, which is equivalent to the Company's carrying value. This valuation was determined by performing a fair value calculation of the assets and liabilities of Lamington under ASC 820, *Fair Value Measurement*. 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 calculated the fair value of the White Eagle Revolving Credit Facility 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 insureds, the estimate of the amount that will be necessary to settle the debt under the White Eagle Revolving Credit Facility, and the discount rate. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values. All other assets and liabilities were deemed equivalent to their carrying value as at the pre-petition date. See [Note 15, "Fair Value Measurements,"](#) of the accompanying consolidated financial statements.

ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* was effective for calendar year-end public business entities in 2018. Under the new guidance, a reporting entity should account for its equity investments that are not consolidated or accounted for under the equity method at fair value, with changes to fair value recorded in current earnings. Lamington's main subsidiary, White Eagle, carries its life settlements policies and debt under the White Eagle Revolving Credit Facility at fair value, these valuations are based on inputs that are both significant to the fair value measurement and unobservable. As a result, the Company adopted ASU 2016-01 to value its investment in Lamington. The calculation was performed consistent with ASC 820 with changes in fair value recorded in current earnings.

When Lamington emerges from the jurisdiction of the Bankruptcy Court, the subsequent accounting will be determined based upon the applicable circumstances and facts at such time, including the terms of any plan of reorganization. The Debtors will continue to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. Emergent Capital (exclusive of its subsidiaries) is a separate entity with independent capital structures and has not filed for bankruptcy relief and is continuing to operate in the ordinary course.

As a result of the Chapter 11 Cases, consistent with ASC 321, *Investments - Equity Securities*, the Company subsequently, measured its investment in Lamington at fair value as of November 30, 2018. Further, the Company engaged a third party to perform a quantitative assessment to determine the value of its investment in Lamington. The valuation report showed the fair value of the Company's investment in Lamington to be \$128.8 million, which was \$149.6 million lower than its pre-petition value. As a result, the Company recognized a reduction in its investment in Lamington at November 30, 2018. The Company further evaluated its investment at February 28, 2019 and recognized a reduction of approximately \$34.0 million, which amount is reflected in current earnings as change in fair value of investment in deconsolidated subsidiaries. The amount is associated with losses incurred by Lamington for the three months ended February 28, 2019. The fair value of \$95.5 million has inherent estimates including, but not limited to, when the Debtors will emerge from bankruptcy, the estimated discount rate, the value of the debt under the White Eagle Revolving Credit Facility, and other factors inherent in the valuation process.

The fair value of the investment in Lamington is calculated as follows:

Investment in Lamington at December 1, 2018	\$	128,795
Increase in basis investment (see below)		711
Less: Change in fair value		(33,965)
Investment in Lamington at February 28, 2019	<u>\$</u>	<u>95,541</u>

The table below summarizes the composition of the Company's investment in the deconsolidated entities at February 28, 2019:

	Increase/Decrease in		Change in Fair	
	Basis		Value	
	<u>November 30, 2018</u>	<u>Three Months Ended February 28, 2019</u>		<u>February 28, 2019</u>
Equity investment	\$ 66,251	\$ —	\$ (33,965)	\$ 32,286
Promissory notes	56,596	—	—	56,596
Other liabilities	5,948	711	—	6,659
Total investment	<u>\$ 128,795</u>	<u>\$ 711</u>	<u>\$ (33,965)</u>	<u>\$ 95,541</u>

(5) Condensed and Consolidated Financial Statements for Entities in Bankruptcy

Condensed consolidated financial information for Lamington Road DAC is set forth below, presented at historical cost basis

Lamington Road DAC
(Debtor-in-Possession)
Condensed and Consolidated Statements Balance Sheet

	February 28, 2019	November 30, 2018*
	(Unaudited)	
	(In thousands except share data)	
ASSETS		
Assets		
Cash and cash equivalents	\$ 21,742	\$ 33,719
Prepaid expenses and other assets	833	68
Investment in life settlements, at estimated fair value	494,732	505,235
Receivable for maturity of life settlements	36,754	27,700
Total assets	<u>\$ 554,061</u>	<u>\$ 566,722</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	2,702	1,410
Other liabilities (subject to compromise)*	7,181	5,997
Revolving Credit Facility debt, at estimated fair value	365,499	346,671
Promissory notes payable (subject to compromise)*	146,393	137,813
Promissory notes interest payable (subject to compromise)*	—	8,580
Total liabilities	<u>521,775</u>	<u>500,471</u>
Share Capital (1 share of \$1 authorized and issued)	—	—
Additional paid in capital	60,602	60,602
Accumulated deficit/retained earnings	(28,316)	5,649
Total stockholders' equity	<u>32,286</u>	<u>66,251</u>
Total liabilities and stockholders' equity	<u>\$ 554,061</u>	<u>\$ 566,722</u>

*Liabilities subject to compromise include pre-petition unsecured claims, which may be settled at amounts different from those recorded in the condensed consolidated balance sheet.

**Lamington Road DAC
(Debtor-in-Possession)
Condensed and Consolidated Statements of Operations**

	For the Three Months Ended February 28,	
	2019	2018
Change in Fair Value of Life Settlements (Notes 11 & 15)	\$ (12,750)	\$ 11,481
Other Income	234	83
Total income	(12,516)	11,564
Interest expense	2,400	5,187
Interest expense - affiliate	—	2,375
Change in fair value of White Eagle Revolving Credit Facility (Notes 11 & 15)	14,608	(1,624)
Participation Interest - Revolving Credit Facility	—	340
Reorganization cost	1,901	—
Legal fees	587	427
Professional fees	428	475
Administrative service fees - affiliate	1,427	1,059
Other general and administrative expenses	98	101
Total expenses	21,449	8,340
Income taxes	—	—
(Loss) income	\$ (33,965)	\$ 3,224

**Lamington Road DAC
(Debtor-in-Possession)
Condensed and Consolidated Statements of Cash Flows**

	For the Three Months Ended February 28,	
	2019	2018
Net cash used in operating activities	\$ (4,951)	\$ (6,540)
Cash flows from investing activities		
Premiums paid on life settlements	(25,247)	(20,794)
Proceeds from maturity of life settlements	14,000	10,104
Net cash used in investing activities	\$ (11,247)	\$ (10,690)
Cash flows from financing activities		
Repayment of borrowings under White Eagle Revolving Credit Facility	—	(1,763)
Borrowings from White Eagle Revolving Credit Facility	4,221	23,091
Net cash provided by financing activities	\$ 4,221	\$ 21,328
Net increase/(decrease) in cash and cash equivalents	(11,977)	4,098
Cash and cash equivalents, at beginning of the period	33,719	12,129
Cash and cash equivalents, at end of the period	\$ 21,742	\$ 16,227
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	\$ 2,400	\$ 5,187

Related Party Transactions

Certain related party transactions had been eliminated in consolidation. Due to the deconsolidation of Lamington, transactions after November 13, 2018 are no longer eliminated. The below is a description of related party transactions for the period.

Administrative Services Fees

In 2014, White Eagle entered into an Administrative Service Agreement with Imperial Finance and Trading ("IFT"). Under the agreement, IFT will perform certain non-discretionary, administrative or ministerial services to assist with certain reporting, compliance and document retention duties and obligations arising under or in connection with the Amended and Restated Loan and Securities Agreement. IFT shall recover all cost incurred in performing these services, with billings quarterly or annually. Bills will be based on actual cost or an appropriate allocation methodology. White Eagle incurred administrative service expenses of approximately \$1.4 million and \$1.1 million during the three months ended February 28, 2019 and 2018, respectively, amounts for 2018 were eliminated in consolidation. Amounts due from White Eagle resulting from the administrative services during three months ended February 28, 2019 are included in investment in deconsolidated subsidiaries and amounts payable to IFT are included in other liabilities on the Lamington Road DAC consolidated balance sheet totaling \$7.2 million, net of repayments.

Promissory Notes Receivable

Effective May 16, 2014, Lamington entered into a 10 year, \$59.3 million unsecured Promissory Note ("the 8.5% Promissory Note") with its parent company, Markley Asset Portfolio, LLC ("Markley"). The amount was used by Lamington as the partial purchase price of Markley's interest in White Eagle. The annual interest rate on the Promissory Note is 8.5% and is due to be paid at the end of each calendar year; provided that any interest accrued at the end of a calendar year which is not paid within seven business days thereafter shall be capitalized and increased to the outstanding principal balance. As of February 28, 2019 the outstanding principal balance was \$87.1 million, which includes \$27.7 million in capitalized interest. Total interest expense related to the Promissory Note was \$0 and \$1.7 million for the three months ended February 28, 2019 and 2018, respectively. The entire remaining principal balance of the Promissory Note shall be due and payable, together with all accrued but unpaid interest, on May 16, 2024. No principal payments are due prior to the maturity date.

Effective July 28, 2017, Lamington issued an unsecured Promissory Note to Markley, in a principal amount of \$57.0 million. The amount represents distributions of earnings from Lamington's share of profits of White Eagle, to satisfy Profit Participation Notes issued by Markley to Lamington (the "Special Dividend Note"). The Special Dividend Note matures on July 28, 2027 and bears interest at an annual rate of 5.0% provided that any interest accrued at the end of a calendar year which is not paid within seven business days thereafter shall be capitalized and increased to the outstanding principal balance. As of February 28, 2019 the outstanding principal balance was \$60.6 million, which includes \$3.6 million in capitalized interest. Total interest expense related to the Special Dividend Note was \$0 and \$718,000 for the three months ended February 28, 2019 and 2018 respectively. The entire remaining principal balance of the Special Dividend Note shall be due and payable, together with all accrued but unpaid interest, on July 28, 2027. No principal payments are due prior to the maturity date. Approximately \$570,000 was paid as interest for the three month period ended February 28, 2018. There was no payment for the three months ended February 28, 2019.

At February 28, 2019, the notes were fair valued in accordance with ASC 820 with a carrying value of approximately \$56.6 million consistent with its value at November 30, 2018 and were included in the remaining investment in deconsolidated subsidiaries and not separately presented on the face of the consolidated balance sheet. At February 28, 2019 and 2018, the combined face value of the notes was \$147.6 million and \$137.8 million, respectively. The Company has stopped accruing interest on these notes effective December 1, 2018.

(6) 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 February 28, 2019 and November 30, 2018, as well as non-consolidated VIEs for which the Company has determined it is not the primary beneficiary (in thousands):

	Not Primary Beneficiary	
	Non-consolidated VIE	
	Total Assets	Maximum Exposure To Loss
February 28, 2019	\$ 2,384	\$ 2,384
November 30, 2018	\$ 2,384	\$ 2,384

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 each of February 28, 2019 and November 30, 2018.

(7) Earnings Per Share

As of February 28, 2019 and 2018, there were 158,659,803 and 158,475,399 shares of common stock issued, respectively, and 158,051,803 and 157,867,399 shares of common stock outstanding, respectively. Outstanding shares as of February 28, 2019 and 2018 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 ended February 28, 2019 and 2018 (in thousands except per share data).

	For the Three Months Ended February 28,	
	2019(1)	2018(2)
Income (loss) per share:		
Numerator:		
Net income (loss) from continuing operations	\$ (37,459)	\$ 4,869
Net income (loss) from discontinued operations	(17)	(17)
Numerator for basic EPS - net income (loss) attributable to common stockholders	\$ (37,476)	\$ 4,852
Add back convertible notes interest	—	824
Numerator for diluted earnings per share - net income (loss) attributable to common stockholders	\$ (37,476)	\$ 5,676
Basic income (loss) per common share:		
Basic income (loss) from continuing operations	\$ (0.24)	\$ 0.03
Basic income (loss) from discontinued operations	—	—
Basic income (loss) per share available to common shareholders	\$ (0.24)	\$ 0.03
Diluted income (loss) per common share:		
Diluted income (loss) from continuing operations	\$ (0.24)	\$ 0.03
Diluted income (loss) from discontinued operations	—	—
Diluted income (loss) per share available to common shareholders	\$ (0.24)	\$ 0.03
Denominator:		
Basic	156,919,099	155,893,843
Diluted	156,919,099	216,029,455

- (1) The computation of diluted EPS does not include 85,000 shares of common stock underlying options, 100,000 shares of stock appreciation rights, 1,150,000 shares of restricted stock, 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 does not include 85,000 shares of common stock underlying options, 100,000 shares of stock appreciation rights and 2,000,000 shares of common stock underlying warrants, as the effect of their inclusion would have been anti-dilutive.

(8) 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 November 30, 2018, 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 ended February 28, 2019 and 2018, respectively.

As of February 28, 2019, 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 three months ended February 28, 2019:

<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>
Outstanding Balance, December 1, 2018	85,000	\$ 6.94	0.72	\$ —
Options granted	—	—	—	—
Options exercised	—	—	—	—
Options forfeited	—	\$ —	—	—
Options expired	—	—	—	—
Options outstanding, February 28, 2019	85,000	\$ 6.94	0.47	\$ —
Exercisable at February 28, 2019	85,000	\$ 6.94	0.47	—
Unvested at February 28, 2019	—	—	—	\$ —

As of February 28, 2019, 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 stock-based compensation expense of approximately \$98,000 and \$49,000 relating to restricted stock granted to the board and certain employees during the three months ended February 28, 2019 and 2018, respectively.

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 were 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. Approximately 46,000 and 60,000 shares of restricted stock were vested and forfeited, respectively, since issuance and 74,000 and 20,000 were vested and forfeited, respectively, during the eleven months ended November 30, 2018 with 0 unvested at February 28, 2019. The Company incurred stock-based compensation income due to forfeitures of approximately \$0 and \$91,000 related to these 200,000 shares of restricted stock during the three months ended February 28, 2019 and 2018 respectively.

During the year ended December 31, 2017, the Company granted 51,132 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 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 ended February 28, 2019 and 2018. Approximately 42,610 shares of restricted stock vested during the year ended December 31, 2017, with 8,522 vested during the eleven months November 30, 2018.

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. Approximately 750,000 shares of restricted stock vested during the eleven months ended November 30, 2018 and 250,000 during the three months ended February 28, 2019 with 1,000,000 unvested at February 28, 2019. The Company incurred stock-based compensation expense of approximately \$92,000 and \$141,000 related to these 2,000,000 shares of restricted stock during the three months ended February 28, 2019 and 2018, respectively.

During the eleven months November 30, 2018, the Company granted 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 \$0 related to these 150,000 shares of restricted stock during the three months ended February 28, 2019 and 2018, respectively. All 150,000 shares remained unvested at February 28, 2019.

The following table presents the activity of the Company's unvested shares of restricted stock for the three months ended February 28, 2019 :

Common Unvested Shares	Number of Shares
Outstanding Balance, December 1, 2018	1,400,000
Granted	—
Vested	(250,000)
Forfeited	—
Outstanding February 28, 2019	<u>1,150,000</u>

The aggregate intrinsic value of the awards of 150,000 and 1,000,000 shares is \$34,000 and \$267,000, respectively and the remaining weighted average life of these awards is 1.38 years and 0.72 years respectively as of February 28, 2019. As of February 28, 2019, a total of \$302,000 in stock based compensation remained unrecognized.

Stock Appreciation Rights (SARs)

During the eleven months November 30, 2018, the Company issued 100,000 SARs to the sole non-employee member of the ad hoc Capital Structure Committee of the Board, 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 had a fair value of \$9,000 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 100,000 SARs vested during the eleven months November 30, 2018 and remains unexercised at February 28, 2019.

(9) 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 February 28,	
	2019	2018
Total income	\$ —	\$ —
Total expenses	17	17
Income (loss) before income taxes	(17)	(17)
(Benefit) provision for income taxes	—	—
Net income (loss) from discontinued operations, net of income taxes	<u>\$ (17)</u>	<u>\$ (17)</u>

(10) 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 consolidated statements of operations in the periods in which the changes occur.

As of February 28, 2019 and November 30, 2018, the Company through its consolidated and deconsolidated subsidiary companies owned 584 and 588 policies, respectively, with an aggregate estimated fair value of life settlements of \$495.9 million and \$506.4 million, respectively. 582 of these policies with a fair value of approximately \$493.6 million at February 28, 2019 are held by White Eagle whose results have been deconsolidated from the Company's results at November 30, 2018 and are pledged under the \$370.0 million, White Eagle Revolving Credit Agreement. See Note 4, "Deconsolidation of Subsidiaries" and Note 5, "Condensed and Consolidated Financial Statements for Entities in Bankruptcy," to the accompanying consolidated financial statements for further information. Two policies owned by the Company, with an aggregate death benefit of approximately \$12.0 million and a fair value of \$1.2 million were not pledged as collateral under the White Eagle Revolving Credit Facility and are included in the Company's Consolidated financial statements.

The following describes the Company's life settlements as of February 28, 2019 (dollars in thousands):

Policies Pledged Under White Eagle Revolving Credit Facility and Deconsolidated

The weighted average life expectancy calculated based on death benefit of insureds in the policies owned by White Eagle at February 28, 2019 was 8.8 years.

Remaining Life Expectancy (In Years)*	Number of Life Settlement Contracts	Estimated Fair Value	Face Value
0 - 1	4	\$ 19,263	\$ 23,213
1 - 2	22	59,864	86,746
2 - 3	22	36,313	66,424
3 - 4	37	66,279	158,247
4 - 5	44	75,639	216,350
Thereafter	453	237,373	2,202,270
Total	582	\$ 494,731	\$ 2,753,250

*Based on remaining life expectancy at February 28, 2019, 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.

The weighted average life expectancy calculated based on death benefit of insureds in the policies owned by the White Eagle at November 30, 2018 was 8.9 years.

Remaining Life Expectancy (In Years)*	Number of Life		
	Settlement Contracts	Fair Value	Face Value
0-1	6	\$ 24,221	\$ 28,796
1-2	12	30,828	46,390
2-3	31	72,343	126,402
3-4	37	57,874	139,447
4-5	46	77,719	217,450
Thereafter	454	242,251	2,217,430
Total	586	\$ 505,236	\$ 2,775,915

*Based on remaining life expectancy at November 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 15, "Fair Value Measurements," of the accompanying consolidated financial statements.

During the three months ended February 28, 2019 and 2018, the Company experienced maturities of 4 and 4 life insurance policies, respectively, with face amounts totaling \$23.0 million and \$22.7 million, respectively, resulting in a net gain of approximately \$15.7 million and \$14.1 million, respectively.

The below is an analysis of policy maturities for the three months ended February 28, 2019 and 2018.

	Three Months Ended February 28,	
	2019	2018
Face value	\$ 23,000	\$ 22,700
Cost*	5,635	6,442
Accumulated Change in Fair Value *	1,673	2,130
Carrying Value	7,308	8,572
Gain on Maturities	\$ 15,692	\$ 14,128
Number of Policies	4	4

* Cost includes purchase price and premiums paid into the policy to date of maturity. Accumulated change in fair value is impacted by changes in discount rate, updated life expectancy estimates on the life insurance policy and cost of insurance increase.

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 February 28, 2019, are as follows (in thousands):

Remainder of 2019	77,585
2020	108,567
2021	110,681
2022	109,583
2023	106,968
Thereafter	1,027,569
	\$ 1,540,953

The amount of \$1.54 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.

Policies Not Pledged

The weighted average life expectancy calculated based on death benefit of insureds in the policies owned by the Company at February 28, 2019 was 12.0 years.

Remaining Life Expectancy (In Years)	Number of Life		
	Settlement Contracts	Fair Value	Face Value
0-1	—	—	—
1-2	—	—	—
2-3	—	—	—
3-4	—	—	—
4-5	—	—	—
Thereafter	2	1,213	12,000
Total	2	\$ 1,213	\$ 12,000

The weighted average life expectancy calculated based on death benefit of insureds in the policies owned by the Company at November 30, 2018 was 12.2 years.

Remaining Life Expectancy (In Years)*	Number of Life		
	Settlement Contracts	Fair Value	Face Value
0-1	\$ —	\$ —	\$ —
1-2	—	—	—
2-3	—	—	—
3-4	—	—	—
4-5	—	—	—
Thereafter	2	1,172	12,000
Total	\$ 2	\$ 1,172	\$ 12,000

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 February 28, 2019, are as follows (in thousands):

Remainder of 2019	124
2020	190
2021	220
2022	252
2023	283
Thereafter	4,952
	\$ 6,021

The amount of \$6.0 million 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.

(11) 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 (as defined below) 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 and 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. 582 life insurance policies with an aggregate death benefit of approximately \$2.8 billion and an estimated fair value of approximately \$494.7 million are pledged as collateral under the White Eagle Revolving Credit Facility at February 28, 2019. 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.

Amortization and 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 &	Principal	Distribution to White Eagle	
	Other Fees		- 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 February 28, 2019, the cash interest coverage ratio was 3.74:1 and the loan to value ratio was 83%, as calculated using the lenders' valuation most recent valuation dated October 31, 2018. The lender ceased provided its valuation to the Company subsequent to October 31, 2018.

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 \$44.4 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 12, "8.50% Senior Unsecured Convertible Notes", Note 13, "5.0% Senior Unsecured Convertible Notes" and Note 14, "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.

Due to the White Eagle Chapter 11 Case, there was no waterfall distribution for the three month period ended February 28, 2019 .

In connection with the White Eagle Chapter 11 Case, on January 15, 2019, the Bankruptcy Court authorized the Debtors to use the proceeds of the cash collateral for a period of twenty (20) weeks (the "Cash Collateral"). The Cash Collateral may be used solely for the purposes permitted under the budget approved by the Bankruptcy Court, including (i) to provide working capital needs of the Debtors and general corporate purposes of the Debtors, (ii) to make the payments or fund amounts otherwise permitted in the final order that authorized such uses and such budget, (iii) to fund amounts necessary to pay certain fees; and (iv) to fund amounts necessary to pay certain professional fees in accordance with such budget.

The below is a reconciliation of proceeds collected by the White Eagle Revolving Credit Facility and distributed from the collection account in accordance with the budget approved by the Bankruptcy court (in thousands):

Collection account balance at December 1, 2018	\$	28,059
Face value collected in current quarter		14,000
Other collections in current quarter*		2,563
	\$	<u>44,622</u>
Expenses paid from the collection account Post-Petition		
Premiums	\$	(22,880)
Lender's Interest		(2,400)
White Eagle Credit Facility expenses		(2,779)
Total payment	\$	<u>(28,059)</u>
Collection account balance at February 28, 2019	\$	<u>16,563</u>

*Includes refund of premiums and interest earned on maturity proceeds

For the three month period ended February 28, 2018 approximately \$7.8 million 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):

Three Months Ended February 28, 2018		
Clause	Amount	Use of Proceeds
First:	\$ 84	Custodian and Securities Intermediary
Second:	—	White Eagle - Ongoing Maintenance Cost Reimbursable
Third:	—	Administrative Agent - Protective Advances
Fourth:	10	Administrative Agent - Administrative Agent Fee and Legal Expense Reimbursement
Fifth:	5,187	Administrative Agent - Accrued and Unpaid Interest
Sixth:	1,763	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	\$ <u>7,800</u>	

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 amendment to the White Eagle Revolving Credit Facility on November 9, 2015 (the "White Eagle Amendment"), 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 ended February 28, 2019 and 2018, advances for premium payments and fees to service providers amounted to (in thousands):

Three Months Ended February 28,

	2019	2018
Amount drawn for premium payments	\$ 4,221	\$ 22,694
Amount drawn in fees to service providers	—	640
Total amount drawn	\$ 4,221	\$ 23,334

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 31, 2018, the LIBOR floor increased from 2.11% to 3.01%. The effective rate at February 28, 2019 and 2018 was 9.51% and 6.61%, respectively. In the event that an Event of Default has occurred and is continuing, the interest rate will be equal to the sum of (i) the greater of (a) (1) LIBOR or, if LIBOR is unavailable, (2) the Base Rate and (b) one and a half percent (1.5%) plus (ii) six and a half percent (6.5%).

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 ended February 28, 2019 and 2018 paid from maturity proceeds or paid directly by White Eagle was as follows (in thousands):

	Three Months Ended February 28,	
	2019	2018
Interest paid through waterfall	\$ —	\$ 5,187
Interest paid by White Eagle	—	—
Participation interest paid through waterfall	—	340
Interest paid from collection account	2,400	—
Total interest expense	\$ 2,400	\$ 5,527

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 February 28, 2019, the cash interest coverage ratio was 3.74:1. 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.

Voluntary Petitions for Relief Under Chapter 11

On the Petition Date Lamington and WEGP filed the November Chapter 11 Cases in the Bankruptcy Court. Lamington is the limited partner and owns 99.99%, and WEGP is the general partner and owns 0.01%, of White Eagle. In its capacity as general partner, WEGP manages the affairs of White Eagle. The Lamington and WEGP filings are referred to as the "November Chapter 11 Cases."

The commencement of the November Chapter 11 Cases constitutes an event of default under the White Eagle Revolving Credit Facility, resulting in the principal and accrued interest due from White Eagle thereunder becoming immediately due and payable. Lamington and WEGP have pledged their respective interests in White Eagle to secure its obligations under the White Eagle Revolving Credit Facility. Any efforts or CLMG to enforce such pledges by Lamington and WEGP of their respective interests in White Eagle in connection with the White Eagle Revolving Credit Facility are automatically stayed as a result of the commencement of the November Chapter 11 Cases and LNV's and CLMG's rights of enforcement in respect of the White Eagle Revolving Credit Facility are subject to the applicable provisions of the Bankruptcy Code. In addition, on November 15, 2018, White Eagle, LNV and CLMG entered into an Agreement Regarding Rights and Remedies (the "Standstill Agreement"), pursuant to which LNV and CLMG agreed to refrain from exercising their rights and remedies in connection with the White Eagle Revolving Credit Facility, subject to the terms and provisions of the Standstill Agreement, until 12:00 p.m. noon Pacific time on November 26, 2018, to facilitate negotiations. The effective period under the Standstill Agreement was extended several times, finally to December 13, 2018.

On December 13, 2018, White Eagle filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. The Chapter 11 case is being administered under case number 18-12808 the "White Eagle Chapter 11 Case" and, together with the November Chapter 11 Cases, the "Chapter 11 Cases").

The commencement of the White Eagle Chapter 11 Case would constitute a default and event of default under the terms of the Amended and Restated Senior Note Indenture relating to the Company's Amended and Restated Senior Secured Indenture and the New Convertible Note Indenture. However, such defaults and events of default and their consequences were waived in advance of the White Eagle Chapter 11 Case by holders of all of the outstanding principal amount of the 8.5% Senior Secured Notes and by holders of a majority of the outstanding principal amount of the outstanding New Convertible Notes, and consequently, the Company believes that no defaults, events of default or acceleration of the payment obligations thereunder, including principal or accrued interest, occurred under either the Company's Amended and Restated Senior Secured Indenture or the New Convertible Note Indenture.

The commencement of the White Eagle Chapter 11 Case, together with the related Chapter 11 Cases, constitutes an event of default under the White Eagle's Revolving credit facility (the "Credit Facility"), resulting in the principal and accrued interest due from White Eagle thereunder becoming immediately due and payable. Lamington and WEGP have pledged their respective interests in White Eagle to secure its obligations under the White Eagle Revolving Credit Facility. Any efforts by LNV to enforce repayment by White Eagle and/or such pledges by Lamington and WEGP of their respective interests in White

Eagle in connection with the White Eagle Revolving Credit Facility are automatically stayed as a result of the commencement of the Chapter 11 Cases and LNV's and CLMG's rights of enforcement in respect of the White Eagle Revolving Credit Facility are subject to the applicable provisions of the Bankruptcy Code. The previously announced Standstill Agreement among White Eagle, LNV and CLMG expired prior to the filing of the White Eagle Chapter 11 Case.

Beal Litigation

On January 25, 2019, the Company, White Eagle, Lamington, and WEGP (collectively the Plaintiffs filed the Suit against LNV, Silver Point and GWG the "Defendants") in the United States Bankruptcy Court for the District of Delaware (the "Court"), where the Suit will be administered together with the previously filed and announced petitions for relief under Chapter 11 of the United States Bankruptcy Code of White Eagle, Lamington and WEGP (the "Chapter 11 Cases" and White Eagle, Lamington and WEGP, the "Debtors"). LNV, a subsidiary of Beal Bank ("Beal"), is the lender under the White Eagle Revolving credit facility (the "Credit Facility").

In the Suit, the Plaintiffs allege that the Defendants engaged in a scheme to coerce the Plaintiffs into selling their valuable portfolio of life insurance policies to defendants for well below its true value. Pursuant to the White Eagle Revolving Credit Facility, LNV agreed to lend \$370 million to White Eagle, and in connection therewith received a 45% equity stake in White Eagle. That equity stake, and LNV's significant control over White Eagle under the White Eagle Revolving Credit Facility, creates a joint venture, and gives rise to fiduciary duties to White Eagle and Emergent, on the part of LNV. The Plaintiffs further allege that LNV has been engaged in a concerted campaign to "squeeze" White Eagle and Emergent by improperly restricting their cash flow, in the hopes that White Eagle and Emergent will have no choice but to sell the valuable policy portfolio to LNV or one of its proxies, including Silver Point and/or GWG, at below its true value.

In connection with the White Eagle Chapter 11 Case, on January 15, 2019, the Bankruptcy Court authorized the Debtors to use the proceeds of the cash collateral for a period of twenty (20) weeks (the "Cash Collateral"). The Cash Collateral may be used solely for the purposes permitted under the budget approved by the Bankruptcy Court, including (i) to provide working capital needs of the Debtors and general corporate purposes of the Debtors, (ii) to make the payments or fund amounts otherwise permitted in the final order that authorized such uses and such budget, (iii) to fund amounts necessary to pay certain fees; and (iv) to fund amounts necessary to pay certain professional fees in accordance with such budget.

Deconsolidation of Subsidiaries

Lamington and its subsidiaries (White Eagle, WEGP and Lamington Road Bermuda Limited), financial results are included in the Company's consolidated results through November 13, 2018, the day prior to the Petition Date. However, ASC 810, *Consolidation* require that an entity whose financial statements were previously consolidated with those of its parent that files for protection under the U.S. Bankruptcy Code, whether solvent or insolvent, generally must be prospectively deconsolidated from the parent and presented as an equity investment (deconsolidation applies to Lamington and all subsidiaries owned, directly or indirectly, by Lamington, including WEGP, White Eagle and Lamington Road Bermuda (which collectively are referred to herein as the "Deconsolidated Entities). Therefore, our 2019 results are not comparable with 2018, the post-petition results are not included in our consolidated results for the three months ended February 28, 2019. Under ASC 810, this loss of control would likely trigger a gain or loss for the parent as the parent would remeasure its retained noncontrolling investment at fair value. We assessed the inherent uncertainties associated with the outcome of the Chapter 11 reorganization process and the anticipated duration thereof, and concluded that it was appropriate to deconsolidate Lamington and its subsidiaries effective on the Petition Date.

In addition, ASC 852, *Reorganization* allows consolidated financial statements that include one or more entities in reorganization proceedings and one or more entities not in reorganization proceedings shall include condensed consolidated financial statements of the entities in reorganization proceedings.

See Note 5, "Condensed and Consolidated Financial Statements for Entities in Bankruptcy," to the accompanying consolidated financial statements for further information.

At February 28, 2019, the fair value of the outstanding debt was \$365.5 million with approximately \$368.0 million of 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 February 28, 2019, approximately \$16.6 million included in cash of the deconsolidated subsidiaries was on account with White Eagle. With the White Eagle Chapter 11 Case, the Bankruptcy Court authorized the Debtors to use the proceeds of the cash collateral for a

period of twenty (20) weeks (the "Cash Collateral"). The Cash Collateral may be used solely for the purposes permitted under the budget approved by the Bankruptcy Court.

(12) 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 million and \$1.0 million related to debt discount and origination cost, respectively. See Note 13 "5.0% Senior Unsecured Convertible Notes" for a description of the changes in terms of the Convertible Notes.

On February 20, 2019, the Company received written notice from U.S. Bank, National Association, the trustee under New Convertible Note Indenture, that the Company was in default (the "Event of Default") under the New Convertible Note Indenture for failure to pay the principal amount and accrued interest due upon maturity on February 15, 2019 of Convertible Notes due 2019 (the "Convertible Notes"). The outstanding principal amount of the Convertible Notes was \$1.2 million and accrued interest thereon was approximately \$63,000 as of February 28, 2019.

The Event of Default, which caused an automatic acceleration of the outstanding principal and accrued interest, had no practical effect on the Company, as such amounts were already due and payable. The Event of Default did not result in a cross-default under other debt agreements or arrangements of the Company. The total amount of \$1.2 million due, consisting of principal and accrued interest, will accrue interest at 8.5% per annum (the original interest rate of the Convertible Notes) until payment thereof is made.

As of February 28, 2019, the carrying value of the Convertible Notes was \$1.2 million.

During the three months ended February 28, 2019, 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 \$46,000 during the three months ended February 28, 2018, which included \$25,000, \$18,000 and \$3,000 from interest, amortizing debt discounts and origination costs, respectively.

(13) 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 the "New Convertible Note Indenture. 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.

Voluntary Petitions for Relief Under Chapter 11

On November 14, 2018, the November Chapter 11 Cases were filed, and on December 13, 2018, the White Eagle Chapter 11 Case was filed. The commencement of the Chapter 11 Cases would constitute defaults and events of default under the terms of the Company's Amended and Restated Senior Secured Indenture and the New Convertible Note Indenture. However, such defaults and events of default and their consequences were waived by holders of a majority of the outstanding principal amounts of each of the 8.5% Senior Secured Notes and the New Convertible Notes, and consequently, the Company believes that no defaults, events of default or acceleration of the payment obligations thereunder, including principal or accrued interest, occurred under either the Company's Amended and Restated Senior Secured Indenture or the New Convertible Note Indenture.

As of February 28, 2019, the carrying value of the New Convertible Notes was \$70.0 million, net of unamortized debt discounts and origination costs of \$5.1 million and \$748,000, respectively. These are being amortized over the remaining life of the New Convertible Notes using the effective interest method.

During the three months ended February 28, 2019, the Company recorded \$1.2 million of interest expense on the New Convertible Notes, including \$948,000, \$256,000 and \$38,000 from interest, amortization of debt discount and origination costs, respectively, compared to interest expense of \$1.2 million during the three months ended February 28, 2018, which included \$948,000, \$238,000 and \$35,000 from interest, amortizing debt discounts and origination costs, respectively.

(14) 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 to amend and restate the Senior Secured Indenture between the Company (as amended and restated, the "Amended and Restated Senior Note Indenture") 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 \$44.4 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 February 28, 2019. 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. 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.

On December 10, 2018, the Company and Wilmington Trust, National Association, as indenture trustee, entered into a Second Supplemental Indenture (the "Second Supplemental Indenture") which amended the Amended and Restated Indenture, dated as of July 28, 2017, as amended by the First Supplemental Indenture dated as of January 10, 2018 (as so amended, the "Indenture"), relating to the Company's 8.5% Senior Secured Notes due July 15, 2021 (the "8.5% Senior Secured Notes"). The Second Supplemental Indenture (i) increased the aggregate principal amount of Notes permitted to be issued under the Indenture from \$40 million to \$70 million and (ii) provided for interest on the Notes to be paid in kind, such that the principal amount of the relevant holder's note is increased by the amount of interest, in lieu of cash payment ("PIK"). The Company may elect to pay PIK interest instead of cash interest for any Interest Period (as defined in the Indenture) to holders of Notes who consented to accept PIK interest. Each holder of outstanding Notes made an election with respect to some or all of the outstanding principal amount of such holder's Notes as to whether or not to accept PIK interest whenever the Company elects to pay interest in PIK in lieu of cash. Any new holder of Notes, other than a transferee who is an affiliate of a transferring holder that did not elect to accept PIK interest, will be deemed to have elected to accept PIK interest. A holder receiving PIK interest shall also automatically receive, for each applicable Interest Period, an amount equal to 3.0% per annum of additional interest on the principal amount of such holder's Notes for which the holder elected to accept PIK interest. Holders receiving PIK is approximately \$26.8 million with approximately \$8.2 million electing to be paid by cash.

On December 15, 2018, the Company issued an additional \$779,000 in additional 8.5% Senior Secured Notes in lieu of a cash payment of interest to the relevant holders of the notes.

On December 28, 2018, the Company entered into subscription agreements (the "Subscription Agreements") with several investors (the "Investors"). Pursuant to the Subscription Agreements, the Investors purchased from the Company an aggregate of \$5.7 million principal amount of the Company's 8.5% Senior Secured Notes for an aggregate purchase price of \$4.3 million. The transactions were consummated on December 28, 2018.

On December 28, 2018, the Company received a commitment letter (the "Commitment Letter") from Ironsides Partners LLC, an entity affiliated with Robert Knapp, a member of the Board, for an aggregate investment, at the Company's election, of up to \$2.0 million principal amount of 8.5% Senior Secured Notes for an aggregate purchase price of up to \$1.5 million no later than January 31, 2019. The Commitment Letter contains certain conditions precedent to Ironsides' obligations to purchase such 8.5% Senior Secured Notes. On January 30, 2019, the Company entered into a Note Purchase Agreement (the "Note Purchase Agreement") with Ironsides Partners Special Situations Master Fund III L.P. (the "Investor"), which is affiliated with Robert Knapp, a member of the Company's Board of Directors. Pursuant to the Note Purchase Agreement, the Investor purchased from the Company \$2.0 million principal amount of the Company's 8.5% Senior Secured Notes for a purchase price of \$1.5 million.

On February 11, 2019, the Company entered into a Subscription Agreement (the "Subscription Agreement") with Brennan Opportunities Fund I LP (the "Investor"), which is affiliated with Patrick T. Brennan, a member of the Company's Board of

Directors. Pursuant to the Subscription Agreement, the Investor purchased from the Company \$967,000 principal amount of the Company's 8.5% Senior Secured Notes (the "Senior Notes") for a purchase price of \$725,000. The transaction was consummated on February 14, 2019.

Voluntary Petitions for Relief Under Chapter 11

On November 14, 2018, the November Chapter 11 Cases were filed, and on December 13, 2018, the White Eagle Chapter 11 Case was filed. The commencement of the Chapter 11 Cases would constitute defaults and events of default under the terms of the Company's Amended and Restated Senior Secured Indenture and the New Convertible Note Indenture. However, such defaults and events of default and their consequences were waived by holders of a majority of the outstanding principal amounts of each of the 8.5% Senior Secured Notes and the New Convertible Notes, and consequently, the Company believes that no defaults, events of default or acceleration of the payment obligations thereunder, including principal or accrued interest, occurred under either the Company's Amended and Restated Senior Secured Indenture or the New Convertible Note Indenture.

At February 28, 2019, the outstanding principal of the 8.5% Senior Secured Notes was \$44.4 million with a carrying value of \$41.5 million, net of discount and unamortized debt issuance cost of \$2.1 million and \$768,000, respectively.

During the three months ended February 28, 2019, the Company recorded approximately \$1.5 million of interest expense on the 8.5% Senior Secured Notes, which includes \$1.3 million of interest expense, \$82,000 of closing costs, \$61,000 of amortizing debt issuance costs and \$60,000 of amortizing of debt discount, respectively, compared to approximately \$807,000 of interest expense on the 8.5% Senior Secured Notes, during the three months ended February 28, 2018, which includes \$744,000 of interest and \$63,000 of amortizing debt issuance costs, respectively.

(15) Fair Value Measurements

The Company and its deconsolidated subsidiaries carries life settlements and debt under the White Eagle 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 February 28, 2019, are as follows (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investment in life settlements - Deconsolidated	\$ —	\$ —	\$ 494,732	\$ 494,732
Investment in life settlements - Consolidated	—	—	1,213	1,213
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 495,945</u>	<u>\$ 495,945</u>
Investment in deconsolidated subsidiaries	\$ —	\$ —	\$ 95,541	\$ 95,541

The balances of the Company's liabilities measured at fair value on a recurring basis as of February 28, 2019 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
White Eagle Revolving Credit Facility - Deconsolidated	\$ —	\$ —	\$ 365,499	\$ 365,499
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 365,499</u>	<u>\$ 365,499</u>

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

	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investment in life settlements - Deconsolidated	\$ —	\$ —	\$ 505,235	\$ 505,235
Investment in life settlements - Consolidated	—	—	1,172	1,172
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 506,407</u>	<u>\$ 506,407</u>
Investment in deconsolidated subsidiaries	\$ —	\$ —	\$ 128,795	\$ 128,795

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

	Level 1	Level 2	Level 3	Total Fair Value
Liabilities:				
White Eagle Revolving Credit Facility - Deconsolidated	\$ —	\$ —	\$ 346,670	\$ 346,670
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 346,670</u>	<u>\$ 346,670</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 - Deconsolidated

	Fair Value at 2/28/19	Aggregate death benefit at 02/28/19	Valuation Technique	Unobservable Input	Range (Weighted Average)
Non-premium financed - Deconsolidated	\$ 91,996	\$ 287,776	Discounted cash flow	Discount rate	12.25% - 13.25%
				Life expectancy evaluation	(5.5 years)
Premium financed - Deconsolidated	\$ 402,736	\$ 2,465,474	Discounted cash flow	Discount rate	12.25% - 19.25%
				Life expectancy evaluation	(9.1 years)
Life settlements - Deconsolidated	\$ 494,732	\$ 2,753,250	Discounted cash flow	Discount rate	13.41%
				Life expectancy evaluation	(8.8 years)
Premium financed - Consolidated	\$ 1,213	\$ 12,000	Discounted cash flow	Discount rate	13.25% - 14.75%
				Life expectancy evaluation	(12.0 years)
Life settlements	\$ 495,945	\$ 2,765,250	Discounted cash flow	Discount rate	13.41%
				Life expectancy evaluation	(8.8 years)
Investment in deconsolidated subsidiaries	95,541	\$ —	Discounted cash flow	Discount rate	22.50%
				Payoff amount and timeframe	
White Eagle Revolving Credit Facility - Deconsolidated	\$ 365,499	\$ 2,753,250	Discounted cash flow	Discount rate	23.27%
				Life expectancy evaluation	(8.8 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 life expectancy report providers ("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.

Historically, the Company has procured the majority of its life expectancy reports from two life expectancy report providers (AVS Underwriting LLC and 21st Services, LLC) for valuation purposes and average or "blending," the results of the two life expectancy reports to establish a composite mortality factor.

On October 18, 2018, 21st Services, LLC ("21st Services") announced revisions to its underwriting methodology, these revisions have generally been understood to lengthen the average reported life expectancy furnished by this life expectancy provider by 9%. On October 29, 2018, AVS Underwriting LLC ("AVS"), also announced revisions to its underwriting methodology without an estimated impact, which resulted in an average lengthening of the life expectancies by approximately 13%.

To account for the impact of the revisions by 21st Services and based off of market responses to the methodology change, the Company decided to lengthen the life expectancies furnished by 21st Services by 9% during the eleven months ended November 30, 2018. The resulting impact was approximately \$124.0 million reduction in the fair value of its life settlements.

Further, the Company has decide to no longer utilize the results of life expectancy reports furnished by AVS for valuation purposes. The Company's decision was based on a series of events leading up to the announcement on October 29, 2018, which includes AVS' inability to furnish timely reports to allow the Company to blend the results to facilitate timely quarterly reporting. Market participants have expressed concerns regarding their inability to connect the new AVS model to past model. During the eleven months ended November 30, 2018, the Company discontinued its blending approach. The resulting impact was approximately \$23.1 million reduction in the fair value of its life settlements.

Moving forward, the Company will procure its life expectancy report from 21st Services on a periodic basis and expects to continue to lengthen life expectancies furnished by 21st Services that have not been re-underwritten using their updated methodology. The amount of policies that are lengthened by the Company in this manner will decrease over time and the fair value calculations in future periods will, accordingly, reflect the actual impact of the revised 21st Services methodology on a policy by policy basis as updated life expectancy reports are procured. As of February 28, 2019, the Company received 95 updated life expectancies reports from 21st Services. These life expectancies reported an average lengthening of life expectancy of 27.6% based on this sample.

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 as of February 28, 2019 would be as follows (dollars in thousands):

Life Expectancy Months Adjustment - Deconsolidated	Value	Change in Value
+6	\$ 420,887	\$ (73,845)
-	\$ 494,732	\$ —
-6	\$ 575,523	\$ 80,791

<u>Life Expectancy Months Adjustment - Consolidated</u>	<u>Value</u>		<u>Change in Value</u>	
+6	\$	1,014	\$	(199)
-	\$	1,213	\$	—
-6	\$	1,421	\$	208

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 February 28, 2019, the Company determined that the weighted average discount rate calculated based on death benefit was 13.41% compared to 13.42% at November 30, 2018.

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 February 28, 2019, 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 February 28, 2019:

<u>Carrier - Deconsolidated</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	18.2%	21.1%	A1	AA-
Lincoln National Life Insurance Company	23.2%	19.9%	A1	AA-

<u>Carrier - Consolidated</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>
Sun Life Assurance Company of Canada	100%	100%	Aa3	AA-

Estimated risk premium

As of February 28, 2019, the life settlement portfolio includes 582 policies held by the deconsolidated subsidiaries with an estimated fair value of \$494.7 million and 2 policies held by Emergent with an estimated fair value of \$1.2 million totaling 584 policies. Of these 584 policies, 512 were previously premium financed and are valued using discount rates that range from 12.25% to 19.25%. The remaining 72 policies, which are non-premium financed, are valued using discount rates that range from 12.25% to 13.25%. As of February 28, 2019, the weighted average discount rate calculated based on death benefit used in valuing the policies in the Company's life settlement portfolio was 13.41%.

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 as of February 28, 2019 would be as follows (dollars in thousands):

Weighted Average Rate Calculated Based on Death Benefit - Deconsolidated	Rate Adjustment	Value	Change in Value
12.91%	-0.50%	\$ 507,495	\$ 12,763
13.41%	—	\$ 494,732	\$ —
13.91%	+0.50%	\$ 482,522	\$ (12,210)

Weighted Average Rate Calculated Based on Death Benefit - Consolidated	Rate Adjustment	Value	Change in Value
14.00%	(0.50)%	\$ 1,269	\$ 56
14.50%	—	\$ 1,213	\$ —
15.00%	0.50 %	\$ 1,161	\$ (52)

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 February 28, 2019, 582 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 11, "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.

When those policies mature, subject to the outcome of the bankruptcy and litigation proceedings referenced below, distributions will be made pursuant to a "waterfall" payment structure and any amounts available to us will vary based on the respective then current loan to value ratio under the facility. The White Eagle Revolving Credit Facility contemplates that proceeds will be directed to pay fees to service providers and premiums, with any remaining proceeds directed to pay outstanding interest. To the extent there is not sufficient remaining proceeds in the "waterfall" to satisfy the amount of required interest, White Eagle will be obligated to pay any such shortfall amount, subject to the outcome of the bankruptcy and litigation proceedings referenced below.

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. The fair value calculation at February 28, 2019, incorporates expected cash flows as approved by the Bankruptcy Court as documented above.

To account for the impact of the revisions to the mortality tables and based off of market responses to the methodology change, White Eagle decided to lengthen the life expectancies furnished by 21st Services by 9% during the eleven months ended November 30, 2018. The resulting impact was a positive change in the fair value of the White Eagle Revolving Credit Facility of approximately \$66.7 million.

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 February 28, 2019 would be as follows (dollars in thousands):

Discount Rate	Rate Adjustment	Fair Value of White Eagle Revolving Credit Facility	Change in Value
22.77%	-0.50 %	\$ 366,723	\$ 1,224
23.27%	—	\$ 365,499	\$ —
23.77%	+0.50 %	\$ 364,284	\$ (1,215)

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 February 28, 2019, the fair value of the debt was \$365.5 million and the outstanding principal was approximately \$368.0 million.

Investment in deconsolidated subsidiaries - As previously discussed in Note 4, upon the deconsolidation of Lamington, an investment was recorded for \$278.4 million which represented the fair value of the Company's investment in Lamington at November 13, 2018. The amount was equivalent to the carrying value of Lamington's net assets. The fair value measurements were calculated using unobservable inputs, primarily discounted cash flow analysis and classified as Level 3, requiring significant management judgment due to the absence of quoted market prices or observable inputs for assets of similar nature. The investment was further valued at November 30, 2018 by a third party also using unobservable inputs, which utilizes a discounted cash flow analysis considering the anticipated date the Company would emerge from bankruptcy, the settlement amount of debt, and future expenses, resulted in a fair value of approximately \$128.8 million, the Company further evaluate its investment at February 28, 2019 and took a further reduction of approximately \$34.0 million, the amount is reflected in current earnings as change in fair value of investment in deconsolidated subsidiaries, the fair value of \$95.5 million at February 28, 2019.

Changes in Fair Value

The following table provides a roll-forward in the changes in fair value for the three months ended February 28, 2019, 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 - Consolidated:

Balance, December 1, 2018	\$ 1,172
Purchase of policies	—
Change in fair value	2
Matured/lapsed/sold policies	—
Premiums paid	39
Balance, February 28, 2019	\$ 1,213
Changes in fair value included in earnings for the period relating to assets held at February 28, 2019	\$ 1

Life Settlements - Deconsolidated:

Balance, December 1, 2018	\$	505,235
Purchase of policies		—
Change in fair value		(12,750)
Matured/lapsed/sold policies		(23,000)
Premiums paid		25,247
Balance, February 28, 2019	\$	494,732
Changes in fair value included in earnings for the period relating to deconsolidated assets held at February 28, 2019	\$	<u>28,430</u>

The following table provides a roll-forward in the changes in fair value for the three months ended February 28, 2019, 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, December 1, 2018	\$	346,670
Draws under the White Eagle Revolving Credit Facility		4,221
Payments on White Eagle Revolving Credit Facility		—
Unrealized change in fair value		14,608
Balance, February 28, 2019	\$	365,499
Changes in fair value included in earnings for period relating to liabilities held at February 28, 2019	\$	<u>14,608</u>

The following table provides a roll-forward in the changes in fair value for the period ended three months ended February 28, 2019, for the investment in deconsolidated subsidiaries for which the Company determines fair value using a material level of unobservable (Level 3) inputs (in thousands):

Investment in Deconsolidated Subsidiaries

Investment in Lamington at December 1, 2018	\$	128,795
Increase in basis investment		711
Change in fair value		(33,965)
Investment in Lamington at February 28, 2019	\$	<u>95,541</u>

The following table provides a roll-forward in the changes in fair value for the three months ended February 28, 2018, 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, December 1, 2017	\$	557,786
Purchase of policies		—
Change in fair value		11,480
Matured/sold policies		(22,700)
Premiums paid		20,826
Transfers into level 3		—
Transfers out of level 3		—
Balance, February 28, 2018	\$	567,392
Changes in fair value included in earnings for the period relating to assets held at February 28, 2018	\$	<u>2,665</u>

The following table provides a roll-forward in the changes in fair value for the three months ended February 28, 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, December 1, 2017	\$	326,104
Draws under the White Eagle Revolving Credit Facility		23,334
Payments on White Eagle Revolving Credit Facility		(1,763)
Unrealized change in fair value		(1,624)
Transfers into level 3		—
Transfer out of level 3		—
Balance, February 28, 2018	\$	346,051
Changes in fair value included in earnings for the period relating to liabilities at February 28, 2018	\$	(1,624)

There were no transfers of financial assets or liabilities between levels of the fair value hierarchy during the three months ended February 28, 2019 and 2018.

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 9 "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 \$261,000, with a provision for a 3% increase on each anniversary of the rent commencement date. Rent expense was approximately \$77,000 and \$114,000 for the three months ended February 28, 2019 and 2018, respectively.

During the eleven months ended November 30, 2018, the Company entered into a sublease agreement with a subtenant that commenced on October 1, 2018 and expires on September 15, 2020. The annual base rent of the subtenant is \$78,000.

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 the 2018 Martinez Agreement 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.

On March 13, 2018, the Company entered into an employment agreement with Jack Simony (the "Simony Agreement"), pursuant to which Mr. Simony will continue to serve as Vice President and Chief Investment Officer of the Company. The term of the Simony Agreement commenced on March 13, 2018 and continues for one year, with automatic one-year extensions unless (x) either Mr. Simony or the Company gives written notice not to extend at least sixty (60) days' prior to the end of the then-current term or (y) Mr. Simony's employment is terminated in accordance with the terms of the Simony Agreement. Pursuant to the Simony Agreement, Mr. Simony will receive an annual base salary of \$275,000.

The Simony Agreement further provides that Mr. Simony is entitled to participate in all benefit plans provided to executives of the Company. If the Company terminates Mr. Simony's employment without cause or he resigns with Good Reason (as defined in the Simony Agreement), the Simony Agreement provides that he will be entitled to receive his base salary through the six (6) months following such termination (the "Simony Severance Period") as well as any incentive bonus that has been declared or awarded to him for a prior fiscal year but has not yet been paid. If Mr. Simony resigns for good reason, he will also be entitled to have the Company continue to pay its portion of health care premiums for plans in which he is participating immediately prior to the termination through the Simony Severance Period.

On March 13, 2018, the Company entered into an employment agreement with Harvey Werblowsky (the "Werblowsky Agreement"), pursuant to which Mr. Werblowsky will continue to serve as Vice President, Chief Legal Officer and General Counsel of the Company. The term of the Werblowsky Agreement commenced on March 13, 2018 and continues for one year, with automatic one-year extensions unless (x) either Mr. Werblowsky or the Company gives written notice not to extend at least sixty (60) days' prior to the end of the then-current term or (y) Mr. Werblowsky's employment is terminated in accordance with the terms of the Werblowsky Agreement. Pursuant to the Werblowsky Agreement, Mr. Werblowsky will receive an annual base salary of \$250,000.

The Werblowsky Agreement further provides that Mr. Werblowsky is entitled to participate in all benefit plans provided to executives of the Company. If the Company terminates Mr. Werblowsky's employment without cause or he resigns with Good Reason (as defined in the Werblowsky Agreement), the Werblowsky Agreement provides that he will be entitled to receive his base salary through the six (6) months following such termination (the "Werblowsky Severance Period") as well as any incentive bonus that has been declared or awarded to him for a prior fiscal year but has not yet been paid. If Mr. Werblowsky resigns for good reason, he will also be entitled to have the Company continue to pay its portion of health care premiums for plans in which he is participating immediately prior to the termination through the Werblowsky 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. In September 2018, the Circuit Court ruled that Florida is the jurisdiction for all the Sun Life cases.

Voluntary Petitions for Relief Under Chapter 11

On the Petition Date, the November Chapter 11 Cases were filed. The commencement of the November Chapter 11 Cases constitutes an event of default under the White Eagle Revolving Credit Facility, resulting in the principal and accrued interest due from White Eagle thereunder becoming immediately due and payable. Lamington and WEGP have pledged their respective interests in White Eagle to secure its obligations under the White Eagle Revolving Credit Facility. Any efforts by LNV or CLMG to enforce such pledges by Lamington and WEGP of their respective interests in White Eagle in connection with the White Eagle Revolving Credit Facility are automatically stayed as a result of the commencement of the November Chapter 11 Cases and LNV's and CLMG's rights of enforcement in respect of the White Eagle Revolving Credit Facility are subject to the applicable provisions of the Bankruptcy Code. In addition, on November 15, 2018, White Eagle, LNV and CLMG entered into an Agreement Regarding Rights and Remedies (the "Standstill Agreement"), pursuant to which LNV and CLMG agreed to refrain from exercising their rights and remedies in connection with the White Eagle Revolving Credit Facility, subject to the terms and provisions of the Standstill Agreement, until 12:00 p.m. noon Pacific time on November 26, 2018, to facilitate negotiations.

On December 13, 2018, the White Eagle Chapter 11 Case was filed. The commencement of the White Eagle Chapter 11 Case would constitute a default and event of default under the terms of the Amended and Restated Senior Note Indenture 8.5% Senior Secured Notes Unsecured and the New Convertible Indenture relating to the New Convertible Notes. However, such defaults and events of default and their consequences were waived by holders of all of the outstanding principal amount of the outstanding 8.5% Senior Secured Notes and by holders of a majority of the outstanding principal amount of the outstanding New Convertible Notes, and consequently, the Company believes that no defaults, events of default or acceleration of the payment obligations thereunder, including principal or accrued interest, occurred under either the Amended and Restated Senior Note Indenture or the New Convertible Note Indenture.

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 February 28, 2019, 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 and were fully vested and outstanding, 633,215 shares of restricted stock had been granted to directors and were fully vested, 2,270,000 shares of restricted stock units had been granted to certain employees, with a total of 1,150,000 shares subject to vesting. Approximately 1,120,000 shares have been vested since granted. There were 9,511,785 securities remaining for future issuance under the Omnibus Plan as of February 28, 2019.

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

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 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 0.0% for the three months ended February 28, 2019. 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.

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 months ended February 28, 2019, the Company does not expect that position to change and therefore is not recording any income tax benefit.

For tax years beginning after December 31, 2017 under certain circumstances, Section 245A enacted by the TCJA eliminated U.S. federal income tax on dividends received from foreign subsidiaries of domestic corporations under a new participation exemption. However, the TCJA also created a new tax on certain foreign income under new Section 951A. Specifically, for tax years beginning after December 31, 2017, income earned in excess of a deemed return on tangible assets held by a CFC (the excess referred to as "GILTI") must generally be included as U.S. taxable income on a current basis by its U.S. shareholders. In general, the gross income inclusion can be offset by a deduction in an amount up to 50% of the inclusion (through the end of 2025, thereafter the deduction is reduced to 37.5%) subject to certain limitations.

The Company changed the tax year of its U.S. parent (Emergent Capital, Inc.) from December 31st to November 30th coupled with a concurrent change to the tax year of Lamington Road Designated Activity Company ("Lamington"), its wholly-owned Irish subsidiary. The change was timely made by filing Form 1128, *Application to Adopt, Change, or Retain a Tax Year*, in accordance with Rev. Proc. 2006-45 and resulted in a short tax year ended November 30, 2017. The Company timely filed federal and state tax returns for the short period ended November 30, 2017. As a result of the change in tax year, the Company is subject to GILTI for its first tax year beginning on December 1, 2018. Based on the Company's life settlement assets held within Ireland, the net income generated from these activities 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 adopted 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 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.

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 through its consolidated and deconsolidated subsidiary companies owns a portfolio of 584 life insurance policies, also referred to as life settlements, with a fair value of approximately \$495.9 million and an aggregate death benefit of approximately \$2.8 billion at February 28, 2019. 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 and reported negative cash flows from operating activities of \$3.8 million for the three months ended February 28, 2019 and \$41.2 million for the eleven months ended November 30, 2018. As of February 28, 2019, we had approximately \$3.8 million of cash and cash equivalents and certificates of deposit of \$503,000; of this amount, approximately \$3.8 is available to pay premiums on the two unencumbered policies of which such expenses will approximate \$124,000 in 2019 and other overhead expenses.

In connection with the White Eagle Chapter 11 Case, on January 15, 2019, the Court authorized the Debtors to use the proceeds of pre-petition cash collateral for a period of twenty (20) weeks (the "Cash Collateral"). The Cash Collateral may be used solely for the purposes permitted under the budget approved by the Court, including (i) to provide working capital needs of the Debtors and general corporate purposes of the Debtors, (ii) to make the payments or fund amounts otherwise permitted in the final order that authorized such uses and such budget, (iii) to fund amounts necessary to pay certain fees; and (iv) to fund amounts necessary to pay certain professional fees in accordance with such Budget.

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 factors including but not limited to, the receipt of death benefits from life insurance policy maturities, strategic capital market raises, pledged policy sales (subject to certain asset sale restrictions by the bankruptcy court), secure financing needed to exit the bankruptcy process, the approval of the Bankruptcy Court to continue utilizing death benefits for payment of premiums and cash on hand.

As of the filing date of this Form 10-Q, we had approximately \$2.8 million of cash and cash equivalents inclusive of certificates of deposit of \$503,000. Our deconsolidated subsidiaries holds approximately \$17.6 million in cash and cash equivalents which is restricted by the Bankruptcy Court. In considering our forecast for the next twelve months and the pending approval of the Debtors' Chapter 11 reorganization plan by the Bankruptcy Court, these facts, aggregated with the current cash balance as of the filing for this Form 10-Q, create a substantial doubt of the Company's ability to meet their financial needs. In considering the factors above, management plans to continue to operate our business and to seek Bankruptcy Court approval to continue to use cash collateral after the expiration of the initially approved twenty (20) week period.

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.

White Eagle Revolving Credit Facility Events

Our deconsolidated subsidiary, White Eagle, is the owner of 582 life insurance policies with an aggregate death benefit of approximately \$2.8 billion and a fair value of approximately \$494.7 million at February 28, 2019. 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 three months ended February 28, 2019, our deconsolidated subsidiaries experienced maturity of 4 life insurance policies with face amounts totaling \$23.0 million, resulting in a net gain of approximately \$15.7 million. The gains related to these maturities are included in income from changes in the fair value of life settlements in the deconsolidated subsidiaries statements of operations for the three months ended February 28, 2019. Proceeds from maturities totaling \$14.0 million were received during the three months ended February 28, 2019 and is included in the \$16.6 million for the collection account for White Eagle which was approved by the Bankruptcy Court to be used solely for the purposes permitted under the budget approved by the Court.

Assuming we recognize no policy maturities, our estimated premiums for the remainder of 2019 would be \$80.3 million. White Eagle would be eligible to borrow approximately \$80.1 million of this amount subject to the Company securing new financing to exit the bankruptcy process with approximately \$124,000 in estimated premiums required to maintain the policies not pledged as collateral under the White Eagle Revolving Credit Facility as of February 28, 2019.

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 10, "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.

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.

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.

Deconsolidation

Lamington and its subsidiaries' (White Eagle and WEGP) filing for reorganization was a reconsideration event for Emergent Capital to reevaluate whether consolidation of Lamington and its subsidiaries (White Eagle, WEGP and Lamington Road Bermuda Limited and together with Lamington, the "Deconsolidated Entities) continued to be appropriate. Under ASC 810, *Consolidation*, specifically ASC 810-10-15, consolidation of a majority-owned subsidiary is precluded where control does not rest with the majority owners, for instance, where the subsidiary is in legal reorganization or bankruptcy. Accordingly, when a subsidiary files for bankruptcy, it is appropriate for the parent to deconsolidate the subsidiary. Under ASC 810, this loss of control would likely trigger a gain or loss for the parent as the parent would remeasure its retained noncontrolling investment at fair value. We assessed the inherent uncertainties associated with the outcome of the Chapter 11 reorganization process and the anticipated duration thereof, and concluded that it was appropriate to deconsolidate Lamington and its subsidiaries effective on the Petition Date.

ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* was effective for calendar year-end public business entities in 2018. Under the new guidance, a reporting entity should account for its equity investments that are not consolidated or accounted for under the equity method at fair value, with changes to fair value recorded in current earnings. Lamington's main subsidiary, White Eagle, carries its life settlements policies and debt under the White Eagle Revolving Credit Facility at fair value, these valuations are based on inputs that are both significant to the fair value measurement and unobservable. As a result, the Company adopted ASU 2016-01 to value its investment in Lamington during the eleven months ended November 30, 2018. The calculation was performed consistent with ASC 820, *Fair Value Measurement* with changes in fair value recorded in current earnings.

Related Party Relationship

Upon filing for Chapter 11 and the subsequent deconsolidation, transactions with Lamington are no longer eliminated in consolidation and are treated as related party transactions for Emergent Capital. See [Note 5](#) "Condensed and Consolidated Financial Statements For Entities in Bankruptcy" for all transactions between Emergent Capital and Lamington.

Accounting Changes

Note 3, "*Recent Accounting Pronouncements*," of the Notes to Consolidated Financial Statements discusses accounting standards adopted in 2019, 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 February 28,	
	2019	2018
Consolidated		
End of Period — Policies Owned		
Number of policies owned	2	604
Average age of insured	77.9	83.6
Average death benefit per policy	\$ 6,000	\$ 4,731
Average Life Expectancy — Calculated LE (Years)	12.0	8.2
Aggregate Death Benefit	\$ 12,000	\$ 2,857,767
Aggregate fair value	\$ 1,213	\$ 567,392
Monthly premium — average per policy	\$ 7.0	\$ 12.6
Period Maturities		
Number of policies matured	—	4
Average age of insured at maturity	—	82.7
Average life expectancy - Calculated LE (Years)	—	6.9
Aggregate death benefit	\$ —	\$ 22,700
Gains on maturity	\$ —	\$ 14,128
Proceeds collected	\$ —	\$ 10,104
White Eagle Portfolio - Deconsolidated		
End of Period — Policies Owned		
Number of policies owned	582	—
Average age of insured	84.5	—
Average death benefit per policy	\$ 4,731	\$ —
Average Life Expectancy — Calculated LE (Years)	8.8	—
Aggregate Death Benefit	\$ 2,753,250	\$ —
Aggregate fair value	\$ 494,732	\$ —
Monthly premium — average per policy	\$ 15.0	\$ —
Period Maturities		
Number of policies matured	4	—
Average age of insured at maturity	84.9	—
Average life expectancy - Calculated LE (Years)	5.9	—
Aggregate death benefit	\$ 23,000	\$ —
Gains on maturity	\$ 22,338	\$ —
Proceeds collected	\$ 14,000	\$ —

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.

On September 7, 2018, the Board of Directors adopted resolutions to change the Company's fiscal year end, and therefore the Company and its direct and indirect subsidiaries changed their fiscal year ends, from December 31 to November 30, effective immediately. The Company filed a Transition Report on Form 10-KT in accordance with SEC rules and regulations for the fiscal period ended November 30, 2018 covering transactions from January 1, 2018 to November 30, 2018. This Form

10Q cover the period December 1, 2018 to February 28, 2019 compared to December 1, 2017 to February 28, 2018. As a result, the Form 10Q will not be comparable to the results filed for the first quarter of 2018 covering January 1, 2018 to March 31, 2018.

Additionally, as a result of our subsidiaries' Chapter 11 Cases, Lamington's and its subsidiaries' (White Eagle, WEGP and Lamington Road Bermuda Limited), financial results are included in the Company's consolidated results through November 13, 2018, the day prior to the Petition Date. However, ASC 810, *Consolidation* require that an entity whose financial statements were previously consolidated with those of its parent that files for protection under the U.S. Bankruptcy Code, whether solvent or insolvent, generally must be prospectively deconsolidated from the parent and presented as an equity investment. Therefore, our 2019 results are not comparable with 2018, and the post-petition results are not included in our consolidated results for the three months ended February 28, 2019. The results of White Eagle represents the Company's core business, and although the results are deconsolidated, the Company will analyze significant activities for the deconsolidated subsidiaries

Our results of operations are discussed below in three parts: (i) our consolidated results of continuing operations for 2019 compared to 2018, (ii) our results of deconsolidated subsidiaries for 2019, and (iii) our results of discontinued operations 2019 compared to 2018.

Results of Continuing Operations - Consolidated Subsidiaries

Three Months Ended February 28, 2019 Compared to Three Months Ended February 28, 2018

Net loss from continued operations for the quarter ended February 28, 2019 was \$37.5 million as compared to a net income of \$4.9 million for the same period last year. The following is our analysis for the period.

	Three Months Ended February 28,				
	2019	2018	Change	% Change	
Income	\$ 12	\$ 11,605	\$ (11,593)	(100)%	decrease
Expenses	37,471	9,946	27,525	277 %	increase
(Benefit) provision for income taxes	—	(3,210)	3,210	— %	decrease
Net income (loss)	\$ (37,459)	\$ 4,869	\$ (42,328)	(869)%	decrease

Income from continuing operations for the three months ended February 28, 2019 was significantly impacted by the deconsolidation of Lamington and related subsidiaries. Income for 2018 mainly includes net gain on maturity of \$14.1 million which is attributable to four policies maturity.

Total expenses from continuing operations for the three months ended February 28, 2019 were mainly comprised of interest expense of approximately \$1.2 million on the 5% Convertible Notes, \$1.5 million on the 8.5% Senior Secured Notes and \$46,000 on the 8.5% Convertible Notes.

Approximately \$34.0 million included in expense represents reduction of our investment in deconsolidated subsidiaries, the amount is reflected in current earnings as change in fair value of investment in deconsolidated subsidiaries. The fair value of \$95.5 million has inherent estimates including, but not limited to, when Lamington and related subsidiaries will emerge from bankruptcy, the estimated discount rate, the value of the debt under the White Eagle Revolving Credit Facility, as well as other factors inherent in the valuation process.

Total expenses from continuing operations for the three months ended February 28, 2018 were mainly comprised of interest expense on the White Eagle Revolving Credit Facility of \$5.2 million, \$1.2 million on the 5% Convertible Notes, \$807,000 on the 8.5% Senior Secured Notes and \$46,000 on the 8.5% Convertible Notes; offset by a change in the fair value gain for the White Eagle Revolving Credit Facility of \$1.6 million.

Income for the three months ended February 28, 2018 was impacted by a net tax benefit of approximately \$3.2 million which represents reversal of estimated cash taxes to be paid of approximately \$878,000 and deferred tax expense of approximately \$2.3 million.

See Note 19, "Income Taxes," to the accompanying consolidated financial statements for further information.

Change in fair value of life settlements (in thousands)

	Three Months Ended February 28,				
	2019	2018	Change	% Change	
Change in fair value of life settlements	\$ 2	\$ 11,480	\$ (11,478)	(100)%	decrease

During the three months ended February 28, 2018, four life insurance policies with face amounts totaling \$22.7 million matured. The net gain of these maturities was \$14.1 million and is recorded as a change in fair value of life settlements in the consolidated statements of operations for the three months ended February 28, 2018. Of these maturities all served as collateral under the White Eagle Revolving Credit Facility. Proceeds from maturities totaling \$10.1 million were received during the three months ended February 28, 2018. Approximately \$7.8 million in policy proceeds were utilized to repay interest and credit facility expenses under the White Eagle Revolving Credit Facility during the three months ended February 28, 2018. There were no maturity for the consolidated entities for the three months ended February 28, 2019.

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 increased, therefore, lengthening their life expectancies relative to the prior life expectancies.

Of these two policies owned as of February 28, 2019, all were previously premium financed and are valued using discount rates that range from 13.25% to 14.75%.

As of February 28, 2019, we owned 2 policies with an estimated fair value of \$1.2 million compared to 2 policies with an estimated fair value of \$1.2 million at November 30, 2018.

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

Expenses (in thousands)

	Three Months Ended February 28,				
	2019	2018	Change	% Change	
Interest expense	\$ 2,763	\$ 7,602	\$ (4,839)	(64)%	decrease
Change in fair value of investment in deconsolidated subsidiaries	33,965	—	33,965	100 %	increase
Change in fair value of White Eagle Revolving Credit Facility	—	(1,624)	1,624	(100)%	decrease
SG&A expenses	743	3,968	(3,225)	(81)%	decrease
Total Expense	\$ 37,471	\$ 9,946	\$ 27,525	277 %	increase

Interest expense (in thousands)

	Three Months Ended February 28,				
	2019	2018	Change	% Change	
White Eagle Revolving Credit Facility	\$ —	\$ 5,187	\$ (5,187)	(100)%	decrease
8.5% Convertible Notes	46	46	—	— %	no change
5% Convertible Notes	1,242	1,221	21	100 %	increase
8.5% Senior Secured Notes	1,471	807	664	100 %	increase
Participation Interest - White Eagle Revolving Credit Facility	—	340	(340)	100 %	decrease
Other	4	1	3	300 %	increase
Total Interest Expense	\$ 2,763	\$ 7,602	\$ (4,839)	(64)%	decrease

Outstanding debt for the quarter ended February 28, 2019 included \$1.2 million of 8.5% Convertible Notes, \$75.8 million of 5% Convertible Notes and \$44.4 million of 8.5% Senior Secured Notes.

The White Eagle Revolving Credit Facility interest expense shows a decrease of approximately \$5.2 million which is attributable to the deconsolidation of subsidiaries.

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 February 28, 2019.

During the three months ended February 28, 2019, the Company recorded \$1.2 million of interest expense on the 5% Convertible Notes, including \$948,000, \$256,000 and \$38,000 from interest, amortization of debt discount and origination costs, respectively.

During the three months ended February 28, 2019, the Company recorded approximately \$1.5 million of interest expense on the 8.5% Senior Secured Notes, which includes \$1.3 million of interest, \$82,000 of closing costs, \$61,000 of amortizing debt issuance costs and \$60,000 of amortizing of debt discount. Amounts for 2019 are higher due to new notes issued during the three months ended February 28, 2019.

Of the interest expense of \$7.6 million for the three months ended February 28, 2018, approximately \$5.2 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 2.11% at February 28, 2018.

The Company recorded approximately \$46,000 of interest expense on the 8.5% Convertible Notes, which included, \$25,000, \$18,000 and \$3,000 from a onetime debt modification cost, interest, amortizing debt discounts and origination costs, respectively, during the three months ended February 28, 2018.

The Company recorded approximately \$1.2 million on the 5% Convertible Notes, which included \$948,000, \$238,000 and \$35,000 from interest, amortization of debt discount and origination costs, respectively, during the three months ended February 28, 2018, respectively.

The Company recorded approximately \$807,000 of interest expense on the 8.5% Senior Secured Notes, during the three months ended February 28, 2018 which includes \$744,000 of interest and \$63,000 of amortizing debt issuance costs, respectively, during the three months ended February 28, 2018.

See Notes 11, "White Eagle Revolving Credit Facility," 12, "8.50% Senior Unsecured Convertible Notes," 13, "5.0% Senior Unsecured Convertible Notes," and 14 "8.5% Senior Secured Notes," to the accompanying consolidated financial statements for further information.

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

	Three Months Ended February 28,				
	2019	2018	Change	% Change	
White Eagle Revolving Credit Facility	\$ —	\$ (1,624)	\$ 1,624	(100)%	increase

At February 28, 2018, the White Eagle Revolving Credit Facility incurred a gain of approximately \$1.6 million. During the three months ended February 28, 2018, the fair value was impacted by increased borrowings and the lengthening of life expectancies certain insureds' underlying policies pledged under the White Eagle Revolving Credit Facility and a slight increase in the discount rates.

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 February 28,				
	2019	2018	Change	% Change	
Personnel costs	\$ 169	\$ 786	\$ (617)	(78)%	decrease
Legal fees	(5)	1,551	(1,556)	(100)%	decrease
Professional fees	335	955	(620)	(65)%	decrease
Insurance	179	196	(17)	(9)%	decrease
Other SG&A expenses	65	480	(415)	(86)%	decrease
Total SG&A Expenses	\$ 743	\$ 3,968	\$ (3,225)	(81)%	decrease

The overall change in operating expenses is due to the deconsolidation of the subsidiaries that have filed for Chapter 11, these expenses have been excluded from the consolidated results for the period. Significant decrease in operating expenses was primarily a result of a decrease in legal expense of \$1.6 million, a decrease in professional fees of \$620,000, a decrease in personnel costs of \$617,000, and a decrease in other operating expenses of \$415,000.

Results of Operations for Deconsolidated Subsidiaries

Net loss from deconsolidated operations was \$34.0 million and comprise the below:

	Three Months Ended February 28, 2019
Income (loss)	\$ (12,516)
Expenses	21,449
Net income (loss)	\$ (33,965)

Total income for the deconsolidated subsidiaries was a loss of \$12.5 million and mainly comprised change in fair value of life settlements loss of approximately \$12.8 million.

Expense was significantly impacted by change in fair value of the White Eagle Revolving Credit Facility of approximately of approximately \$14.6 million. Other items impacting expenses were interest expense of \$2.4 million, reorganization cost of \$1.9 million, administrative services fees of \$1.4 million, legal fees of \$587,000 and professional fees of \$428,000.

Change in fair value of life settlements (in thousands) - Deconsolidated Subsidiaries

During the quarter ended February 28, 2019, our deconsolidated subsidiaries had four life insurance policies with face amounts totaling \$23.0 million matured. The net gain of these maturities was \$15.7 million and is recorded as a change in fair

value of life settlements in the deconsolidated statements of operations for the quarter ended February 28, 2019. Proceeds from maturities totaling \$14.0 million were received during the quarter ended February 28, 2019. White Eagle recorded a \$36.8 million receivable for maturity of life settlements at February 28, 2019.

Other items impacting the change in fair value include updated life expectancies procured by our deconsolidated subsidiaries with 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.

On October 18, 2018, 21st Services, LLC ("21st Services") announced revisions to its underwriting methodology, these revisions have generally been understood to lengthen the average reported life expectancy furnished by this life expectancy provider by 9%. On October 29, 2018, AVS Underwriting LLC ("AVS"), also announced revisions to its underwriting methodology without an estimated impact, which resulted in an average lengthening of the life expectancies by approximately 13%.

In November 2018, White Eagle decided to no longer utilize the results of life expectancy reports furnished by AVS for valuation purposes. Going forward, White Eagle will procure its life expectancy reports solely from 21st Services on a periodic basis and expects to continue to lengthen life expectancies furnished by 21st Services that have not been re-underwritten using their updated methodology. The amount of policies that are lengthened by White Eagle in this manner will decrease over time and the fair value calculations in future periods will, accordingly, reflect the actual impact of the revised 21st Services methodology on a policy by policy basis as updated life expectancy reports are procured. As of February 28, 2019, White Eagle received 95 updated life expectancy reports from 21st Services. These life expectancies reported an average lengthening of life expectancies of 27.6% based on this sample, which is significantly higher than the 9% impact first communicated by 21st Services and has significantly impacted the results for the three months ended February 28, 2019 by approximately \$23.4 million.

White Eagle 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 its 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 February 28, 2019, White Eagle determined that the weighted average discount rate calculated based on death benefit was 13.41%, compared to 13.42% at November 30, 2018.

As of February 28, 2019, White Eagle owned 582 policies with an estimated fair value of \$494.7 million compared to 586 policies with an estimated fair value of \$505.2 million at November 30, 2018, a decrease in estimated fair value of \$9.3 million. As of February 28, 2019, the aggregate death benefit of White Eagle's life settlements was approximately \$2.8 billion.

Of these 582 policies owned as of February 28, 2019, 510 were previously premium financed and are valued using discount rates that range from 12.25% – 19.25%. The remaining 72 policies are valued using discount rates that range from 12.25% – 13.25%.

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

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

At February 28, 2019, the White Eagle Revolving Credit Facility incurred a loss of approximately \$14.6 million which is mainly attributable to the lengthening of life expectancies of certain insureds' underlying policies pledged under the Facility offset by assumptions of an early repayment of the Credit Facility due to the Chapter 11 filings. The calculation incorporates expected cash flows as approved by the Bankruptcy Court. The Facility is valued at February 28, 2019 using a discount rate of 23.27%.

Refer to [Note 4 "Deconsolidation of Subsidiaries"](#), [Note 5 "Condensed and Consolidated Financial Statements of Entities in Bankruptcy"](#) and [Note 6 "Consolidation of Variable Interest Entities"](#), of the Notes to Consolidated Financial Statements, provided in this report.

Results of Discontinued Operations

Three Months Ended February 28, 2019 Compared to Three Months Ended February 28, 2018

	Three Months Ended February 28,			
	2019	2018	Change	% Change
Total income	\$ —	\$ —	\$ —	—%
Total expenses	17	17	—	—%
Income (loss) before income taxes	(17)	(17)	—	—%
Net income (loss), net of income taxes	\$ (17)	\$ (17)	\$ —	—%

Net loss from our discontinued structured settlement operations for the three months ended February 28, 2019 was \$17,000 compared to a net loss of \$17,000 for the same quarter in 2018.

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.

The payment of premiums to maintain the life insurance policies represents our most significant requirement for cash disbursement. On a quarterly basis, we calculate the minimum premium payments required to maintain the policies in-force. Over time, as an insured ages, the relevant premium payments will increase. Nevertheless, the probability we will actually be required to pay the premium decreases as mortality becomes more likely. In addition to premiums, we incur policy servicing costs, including updated medical records, updated life expectancies and securities intermediaries fees; in most cases, these amounts are determined by the number of policies we own. The majority of these costs relates to the 582 policies pledged as collateral under the White Eagle Revolving Credit Facility, and as a result, we are able to pay these cost through maturity proceeds.

At February 28, 2019, we had approximately \$3.8 million of cash and cash equivalents and certificates of deposit of \$503,000. Of this amount, approximately \$3.8 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 \$21.7 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, policy sales (subject to the asset sale restrictions by the bankruptcy courts) and cash on hand.

For the three months ended February 28, 2019, we paid \$25.3 million in premiums to maintain our policies in force in our consolidated and deconsolidated subsidiaries. Of this amount, approximately \$25.2 million was paid by White Eagle through its borrowings and maturity proceeds. While the liquidity risk associated with the policies that have been pledged as collateral under the White Eagle Revolving Credit Facility has been mitigated, there can be no assurance as to when proceeds from maturities of the policies pledged as collateral under the White Eagle Revolving Credit Facility will be distributed to White Eagle. To the extent there are insufficient collections from policy proceeds to cover these amounts, these required payments will stress White Eagle's available cash. Assuming no policy maturities, as of February 28, 2019, we expect to pay \$124,000 in premiums during the remainder of 2019 on the two policies that have not been pledged under the White Eagle Revolving Credit Facility and \$80.1 million for the policies pledged under the White Eagle Revolving Credit Facility.

The following table illustrates the total amount of face value of life insurance policies owned, the trailing 12- months of life insurance policy maturities realized and premiums paid on our consolidated and deconsolidated portfolio. The trailing 12-month maturities/premium coverage ratio indicates the ratio of policy maturities realized to premiums paid over the trailing 12-month period from our portfolio of life insurance policies.

Quarter End Date	Portfolio Face Amount (\$)	12-Month Trailing Maturities Realized (\$)	12-Month Trailing Premiums Paid (\$)	12-Month Trailing Maturities/Premiums Coverage Ratio (%)
March 31, 2015	3,001,987	27,188	57,723	47%
June 30, 2015	2,982,416	63,768	59,990	106%
September 30, 2015	2,997,903	67,468	63,124	107%
December 31, 2015	2,979,352	67,403	64,923	104%
March 31, 2016	2,969,670	67,195	66,049	102%
June 30, 2016	2,966,388	34,815	67,843	51%
September 30, 2016	2,953,796	43,915	69,430	63%
December 31, 2016	2,946,511	37,460	71,681	52%
March 31, 2017	2,908,876	62,330	75,609	82%
June 30, 2017	2,903,899	63,353	79,378	80%
September 30, 2017	2,887,827	67,053	82,032	82%
December 30, 2017	2,880,487	67,176	84,751	79%
March 31, 2018	2,852,803	57,026	86,561	66%
June 30, 2018	2,826,863	78,039	87,650	89%
September 30, 2018	2,794,652	94,039	89,263	105%
November 30, 2018	2,787,916	93,435	91,601	102%
February 28, 2019	2,765,250	93,735	88,235	106%

We believe that the life insurance policy maturities we receive will continue to increase over time in relation to the premiums we are required to pay on the remaining policies in the portfolio but do expect that our portfolio cash flow on a period-to-period basis will remain inconsistent given its dependence on actual maturities.

At February 28, 2019, we had \$75.8 million, \$44.4 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, the Company has the ability to pay interest in kind on approximately \$36.2 million or 82% of the 8.5% Senior Secured Notes which was done during the three months ended February 28, 2019.

Liquidity

Historically, the Company has incurred substantial losses, which has resulted in an accumulated deficit of approximately \$343.5 million as of February 28, 2019. Cash flows used in operating activities were \$3.8 million for the three months ended February 28, 2019 and \$41.2 million for the eleven months ended November 30, 2018. As of February 28, 2019, the Company had approximately \$3.8 million of cash and cash equivalents and certificates of deposit of \$503,000; of this amount, approximately \$3.8 million is available to pay premiums on the two unencumbered policies of which such expenses will approximate \$124,000 in 2019 and other overhead expenses.

The Company's ability to continue as a going concern is dependent on its ability to meet its liquidity needs through a combination of factors including but not limited to, the receipt of death benefits from life insurance policy maturities, strategic capital market raises, pledged policy sales (subject to certain asset sale restrictions by the bankruptcy court), secure financing needed to exit the bankruptcy process, the approval of the Bankruptcy Court to continue utilizing death benefits for payment of premiums and cash on hand. Management's current plans is to exit the bankruptcy process with a financing arrangement that is viable to the Company and will allow them to pay overhead expenses as well as other necessary expense for financing and to keep the policies in force.

As of the filing date of this Form 10-Q, we had approximately \$2.8 million of cash and cash equivalents inclusive of certificates of deposit of \$503,000. Our deconsolidated subsidiaries holds approximately \$17.6 million in cash and cash equivalents which is restricted by the Bankruptcy Court. In considering our forecast for the next twelve months and the pending approval of the Debtors' Chapter 11 reorganization plan by the Bankruptcy Court, these facts, aggregated with the current cash balance as of the filing for this Form 10-Q, create a substantial doubt of the Company's ability to meet their financial needs and

continue as a going concern. In considering the factors above, management plans to continue to operate our business and to seek Bankruptcy Court approval to continue to use cash collateral after the expiration of the initially approved twenty (20) week period.

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.

For a discussion of the calculation of the facility's borrowing base availability, see Note 11, "White Eagle Revolving Credit Facility—Borrowing Base & Availability" of the accompanying consolidated financial statements for further information.

At February 28, 2019, the fair value of the debt under the White Eagle Revolving Credit Facility was \$365.5 million, with outstanding principal of \$368.0 million. Interest is calculated as LIBOR (subject to a floor of 1.5%) plus an applicable margin of 4.5% is due quarterly. Interest totaling \$2.4 million was paid during the three months ended February 28, 2019 from policy proceeds. 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. In the event that an Event of Default has occurred and is continuing, the interest rate will be equal to the sum of (i) the greater of (a) (1) LIBOR or, if LIBOR is unavailable, (2) the Base Rate and (b) one and a half percent (1.5%) plus (ii) six percent (6.5)%. Future increase in LIBOR could have a material adverse effect on the Company's financial position and results of operations. At February 28, 2019, LIBOR was 3.01%, given the White Eagle Chapter 11 Case interest is currently being accrued at 9.51%.

8.50% Senior Unsecured Convertible Notes

At February 28, 2019, 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").

On February 20, 2019, the Company received written notice from U.S. Bank, National Association, the trustee under New Convertible Note Indenture, that the Company was in default (the "Event of Default") under the New Convertible Note Indenture for failure to pay the principal amount and accrued interest due upon maturity on February 15, 2019 of Convertible Notes due 2019 (the "Convertible Notes"). The outstanding principal amount of the Convertible Notes was \$1.2 million and accrued interest thereon was approximately \$63,000 as of February 28, 2019.

The Event of Default, which caused an automatic acceleration of the outstanding principal and accrued interest, had no practical effect on the Company, as such amounts were already due and payable. The Event of Default does not result in a cross-default under other debt agreements or arrangements of the Company. The total amount of \$1.2 million due, consisting of principal and accrued interest, will accrue interest at 8.5% per annum (the original interest rate of the Convertible Notes) until payment thereof is made.

For a description of the Convertible Notes see Note 12, "8.50% Senior Unsecured Convertible Notes," of the accompanying consolidated financial statements.

5.0% Senior Unsecured Convertible Notes

At February 28, 2019, 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 13, "5.0% Senior Unsecured Convertible Notes," of the accompanying consolidated financial statements.

8.5% Senior Secured Notes

At February 28, 2019, there was \$44.4 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 14, "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 three months ended February 28, 2019 and 2018 (in thousands):

	Three Months Ended February 28,	
	2019	2018
Statement of Cash Flows Data:		
Total cash (used in) provided by:		
Operating activities	\$ (3,831)	\$ (11,079)
Investing activities	(41)	(10,722)
Financing activities	6,476	21,328
Increase (decrease) in cash and cash equivalents	\$ 2,604	\$ (473)

Operating Activities

During the three months ended February 28, 2019, operating activities used cash of \$3.8 million. Our net loss of \$37.5 million was adjusted for the following: change in fair value of investment in deconsolidated subsidiaries of approximately \$34.0 million, attributable to the deconsolidation of Lamington and its subsidiaries due to the Chapter 11 cases; interest paid in kind on 8.5% Senior Secured Notes of approximately \$779,000 and a net negative change in the components of operating assets and liabilities of \$1.6 million. This \$1.6 million change in operating assets and liabilities is partially attributable to a \$948,000 decrease in interest payable on the 5% convertible notes, a \$654,000 decrease in other liabilities, a \$524,000 decrease in accounts payable and accrued expenses, a \$313,000 increase in interest payable on the 8.5% Senior Notes and a \$193,000 decrease in prepaid and other assets.

During the three months ended February 28, 2018, operating activities used cash of \$11.1 million. Our net income of \$4.9 million was adjusted for the following: change in fair value of life settlement gain of \$11.5 million that is mainly attributable to maturities of 4 policies; change in fair value of the White Eagle Revolving Credit Facility gain of \$1.6 million that is mainly attributable to increased borrowings offset by the lengthening of life expectancies of certain insureds underlying policies pledged as collateral in the facility and a slight decrease in the discount rate; deferred tax liability of \$2.3 million and a net negative change in the components of operating assets and liabilities of \$1.1 million. This \$1.1 million change in operating assets and liabilities is partially attributable to a \$335,000 increase in prepaid and other assets, a \$878,000 decrease in current tax liability, a \$948,000 decrease in interest payable for the 5% Convertible Notes and a \$879,000 increase in accounts payable and accrued expenses.

Investing Activities

Net cash used in investing activities for the three months ended February 28, 2019 was \$41,000 and includes \$39,000 for premiums paid on life settlements.

Net cash used in investing activities for the three months ended February 28, 2018 was \$10.7 million and includes proceeds of \$10.1 million from the maturity of life settlements offset by \$20.8 million for premiums paid on life settlements.

Financing Activities

Net cash provided by financing activities for the three months ended February 28, 2019 was \$6.5 million resulted from proceeds from the issue of 8.5% Senior Secured Notes.

Net cash provided by financing activities for the three months ended February 28, 2018 was \$21.3 million and includes \$23.1 million of borrowings from the White Eagle Revolving Credit Facility offset by \$1.8 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 February 28, 2019, 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 February 28, 2019, 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 February 28, 2019:

Carrier	Percentage of Total Fair Value	Percentage of Total Death Benefit	Moody's Rating	S&P Rating
Transamerica Life Insurance Company	18.2%	21.1%	A1	AA-
Lincoln National Life Insurance Company	23.2%	19.9%	A1	AA-
Carrier - Consolidated	Percentage of Total Fair Value	Percentage of Total Death Benefit	Moody's Rating	S&P Rating
Sun Life Assurance Company of Canada	100%	100%	Aa3	AA-

Interest Rate Risk

At February 28, 2019, 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 February 28, 2019, the applicable LIBOR rate was 3.01%. In the event that an Event of Default has occurred and is continuing, the interest rate will be equal to the sum of (i) the greater of (a) (1) LIBOR or, if LIBOR is unavailable, (2) the Base Rate and (b) one and a half percent (1.5%) plus (ii) six percent (6.5%).

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 February 28, 2019, the Company through its consolidated and deconsolidated subsidiaries owned life settlements with a fair value of \$495.9 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. 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 three months ended February 28, 2019, see "Litigation" under Note 17, "Commitments and Contingencies" to our consolidated financial statements.

Item 1A. Risk Factors

Our risk factors have not changed materially from those disclosed in our Annual Report on Form 10-KT filed for the eleven months ended November 30, 2018.

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 #
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 April 10, 2019

Emergent Capital, Inc.

Chief Financial Officer

(Principal Financial 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)

April 10, 2019

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)

April 10, 2019

**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 February 28, 2019 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

April 10, 2019

**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 February 28, 2019 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

April 10, 2019