

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

EMERGENT CAPITAL, INC.

Form: 10-Q

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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 August 31, 2020

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.)

1200 N. Federal Highway—Suite 200
Boca Raton, Florida, 33432
(Address of principal executive offices, including zip code)

(561) 995-4200

5355 Town Center Road, Suite 701
Boca Raton, Florida, 33486
(Former name or former address, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

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

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

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

As of October 14, 2020, the Registrant had 158,655,140 shares of common stock outstanding.

EMERGENT CAPITAL, INC.
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"Forward Looking" Statements

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

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

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

- our ability to obtain future financings on favorable terms, or at all;
- our ability to meet our debt service obligations;
- delays in the receipt of death benefits may impact distribution from our investment in the limited partnership that constitutes our primary asset;
- increases in premiums on, or the cost of insurance of, life insurance policies owned by the limited partnership;
- our lack of control over the policies that are within the limited partnership under its current ownership and control;
- changes in general economic conditions, including inflation, changes in interest or tax rates;
- our actual results of operations;
- 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 owned by the limited partnership;
- lack of mortalities of insureds of the life insurance policies owned by the limited partnership;
- increases to the discount rates used to value our investment in the limited partnership;
- changes in mortality rates and inaccurate assumptions about life expectancies for policies owned by the limited partnership;
- 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 owned by the limited partnership;
- adverse developments in capital markets;
- deterioration of the market for life insurance policies and life settlements;
- increased carrier challenges to the validity of life insurance policies owned by the limited partnership;
- 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 the portfolio held by the limited partnership;
- changes in laws and regulations;

- deterioration in the credit worthiness of the life insurance companies that issued the policies included in the portfolio held by the limited partnership;
- 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;
- loss of the services of any of our executive officers;
- our ability to mitigate the effects of global intangible low-taxed income ("GILTI") tax;
- disruptions to our business due to the COVID-19 pandemic, including workforce inability to perform in the ordinary course due to illness or access restrictions, and our ability to consummate the restructuring of the Company; and
- We do not control our significant asset and rely on third parties to manage it.

All written and oral forward looking statements attributable to the Company, or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. See "Risk Factors" included in our Annual Report on Form 10-K for the twelve months ended November 30, 2019. 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

	August 31, 2020	November 30, 2019*
	(Unaudited)	
	(In thousands except share data)	
ASSETS		
Assets		
Cash and cash equivalents	\$ 19,054	\$ 24,283
Certificates of deposit	517	511
Prepaid expenses and other assets	1,152	377
Operating lease asset (Note 18)	22	—
Deposits - other	1,212	1,377
Life settlements, at estimated fair value	—	1,297
Fixed assets, net	—	18
Investment in limited partnership, at estimated fair value (Note 11)	152,450	137,849
Total assets	\$ 174,407	\$ 165,712
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 1,337	\$ 1,651
Other liabilities	—	86
Interest payable - 5.0% Convertible Notes (Note 14)	159	1,116
5.0% Convertible Notes, net of discount and deferred debt costs (Note 14)	64,420	71,022
Interest payable - 8.5% Senior Secured Notes (Note 15)	1,118	854
8.5% Senior Secured Notes, net of deferred debt costs (Note 15)	46,491	45,675
Current tax liability	2,623	3,195
Total liabilities	116,148	123,599
Commitments and Contingencies (Note 18)		
Stockholders' Equity		
Common stock (par value \$0.01 per share, 415,000,000 authorized at August 31, 2020 and November 30, 2019; 159,263,140 issued and 158,655,140 outstanding as of August 31, 2020; 158,365,275 issued and 157,757,275 outstanding as of November 30, 2019)	1,593	1,584
Preferred stock (par value \$0.01 per share, 40,000,000 authorized; 0 issued and outstanding as of August 31, 2020 and November 30, 2019)	—	—
Treasury Stock, net of issuance cost 608,000 shares as of August 31, 2020 and November 30, 2019)	(2,534)	(2,534)
Additional paid-in-capital	334,641	334,576
Accumulated deficit	(275,441)	(291,513)
Total stockholders' equity	58,259	42,113
Total liabilities and stockholders' equity	\$ 174,407	\$ 165,712

* 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)

	Three Months Ended		Nine Months Ended August 31,	
	August 31,			
	2020	2019	2020	2019
	(in thousands, except share and per share data)			
Income				
Change in fair value of life settlements (Notes 10 & 16)	\$ —	\$ (42)	\$ —	\$ (37)
Change in fair value of investment in limited partnership, net of distributions (Notes 11 and 16)	4,250	(5,821)	20,601	(5,821)
Change in fair value of investment in deconsolidated subsidiaries (Notes 4 & 16)	—	90,710	—	37,941
Gain on life settlements, net (Note 10)	—	—	743	—
Other income	57	2,052	10,875	2,145
Total income	<u>4,307</u>	<u>86,899</u>	<u>32,219</u>	<u>34,228</u>
Expenses				
Interest expense	2,743	2,832	7,610	8,370
Extinguishment of debt	—	—	(2,815)	—
Personnel costs	444	694	2,833	1,001
Legal fees	738	1,448	1,850	2,117
Professional fees	619	1,142	2,034	1,470
Insurance	519	270	1,360	666
Other selling, general and administrative expenses	272	317	792	516
Total expenses	<u>5,335</u>	<u>6,703</u>	<u>13,664</u>	<u>14,140</u>
Income (loss) from continuing operations before income taxes	(1,028)	80,196	18,555	20,088
Provision (benefit) provision for income taxes	—	(5)	2,428	3,213
Net income (loss) from continuing operations	<u>\$ (1,028)</u>	<u>\$ 80,201</u>	<u>\$ 16,127</u>	<u>\$ 16,875</u>
Discontinued Operations:				
Income (loss) from discontinued operations before income taxes	—	70	(53)	36
Provision (benefit) provision for income taxes	—	—	—	—
Net income (loss) from discontinued operations	<u>—</u>	<u>70</u>	<u>(53)</u>	<u>36</u>
Net income (loss)	<u>\$ (1,028)</u>	<u>\$ 80,271</u>	<u>\$ 16,074</u>	<u>\$ 16,911</u>
Basic income (loss) per common share:				
Continuing operations	\$ (0.01)	\$ 0.51	\$ 0.10	\$ 0.11
Discontinued operations	\$ —	\$ —	\$ —	\$ —
Net income (loss) - basic	<u>\$ (0.01)</u>	<u>\$ 0.51</u>	<u>\$ 0.10</u>	<u>\$ 0.11</u>
Diluted income (loss) per share:				
Continuing operations	\$ (0.01)	\$ 0.41	\$ 0.09	\$ 0.10
Discontinued operations	\$ —	\$ —	\$ —	\$ —
Net income (loss) - diluted	<u>\$ (0.01)</u>	<u>\$ 0.41</u>	<u>\$ 0.09</u>	<u>\$ 0.10</u>
Weighted average shares outstanding:				
Basic	<u>157,655,140</u>	<u>156,968,470</u>	<u>157,624,241</u>	<u>156,949,425</u>
Diluted	<u>157,655,140</u>	<u>195,979,957</u>	<u>206,696,703</u>	<u>194,867,908</u>

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

Emergent Capital, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT/EQUITY (UNAUDITED)

Nine Months Ended August 31, 2020

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
	(in thousands, except share data)						
Balance, December 1, 2019	158,365,275	\$ 1,584	(608,000)	\$ (2,534)	\$ 334,576	\$ (291,513)	\$ 42,113
Net income/(loss)	—	—	—	—	—	12,438	12,438
Stock-based compensation	1,000,000	10	—	—	22	—	32
Retirement of common stock	(87,309)	(1)	—	—	—	—	(1)
Balance, February 29, 2020	159,277,966	\$ 1,593	(608,000)	\$ (2,534)	\$ 334,598	\$ (279,075)	\$ 54,582
Net income/(loss)	—	—	—	—	—	4,662	4,662
Stock-based compensation	—	—	—	—	22	—	22
Retirement of common stock	(14,826)	—	—	—	—	—	—
Balance, May 31, 2020	159,263,140	\$ 1,593	(608,000)	\$ (2,534)	\$ 334,620	\$ (274,413)	\$ 59,266
Net income/(loss)	—	—	—	—	—	(1,028)	(1,028)
Stock-based compensation	—	—	—	—	21	—	21
Balance, August 31, 2020	159,263,140	\$ 1,593	(608,000)	\$ (2,534)	\$ 334,641	\$ (275,441)	\$ 58,259

Nine Months Ended August 31, 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
Balance, February 28, 2019	158,733,928	\$ 1,587	(608,000)	\$ (2,534)	\$ 334,296	\$ (343,485)	\$ (10,136)
Net income/(loss)	—	—	—	—	—	(25,884)	(25,884)
Stock-based compensation	—	—	—	—	97	—	97
Retirement of common stock	(74,125)	—	—	—	—	—	—
Balance, May 31, 2019	158,659,803	\$ 1,587	(608,000)	\$ (2,534)	\$ 334,393	\$ (369,369)	\$ (35,923)
Net income/(loss)	—	—	—	—	—	80,271	80,271
Stock-based compensation	—	—	—	—	95	—	95
Balance, August 31, 2019	158,659,803	\$ 1,587	(608,000)	\$ (2,534)	\$ 334,488	\$ (289,098)	\$ 44,443

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

	Nine Months Ended August 31,	
	2020	2019
	(In thousands)	
Cash flows from operating activities		
Net income (loss)	\$ 16,074	\$ 16,911
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	18	63
Amortization of discount and deferred costs for 8.5% Convertible Notes	—	21
Amortization of discount and deferred costs for 5.0% Convertible Notes	891	955
Amortization of deferred costs for 8.5% Senior Secured Notes	817	554
Change in fair value of investment in deconsolidated subsidiaries	—	(37,941)
Extinguishment of debt	(2,815)	—
Stock-based compensation expense	74	290
Interest paid in kind on 8.5% Senior Secured Notes	—	2,842
Change in fair value of life settlements	—	37
Change in fair value of investment in limited partnership, net of distributions	(20,601)	5,821
Gain on sale of life settlement	(743)	—
Interest income	(311)	(311)
Deferred tax asset	—	576
Change in assets and liabilities:		
Deposits - other	164	—
Prepaid expenses and other assets	(471)	118
Accounts payable and accrued expenses	(316)	(394)
Operating lease assets, net of liabilities	(22)	—
Other liabilities	(87)	(155)
Current tax liability	(572)	2,642
Interest payable - 8.5% Convertible Notes	—	(37)
Interest payable - 5.0% Convertible Notes	(957)	(948)
Interest payable - 8.5% Senior Secured Notes	264	463
Net cash (used in) provided by operating activities	<u>(8,593)</u>	<u>(8,493)</u>
Cash flows from investing activities		
Purchase of fixed assets, net of disposals	—	(5)
Premiums paid on life settlements	—	(118)
Proceeds from sale of life settlements, net	2,041	—
Distributions from investment in limited partnership	6,000	—
Consolidation of subsidiaries (cash)	—	10,905
Net cash (used in) provided by investing activities	<u>8,041</u>	<u>10,782</u>
Cash flows from financing activities		
Proceeds from issue of 8.5% Senior Secured Notes	—	6,476
Repayment of 5.0% Convertible Notes	(4,677)	(1,194)
Net cash (used in) provided by financing activities	<u>(4,677)</u>	<u>5,282</u>
Net increase (decrease) in cash and cash equivalents	(5,229)	7,571
Cash and cash equivalents, at beginning of the period	24,283	1,209
Cash and cash equivalents, at end of the period	<u>\$ 19,054</u>	<u>\$ 8,780</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	<u>\$ 6,594</u>	<u>\$ 4,430</u>

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

Emergent Capital, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
August 31, 2020

(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").

Risks and Uncertainties

The outbreak of COVID-19, which is a rapidly evolving situation, has adversely impacted global commercial activities. The Company does not believe that there is any significant impact to the Financial Statements as of August 31, 2020 as a result of the COVID-19 pandemic. The Company is monitoring the developments relating to COVID-19 and is coordinating its operational response based on existing business continuity plans and ongoing guidance from global health organizations, relevant governments, and general pandemic response best practices.

Equity Investment in White Eagle Asset Portfolio

Emergent Capital indirectly owns a 27.5% equity investment, having an estimated fair value of approximately \$ 152.5 million at August 31, 2020, in White Eagle Asset Portfolio, LP ("White Eagle"), which was previously a wholly-owned subsidiary of the Company that holds a portfolio of life settlements. The Company primarily earns income through change in fair value and distributions from its equity investment in White Eagle.

On August 16, 2019, the Company entered into a subscription agreement (the "Subscription Agreement") with Lamington Road Designated Activity Company (formerly known as Lamington Road Limited) ("Lamington" or "Class B Limited Partner"), White Eagle, White Eagle General Partner, LLP ("WEGP" or "Withdrawing General Partner"), and Palomino JV, L.P. ("Palomino" or "Class A Limited Partner"), pursuant to which White Eagle sold to Palomino 72.5% of its limited partnership interests, consisting of all of the newly issued and outstanding Class A and Class D interests, and WEGP sold to an affiliate (the "Manager") of Jade Mountain Partners, LLC ("Jade Mountain"), all of its general partnership interests (collectively, the "WE Investment") for a purchase price of approximately \$366.2 million and \$8.0 million for the Class A and Class D interests, respectively. Pursuant to the Subscription Agreement, Lamington retained 27.5% of the limited partnership interests of White Eagle, consisting of all of the newly issued and outstanding Class B interests in exchange for all of its previously owned White Eagle limited partnership interests with a value of approximately \$138.9 million on the closing date. The consummation of the transaction under the Subscription Agreement resulted in the Company being a minority owner in White Eagle, as a result the entity is treated as an equity investment. Activities for our investment in White Eagle are included in Note 11 "Investment in Limited Partnership" of the accompanying consolidated financial statements for further information.

Litigation Settlement and Disposal of Life Settlement

On December 4, 2019, the Company and certain of its subsidiaries entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with Sun Life Assurance Company of Canada ("Sun Life") and Wilmington Trust, N.A. as securities intermediary ("Wilmington Trust").

Pursuant to the Settlement Agreement, 31 life insurance policies with face value totaling \$ 163.5 million issued by Sun Life were canceled in exchange for a lump sum payment of \$36.1 million. The settlement included two policies held by the Company outside of White Eagle with an aggregate face value of \$ 12.0 million, 28 policies held by White Eagle with an aggregate face value of \$ 141.5 million and one policy with a face value of \$ 10.0 million in receivable for maturity for White Eagle. Of this amount, approximately \$12.7 million was received by the Company, \$ 13.4 million was paid to White Eagle and \$ 10.0 million was paid to Wilmington Trust for the maturity receivable. With this settlement, the Company no longer directly owns any life insurance policies.

Subsequent Event

Sale of Imperial Life Settlements, LLC

On September 15, 2020, the Company sold its wholly-owned subsidiary, Imperial Life Settlements, LLC ("ILS"), to an unrelated third party. Included in the sale were viatical and/or life settlement provider licenses, permits and authorizations issued to ILS by 12 states. In connection with the sale of ILS and such licenses, the Company voluntarily surrendered licenses issued to ILS by 17 other states. Such licenses are required in connection with the purchase of existing life settlements, but are not required for ownership of life settlements. The Company no longer acquires life settlements, and therefore does not need to maintain the licenses and their related deposits and expenses.

Voluntary Petitions for Reorganization

On October 15, 2020 (the "2020 Petition Date"), Emergent Capital and its wholly-owned subsidiary Red Reef Alternative Investment, LLC ("Red Reef") filed voluntary petitions for relief (the "2020 Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

Emergent Capital and Red Reef will continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

On October 14, 2020, Emergent Capital entered into two substantially identical Restructuring Support Agreements (together with all exhibits and schedules thereto, the "RSAs") with certain holders of the 8.5% Senior Secured Notes and with certain holders of the 5.0% Convertible Notes (such holders collectively, the "Supporting Holders"). In the aggregate, the Supporting Holders hold at least a majority of each of the 8.5% Senior Secured Notes and the 5.0% Convertible Notes.

See Note 21, "Subsequent Events", to the accompanying consolidated financial statements for further information.

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 (as defined below), White Eagle, an unconsolidated equity investment effective August 17, 2019, which is accounted for using fair value 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 to August 16, 2019 (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.

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 August 31, 2020 and nine months ended August 31, 2020 are not necessarily indicative of the results that may be expected for future periods or for the year ending November 30, 2020. These interim financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Emergent Capital's Report on Form 10-K for the fiscal year ended November 30, 2019.

Going Concern

Historically, the Company has incurred substantial losses, which has resulted in an accumulated deficit of approximately \$ 275.4 million as of August 31, 2020. Cash flows used in operating activities were \$8.6 million for the nine months ended August 31, 2020 and \$ 8.5 million for the nine months ended August 31, 2019. As of August 31, 2020, the Company had approximately \$19.1 million of cash and cash equivalents and certificates of deposit of \$ 517,000.

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 distributions from its investment in its equity investment in White Eagle, cash on hand and pending approval of its prenegotiated Chapter 11 reorganization plan by the Bankruptcy Court.

As of the filing date of this Form 10-Q, we had approximately \$ 19.0 million of cash and cash equivalents inclusive of certificates of deposit of \$519,000. The Company's 8.5% Senior Secured Notes, which have outstanding principal of approximately \$ 47.6 million, currently mature on July 15, 2021. In considering our forecast for the next twelve months, including the scheduled repayment of this debt, the Company does not have sufficient liquidity to meet its obligations. Subsequent to the quarter end, the Company filed a Chapter 11 petition, including a renegotiated reorganization plan with the support of the holders of a majority of the 8.5% Senior Secured Notes holders which plan would convert the 8.5% Senior Secured Notes into a security with a later maturity date. The plan is pending approval by the Bankruptcy Court. These facts create a substantial doubt of the Company's ability to meet its financial needs and continue as a going concern. During the bankruptcy process, management plans to continue to operate our business in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

See Note 21, "Subsequent Events", to the accompanying consolidated financial statements for further information.

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 and Consolidation

On November 14, 2018 (the "Petition Date"), Lamington and 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 was the limited partner and owned 99.99%, and WEGP was the general partner and owned 0.01%, of White Eagle. In its capacity as general partner, WEGP managed the affairs of White Eagle.

Lamington and its subsidiaries' (White Eagle and WEGP) filing 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) (collectively, and 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.

On June 19, 2019, the Bankruptcy Court entered an order confirming the Plan of Reorganization for the Chapter 11 Cases. The Plan of Reorganization implemented the Settlement Agreement and the DIP Financing. In addition, the Plan of Reorganization provided for the payment of all other allowed third party creditor claims in full, including allowed professional fees and taxes. The effective date of the Plan of Reorganization was June 19, 2019.

On August 16, 2019, the White Eagle Revolving Credit Facility was paid in full and terminated, and additionally, payment was made to all White Eagle vendors and intercompany liabilities were contributed by Emergent. Lamington and WEGP had pledged their respective interests in White Eagle to secure its obligations under the White Eagle Revolving Credit Facility. With the termination of the facility, this pledge was released. There were no outstanding third party liabilities for either Lamington or WEGP at August 16, 2019 besides intercompany obligations to Emergent. Pursuant to ASC 810, *Consolidation*, management took the position that given that all third party claims had been satisfied in the case, consolidation of Lamington and WEGP as of August 17, 2019 was appropriate. However, the consummation of the transaction pursuant to the Subscription Agreement resulted in the Company being a minority owner in White Eagle. Accordingly, White Eagle was not reconstituted but rather treated as an equity investment.

On September 16, 2019, the Bankruptcy Court entered an order and a final decree closing the White Eagle Chapter 11 Case and the Lamington WEGP cases were closed on November 25, 2019.

Related Party Relationship

Upon filing for Chapter 11 and the subsequent deconsolidation, transactions with Lamington were no longer eliminated in consolidation and are treated as related party transactions for Emergent Capital. On August 17, 2019 Lamington was reconstituted and its transactions are eliminated in consolidation. See [Note 5](#) "Condensed and Consolidated Financial

Statements For Entities in Bankruptcy" for all transactions between Emergent Capital and Lamington while Lamington was deconsolidated.

Discontinued Operations

On October 25, 2013, the Company sold substantially all of the assets comprising its structured settlement business. As a result, the Company has discontinued segment reporting and classified its operating results of the structured settlement business, net of income taxes, as discontinued operations. The accompanying consolidated statements of operations for the three months and nine months ended August 31, 2020 and August 31, 2019, 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 equity awards and the valuation of our investment in limited partnership.

Reclassifications

Certain reclassifications of the prior period amounts and presentation have been made to conform to the presentation for the current period. These reclassifications relate primarily to change in fair value of investment in deconsolidated subsidiaries and sublease income.

(3) Recent Accounting Pronouncements

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 May 2019, the FASB issued ASU No. 2019-05 which amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that (1) were previously recorded at amortized cost and (2) are within the scope of ASC 326-203 if the instruments are eligible for the fair value option under ASC 825-10.4 The fair value option election does not apply to held-to-maturity debt securities. Entities are required to make this election on an instrument-by-instrument basis. ASU 2019-05's amendments should be applied "on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in ASU 2016-13." Certain disclosures are required. For entities that have adopted ASU 2016-13, the amendments in ASU 2019-05 are effective for fiscal years beginning after December 15, 2019, including interim periods therein. An entity may early adopt the ASU in any interim period after its issuance if the entity has adopted ASU 2016-13. For all other entities, the effective date will be the same as the effective date in ASU 2016-13. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In May 2019, the FASB issued ASU No 2019-04 which clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments. The ASU's amendments apply to all entities within the scope of the affected guidance. Accrued interest - Amortized cost basis is defined in ASU 2016-13 as "the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, write offs, foreign exchange, and fair value hedge accounting adjustments". To address stakeholders' concerns that the inclusion of accrued interest in the definition of amortized cost basis could make application of the credit loss guidance operationally burdensome, ASU 2019-04 provides certain alternatives for the measurement of the allowance for credit losses (ALL) on accrued interest receivable (AIR). These measurement alternatives include (1) measuring an ALL on AIR separately, (2) electing to provide separate disclosure of the AIR component of amortized cost as a practical expedient, and (3) making accounting policy elections to simplify certain aspects of the presentation and measurement of such AIR. For entities that have adopted ASU 2016-13, the amendments in ASU 2019-04 related to ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, and interim periods therein. ASU 2019-04's amendments should be applied "on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted the amendments in ASU 2016-13." Certain disclosures are also required. For all other entities, the effective date will be the same as the effective date in ASU 2016-13. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes. The ASU enhances and simplifies various aspects of the income tax accounting guidance in ASC 740, including requirements related to the following: (1) hybrid tax regimes; (2) tax basis step-up in goodwill obtained in a transaction that is not a business combination; (3) separate financial statements of entities not subject to tax; (4) intra-period tax allocation exception to the incremental approach; (5) ownership changes in investments; (6) interim-period accounting for enacted changes in tax law; (7) year-to-date loss limitation in interim-period tax accounting. The amendments in ASU 2019-12 are effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption of the standard is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments in this Update clarify certain interactions between the guidance to account for certain equity securities under Topic 321, the guidance to account for investments under the equity method of accounting in Topic 323, and the guidance in Topic 815, which could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. These amendments improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments in this Update are effective

for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period, (1) for public business entities for periods for which financial statements have not yet been issued and (2) for all other entities for periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied prospectively. Under a prospective transition, an entity should apply the amendments at the beginning of the interim period that includes the adoption date. We are currently evaluating the methods and impact of adopting this new standard on our consolidated financial statements.

In June 2020, the FASB issued ASU 2020-06 which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASU 2020-06 also amends certain guidance in ASC 260 on the computation of EPS for convertible instruments and contracts on an entity's own equity. Under ASU 2020-06, entities must apply the if-converted method to all convertible instruments because the treasury stock method will no longer be available. In instances where the principal amount must be paid in cash and only the conversion spread is settled in shares, the if-converted method is modified so that interest expense is not added back to the numerator, and the denominator only includes the net number of incremental shares that would be issued upon conversion. ASU 2020-06 clarifies that the "average market price should be used to calculate the diluted EPS denominator" when the exercise price or the number of shares that may be issued is variable, except for certain contingently issuable shares. For public business entities that are not smaller reporting companies, the amendments in this update are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. For all other entities, the guidance will be effective for the fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The guidance may be early adopted for fiscal years beginning after December 15, 2020, 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.

Adopted Accounting Pronouncements

Change in Accounting Principle and Accounting for Lease

The Company adopted ASU No. 2016-02, Leases (Topic 842) which now requires recognition of right-of-use (ROU) asset and lease liability on the balance sheet. As part of the transition to the new standard, the Company measured its operating lease commitment at December 1, 2019 and recognized a right-of-use asset and operating lease liability on its balance sheet. The adoption of this ASU did not result in any significant changes to the consolidated statements of operations, stockholders' equity, or statement of cash flows. In transitioning the application of this guidance, retrospective application to all periods presented in the consolidated financial statements has been performed as follows (in thousands):

	As reported under previous accounting guidance	As reported under ASU 2016-02	Effect of change
Balance Sheet - November 30, 2019			
Assets			
Prepaid and other assets	\$ 377	\$ 353	\$ 24
Operating lease assets	—	132	132
Total assets	\$ 165,712	\$ 165,868	\$ 156
Liabilities			
Other liabilities	\$ 86	\$ 39	\$ (47)
Operating lease liability	—	203	203
Total liabilities	123,599	123,755	156
Total stockholders' equity	42,113	42,113	—
Total liabilities and stockholders' equity	\$ 165,712	\$ 165,868	\$ 156
Net effect	\$ —	\$ —	\$ —

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 is for stranded tax effects resulting from the Tax Cuts and Jobs Act. This standard was adopted during the nine months ended August 31, 2020 and did not result in any significant changes to the consolidated statements of operations, stockholders' equity, or statement of cash flows.

(4) Deconsolidation of Subsidiaries

On the Petition Date, Lamington and WEGP filed the November Chapter 11 Cases in the Bankruptcy Court. As of such date, Lamington was the limited partner and owned 99.99%, and WEGP was the general partner and owned 0.01%, of White Eagle. In its capacity as general partner, WEGP managed the affairs of White Eagle. Lamington and WEGP continued 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 did not file for bankruptcy relief and continues 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.

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.

On August 16, 2019, the White Eagle Revolving Credit Facility was paid in full and terminated. In addition, payment was made to all White Eagle vendors and intercompany liabilities were contributed by Emergent. Lamington and WEGP had pledged their respective interests in White Eagle to secure its obligations under the White Eagle Revolving Credit Facility. With the termination of the facility, this pledge was released. There were no outstanding third party liabilities for either Lamington or WEGP at August 16, 2019 besides intercompany obligations.

On September 16, 2019, the Bankruptcy Court entered an order and a final decree closing the White Eagle Chapter 11 Case and the Lamington and WEGP cases were closed on November 25, 2019. However pursuant to ASC 810, *Consolidation*, management took the position that given that all third party claims had been satisfied in the case, consolidation of Lamington and WEGP as of August 17, 2019 was appropriate. Effective August 17, 2019, Lamington and WEGP are no longer deconsolidated.

The fair value of the investment in Lamington at August 16, 2019 was calculated as follows:

Investment in Lamington at December 1, 2018	\$	128,795
Less: Change in fair value		<u>37,941</u>
Investment in Lamington at August 16, 2019	\$	<u><u>166,736</u></u>

The table below summarizes the composition of the Company's investment in the deconsolidated entities at August 31, 2019:

	Change in Fair Value		
	November 30, 2018	December 1, 2018 to August 16, 2019	August 31, 2019
Equity investment	\$ 66,251	\$ (45,847)	\$ 20,404
Promissory notes	56,596	89,736	146,332
Other liabilities	5,948	(5,948)	—
Total investment	<u>\$ 128,795</u>	<u>\$ 37,941</u>	<u>\$ 166,736</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 of Operations**

	Three Months Ended August 31,	Three Months Ended August 31,	Nine Months Ended August 31,	Nine Months Ended August 31,
	2020	2019	2020	2019
Change in fair value of life settlements (Notes 11 & 16)	\$ —	\$ 12,985	\$ —	\$ (16,841)
Change in fair value of investment in limited partnership (Note 10 & 15)	—	15,352	—	15,352
Realized Gain on Life Settlements, Net	—	21,336	—	21,336
Other income	—	345	—	709
Total income	<u>—</u>	<u>50,018</u>	<u>—</u>	<u>20,556</u>
Interest expense	—	23,331	—	28,331
Change in fair value of White Eagle Revolving Credit Facility (Notes 12 & 16)	—	(26,586)	—	17,094
Loss on extinguishment of debt	—	7,360	—	7,360
Reorganization cost	—	4,769	—	13,954
Legal fees	—	158	—	890
Professional fees	—	659	—	1,549
Administrative service fees - affiliate	—	—	—	2,765
Other general and administrative expenses	—	(71)	—	469
Total expenses	<u>—</u>	<u>9,620</u>	<u>—</u>	<u>72,412</u>
Income taxes	—	—	—	—
(Loss) income	<u>\$ —</u>	<u>\$ 40,398</u>	<u>\$ —</u>	<u>\$ (51,856)</u>

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

	Nine Months Ended August 31, 2020	Nine Months Ended August 31, 2019
Net cash used in operating activities	\$ —	\$ (58,793)
Cash flows from investing activities		
Premiums paid on life settlements	—	(69,827)
Proceeds from maturity of life settlements	—	92,505
Net cash provided by/(used in) investing activities	\$ —	\$ 22,678
Cash flows from financing activities		
Repayment of borrowings under White Eagle Revolving Credit Facility	—	(1,804)
Borrowings from White Eagle Revolving Credit Facility	—	4,221
Cash distributed to Parent Company	—	(21)
Net cash provided by financing activities	\$ —	\$ 2,396
Net increase (decrease) in cash and cash equivalents	—	(33,719)
Cash and cash equivalents, at beginning of the period	—	33,719
Cash and cash equivalents, at end of the period	\$ —	\$ —
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	\$ —	\$ 28,331
Supplemental disclosures of non-cash financing activities:		
Repayment of White Eagle Revolving Credit Facility by third party from proceeds of sale of life settlement	\$ —	\$ 366,821
White Eagle early extinguishment fees paid by third party from proceeds of Class D Shares	\$ —	\$ 7,360

Related Party Transactions

Certain related party transactions had been eliminated in consolidation. Due to the deconsolidation of Lamington, transactions after November 13, 2018 were no longer eliminated until the discharge of the Chapter 11 Cases, effective August 17, 2019 after which related party transactions are again eliminated in consolidation. 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 post-petition administrative service expenses of approximately \$0 and \$2.8 million during the nine months ended August 31, 2020 and 2019, respectively. Amounts due from White Eagle resulting from the administrative services during nine months ended August 31, 2019 were contributed on August 16, 2019 consistent with the Master Termination Agreement.

Promissory Notes Receivables

Effective May 16, 2014, Lamington entered into a 10 year, \$59.3 million unsecured Promissory Note ("the 8.5% Promissory Note") in favor of 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 August 31, 2019, the outstanding principal balance was \$86.5 million, which includes \$ 27.2 million in capitalized interest. The entire remaining principal balance of the 8.5% 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 Participating 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 August 31, 2019, the outstanding principal balance was \$59.9 million, which includes \$ 2.9 million in capitalized interest. 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.

At August 16, 2019, the notes were fair valued in accordance with ASC 820, with a fair value of approximately \$ 146.3 million, resulting in a change in fair value of approximately \$89.7 million for the period up to August 16, 2019, which is included in change in fair value of investment in deconsolidated subsidiaries.

The Company stopped accruing interest on both notes during the Chapter 11 cases, effective August 17, 2019 the notes are consolidated, and interest expense has been eliminated on consolidation.

(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 August 31, 2020 and November 30, 2019, as well as non-consolidated VIEs for which the Company has determined it is not the primary beneficiary (in thousands):

	Not Primary Beneficiary		Not Primary Beneficiary	
	Non-consolidated VIE	Non-consolidated VIE- White Eagle	Non-consolidated VIE	Non-consolidated VIE- White Eagle
	Total Assets	Maximum Exposure To Loss	Total Assets	Maximum Exposure To Loss
August 31, 2020	\$ —	\$ —	\$ 152,450	\$ 152,450
November 30, 2019	\$ —	\$ —	\$ 137,849	\$ 137,849

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, it 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. During the twelve months ended November 30, 2019, the investment was fully written off and the Company incurred change in fair value loss on its investment in affiliates of approximately \$2.4 million, the amount is included in loss from discounted operations. This investment was held by our structured settlement subsidiary whose activities were discontinued in 2013 with the sale of the structured settlement assets and the amount was written off as part of the restructuring transactions of the Company.

See Note [9. "Discontinued Operations."](#) of the accompanying consolidated financial statements for further information.

In connection with the WE Investment, the Limited Partnership Agreement of White Eagle was amended and restated (the "A&R LPA") to provide for the issuance of the Class A, B and D limited partnership interests, and for funding of an "Advance Facility" evidenced by the Class D limited partnership interests, to maintain reserves sufficient to fund premiums, certain operating expenses of White Eagle and certain minimum payments to Lamington as the holder of the Class B interests. The A&R LPA provides generally that the Class A and Class B Interests receive distributions of proceeds of the assets of White Eagle based on their 72.5% and 27.5% ownership. The limited partnership is a non-consolidated VIE for which the Company has determined it is not the primary beneficiary. The Company accounts for its equity investment at fair value with changes in fair included in current earnings.

Approximately \$152.5 million is included as investment in limited partnership in the accompanying consolidated balance sheet as of August 31, 2020.

(7) Earnings Per Share

As of August 31, 2020 and 2019, there were 159,263,140 and 158,659,803 shares of common stock issued, respectively, and 158,655,140 and 158,051,803 shares of common stock outstanding, respectively. Outstanding shares as of August 31, 2020 and 2019 have been adjusted to reflect 608,000 treasury shares.

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

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

The following table reconciles actual basic and diluted earnings per share for the three months and nine months ended August 31, 2020 and 2019 (in thousands except per share data).

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2020(1)	2019(2)	2020(3)	2019(4)
Income (loss) per share:				
Numerator:				
Net income (loss) from continuing operations	\$ (1,028)	\$ 80,201	\$ 16,127	\$ 16,875
Net income (loss) from discontinued operations	—	70	(53)	36
Numerator for basic EPS - net income (loss) attributable to common stockholders	\$ (1,028)	\$ 80,271	\$ 16,074	\$ 16,911
Add back convertible notes interest	—	1,095	2,996	3,270
Numerator for diluted earnings per share - net income (loss) attributable to common stockholders	\$ (1,028)	\$ 81,296	\$ 19,123	\$ 20,145
Basic income (loss) per common share:				
Basic income (loss) from continuing operations	\$ (0.01)	\$ 0.51	\$ 0.10	\$ 0.11
Basic income (loss) from discontinued operations	—	—	—	—
Basic income (loss) per share available to common shareholders	\$ (0.01)	\$ 0.51	\$ 0.10	\$ 0.11
Diluted income (loss) per common share:				
Diluted income (loss) from continuing operations	\$ (0.01)	\$ 0.41	\$ 0.09	\$ 0.10
Diluted income (loss) from discontinued operations	—	—	—	—
Diluted income (loss) per share available to common shareholders	\$ (0.01)	\$ 0.41	\$ 0.09	\$ 0.10
Denominator:				
Basic	157,655,140	156,968,470	157,624,241	156,949,425
Diluted	157,655,140	195,979,957	206,696,703	194,867,908

- (1) The computation of diluted EPS does not include 100,000 shares underlying stock appreciation rights, 1,000,000 shares of restricted stock, 42,500,000 shares of common stock underlying warrants and 33,918,483 shares of common stock issuable upon conversion of the 5% Convertible Notes 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.
- (3) The computation of diluted EPS does not include 100,000 shares underlying stock appreciation rights as the effect of their inclusion would have been anti-dilutive.
- (4) The computation of diluted EPS does not include 85,000 shares of common stock underlying options, 100,000 shares of stock appreciation rights, 1,083,333 shares of restricted stock and 44,500,000 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, 2019, all options to purchase shares of common stock issued by the Company were fully vested with 85,000 exercisable. There was no stock-based compensation expense relating to stock options granted under the Omnibus Plan during the three months and nine months ended August 31, 2020 and August 31, 2019, respectively.

During the three months ended August 31, 2020, options to purchase 85,000 shares of common stock under the Omnibus Plan expired. The options were issued on June 6, 2013 and expired seven years after the date of grant which was June 6, 2020. The following table presents the activity of the Company's stock options for the nine months ended August 31, 2020:

<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, 2019	85,000	\$ 6.94	0.56	\$ —
Options granted	—	—	—	—
Options exercised	—	—	—	—
Options forfeited	—	\$ —	—	—
Options expired	(85,000)	6.94	—	—
Options outstanding, August 31, 2020	—	\$ —	—	\$ —
Exercisable at August 31, 2020	—	\$ —	—	—
Unvested at August 31, 2020	—	—	—	\$ —

Restricted Stock

The Company incurred stock-based compensation expense of approximately \$ 21,000 and \$95,000 relating to restricted stock granted to certain employees during the three months ended August 31, 2020 and 2019, respectively, and \$74,000 and \$290,000 during the nine months ended August 31, 2020 and 2019, respectively.

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, 1,000,000 during the twelve months ended November 30, 2019 and 250,000 during the nine months ended August 31, 2020 with 0 unvested at August 31, 2020. The Company incurred stock-based compensation expense of approximately \$ 0 and \$89,000 during the three months ended August 31, 2020 and 2019, respectively, with \$0 and \$271,000 during the nine months ended August 31, 2020 and 2019, respectively, related to these 2,000,000 shares of restricted stock.

During the eleven months ended 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. Approximately 66,667 shares of restricted stock vested during the twelve months ended November 30, 2019, with 0 and 83,333 vested during the three months and nine months ended August 31, 2020 with 0 unvested at August 31, 2020. The Company incurred stock-based compensation expense of approximately \$ 0 and \$6,000 during the three months ended August 31, 2020 and 2019, respectively, with \$ 14,000 and \$ 19,000 during the nine months ended August 31, 2020 and 2019, related to these 150,000 shares of restricted stock.

During the nine months ended August 31, 2020, the Company, granted 1,000,000 shares of restricted common stock to its Chief Executive Officer, vesting in thirds upon the first three anniversaries of the grant date. The fair value of the unvested restricted stock was valued at approximately \$ 250,000 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 \$21,000 and \$50,000 related to these 1,000,000 shares of restricted stock during the three months and nine months ended August 31, 2020. All 1,000,000 shares remained unvested at August 31, 2020.

The following table presents the activity of the Company's unvested shares of restricted stock for the three months ended August 31, 2020:

<u>Common Unvested Shares</u>	<u>Number of Shares</u>
Outstanding Balance, December 1, 2019	333,333
Granted	1,000,000
Vested	(333,333)
Forfeited	—
Outstanding August 31, 2020	<u>1,000,000</u>

The aggregate intrinsic value of the award of these 1,000,000 shares is \$340,000 and the remaining weighted average life of these awards is 2.41 years as of August 31, 2020. As of August 31, 2020, a total of \$200,000 in stock based compensation remained unrecognized.

Stock Appreciation Rights (SARs)

During the twelve months ended 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 remain unexercised at August 31, 2020.

(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		Nine Months Ended	
	August 31,		August 31,	
	2020	2019	2020	2019
	(in thousands)			
Total income	\$ —	\$ —	\$ —	\$ —
Total expenses	—	(70)	53	(36)
Income (loss) before income taxes	—	70	(53)	36
(Benefit) provision for income taxes	—	—	—	—
Net income (loss) from discontinued operations, net of income taxes	<u>\$ —</u>	<u>\$ 70</u>	<u>\$ (53)</u>	<u>\$ 36</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 Statements of Operations in the periods in which the changes occur.

At August 31, 2020 and November 30, 2019, the Company, through its subsidiaries, owns zero and two life insurance policies, also referred to as life settlements, with a fair value of \$0 and \$1.3 million, respectively and an aggregate death benefit of approximately \$0 and \$12.0 million, respectively.

On December 4, 2019 the Company and certain of its subsidiaries entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with Sun Life Assurance Company of Canada ("Sun Life") and Wilmington Trust, N.A. as securities intermediary ("Wilmington Trust").

Pursuant to the Settlement Agreement, 31 life insurance policies with face totaling \$163.5 million issued by Sun Life were canceled in exchange for a lump sum payment of \$36.1 million. The settlement included two policies held by the Company outside of White Eagle with an aggregate face value of \$12.0 million, 28 policies held by White Eagle with an aggregate face value of \$141.5 million and one policy with a face value of \$10.0 million in receivable for maturity for White Eagle. Of this amount, approximately \$12.7 million was received by the Company, \$13.4 million was paid to White Eagle and \$10.0 million was paid to Wilmington Trust for the maturity receivable. With this settlement, the Company no longer owns any life insurance policies.

Of the \$12.7 million received by the Company, approximately \$2.0 million was allocated to the two policies that were owned by the Company outside of White Eagle, which resulted in a gain on disposal of approximately \$743,000, with approximately \$10.6 million allocated to other income as settlement of legal fees previously incurred.

The weighted average life expectancy calculated based on death benefit of insureds in the policies owned by the Company at November 30, 2019 was 11.4 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	1,297	12,000
Total	2	\$ 1,297	\$ 12,000

(11) Investment in Limited Partnership

Subscription Agreement

On August 16, 2019 (the "Effective Date"), the Company entered into a subscription agreement (the "Subscription Agreement") with Lamington ("Class B Limited Partner"), White Eagle, WEGP ("Withdrawing General Partner"), and Palomino JV, L.P. ("Palomino" or "Class A Limited Partner") pursuant to which White Eagle sold to Palomino 72.5% of its limited partnership interests, consisting of all of the newly issued and outstanding Class A and Class D interests, and WEGP sold to an affiliate (the "Manager") of Jade Mountain Partners, LLC ("Jade Mountain") all of its general partnership interests (collectively, the "WE Investment"). Pursuant to the Subscription Agreement, Lamington retained 27.5% of the limited partnership interests of White Eagle, consisting of all of the newly issued and outstanding Class B interests in exchange for all of its previously owned White Eagle limited partnership interests.

The proceeds of the WE Investment and certain funds then held in accounts of White Eagle were used to satisfy in full (i) the White Eagle Revolving Credit Facility and (ii) the DIP Financing, each in connection with the termination of the White Eagle Revolving Credit Facility and the release of the related liens on the collateral thereunder pursuant to the Master Termination Agreement. The repayment and termination of the White Eagle Revolving Credit Facility and the termination of the DIP Financing, which had not been drawn against, were in accordance with the Plan of Reorganization.

The WE Investment was consummated, and the White Eagle Revolving Credit Facility was paid off in full and terminated, on August 16, 2019. The payoff totaled \$402.5 million, which included payment directly to CLMG by Palomino of \$ 374.2 million and payment to CLMG by White Eagle of \$ 28.3 million, collectively sufficient to repay, under the White Eagle Revolving Credit Facility, the outstanding principal of \$368.0 million, accrued and unpaid interest of \$ 21.3 million plus, under the Plan of Reorganization, an early payment amount due to LNV of \$7.4 million and lender allowed claims of \$ 5.8 million. Of the \$ 374.2 million purchase price, \$8.0 million was allocated to the Class D interests which amount is to be repaid in accordance with the distribution terms of the A&R LPA.

On August 16, 2019, Lamington also entered into (i) the Pledge Agreement pursuant to which it pledged the 27.5% limited partnership interests of White Eagle owned by it to Palomino and certain other secured parties in support of the payment and indemnification obligations described above, and (ii) the Assumption Agreement pursuant to which Lamington assumed all liabilities and obligations of White Eagle and WEGP as of the closing date of the Transactions, and Lamington, the Company and WEGP agreed to terminate, waive and release any intercompany debt, obligations and liabilities of White Eagle to Lamington, the Company and WEGP. On August 16, 2019, Emergent entered into the Indemnification Agreement pursuant to which it indemnified Wilmington Trust, National Association against claims and liabilities that may arise in relation to policies that have matured prior to the Closing Date but as to which Wilmington Trust, National Association has historically held title as securities intermediary.

Amended and Restated Limited Partnership Agreement of White Eagle

In connection with the WE Investment, the Limited Partnership Agreement of White Eagle was amended and restated (the "A&R LPA") to provide for the issuance of the Class A, B and D limited partnership interests, for funding of an "Advance Facility" evidenced by the Class D limited partnership interests and to maintain reserves sufficient to fund premiums, certain operating expenses of White Eagle and certain minimum payments to Lamington as the holder of the Class B interests. The A&R LPA provides generally that holders of the Class A and Class B Interests receive distributions of proceeds of the assets of White Eagle based on their 72.5% and 27.5% ownership, respectively, after certain expenses and reserves are funded (including such minimum payments to Lamington totaling approximately \$8.0 million per year for the first three (3) years and \$4.0 million for the subsequent seven (7) years, provided that commencing after year three (3), such minimum payments will be utilized to repay the Class D Return of \$ 8.0 million, which was advanced at closing, plus the greater of \$ 2.0 million or 11% per annum on such \$ 8.0 million to the extent necessary to fully repay such Class D Return. The minimum payments to the Company will occur regardless of maturities with payments through the premium/expense reserve account when there are no maturity proceeds available for distribution as described below). However, the A&R LPA also provides that all payments to holders of the Class B interests (other than such minimum payments to Lamington during the first eight (8) years following the Closing Date) are fully subordinated to payments in respect of the minimum returns to holders of the Class A and Class D interests (including repayment of all amounts advanced in respect of the Advance Facility) and to any indemnification payments, if any, due to such holders and related indemnified persons pursuant to the indemnities afforded them in and in relation to the A&R LPA, Subscription Agreement, Master Termination Agreement and related documents. As of the closing of the WE Investment, Lamington Road Bermuda, LTD resigned as manager of the portfolio and was replaced by an affiliate of Jade Mountain.

On August 16, 2019, White Eagle , Palomino JV GP Limited, ("the General Partner") and the Manager entered into the Management Agreement, setting forth the terms and conditions pursuant to which the General Partner has delegated certain of its management rights and obligations under the A&R LPA to the Manager.

Advance Facility. The facility under which the Class A Limited Partner or its Affiliates from time to time advance to the Class B Limited Partner (or, as a matter of convenience only, provides the proceeds of any such advance directly to the Partnership on behalf of the Class B Limited Partner, provided that, for the avoidance of doubt, any such advance distributed directly to the Partnership shall not be deemed to be an incurrence of an obligation of the Partnership for the repayment thereof) the portion of the premium/expense reserve account owed by the Class B Limited Partner under the Agreement. Essentially, this is the aggregate amount owed by the Class B Limited Partner to the Class A Limited Partner thereunder as a result of such advances.

Class A Minimum Return Cumulative Amount. An amount equal to 11% per annum, compounded quarterly and accruing from the Effective Date, on the sum of (i) 100% of the initial contribution by the Class A Limited Partner on its own behalf to the premium/expense reserve account, accruing from the Effective Date until repaid (as reduced by any repayment thereof) (but for the avoidance of doubt excluding any advances made by the Class A Limited Partner under the Advance Facility), (ii) 100% of the amounts funded into the premium/expense reserve account by the Class A Limited Partner on its own behalf after the Effective Date (as reduced by any repayment thereof), accruing from the date of funding until repaid (but for the avoidance of doubt excluding any advances made by the Class A Limited Partner under the Advance Facility), and (iii) the Purchase Price of \$374.2 million (as reduced by any portion thereof repaid by the Class B Interest Monthly Distribution, as defined below, (v)

that reflects amortization of principal, all sale proceeds received by the Class A Limited Partner and any reductions thereof as contemplated by the permitted disposition of policies, plus (x) the amount necessary to reduce the principal balance to the targeted principal balance hereto for such Distribution Date, plus (y) later contributions by the Class A Limited Partner (excluding any advances made by the Class A Limited Partner under the Advance Facility but, for the avoidance of doubt, including amounts funded into the premium/expense reserve account by the Class A Limited Partner on its own behalf), plus (z) the Class D Return. At August 16, 2019, the target principal balance was \$406.0 million, including, \$366.2 million for the asset purchase price, \$21.8 million for Class A premium reserve funding, \$8.3 million Class B Advance Facility, \$8.0 million for Class D interests and \$1.8 million for facility expenses.

On December 4, 2019 the Company and certain of its subsidiaries entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with Sun Life Assurance Company of Canada ("Sun Life") and Wilmington Trust, N.A. as securities intermediary ("Wilmington Trust").

Pursuant to the Settlement Agreement, 31 life insurance policies with face value totaling \$163.5 million issued by Sun Life were canceled in exchange for a lump sum payment of \$36.1 million. The settlement included two policies held by the Company outside of White Eagle with an aggregate face value of \$12.0 million, 28 policies held by White Eagle with an aggregate face value of \$141.5 million and one policy with a face value of \$10.0 million in receivable for maturity for White Eagle. Of this amount, approximately \$12.7 million was received by the Company, \$13.4 million was paid to White Eagle and \$10.0 million was paid to Wilmington Trust for the maturity receivable. With this settlement, the Company no longer owns any life insurance policies directly. With this settlement, the target principal balance for the Class A Partner was reduced by the proceeds from the Sun Life settlement of \$13.4 million with \$392.6 million outstanding at August 31, 2020.

During the nine months ended August 31, 2020, approximately \$10.0 million was distributed to the Class A Partner to satisfy the Class A minimum return.

Class A True Up Payment. As of the applicable Distribution Date, (i) the excess (if positive) of (x) 72.5% of the total return distributions over (y) the sum of cumulative amounts actually received by the Class A Limited Partner prior to such Distribution Date on account of clauses (w), (x) and (y) of the Class A Minimum Return Cumulative Amount, any Class A true up payments and amounts paid to the Class A Limited Partner pursuant plus (ii) the amount necessary such that the Class A Limited Partner shall have received 72.5% of total return distributions after giving effect to the amounts to be paid to the Class A Limited Partner on such Distribution Date.

Class B True Up Payment. As of the applicable Distribution Date, (i) the excess (if positive) of (x) 27.5% of the Total Return Distributions over (y) the sum of cumulative amounts actually received by the Class B Limited Partners prior to such Distribution Date on account of the Minimum Class B Interest Monthly Distributions, the Class B True Up Payments and amounts paid to the Class B Limited Partners pursuant to Section 3.2(b)(v) (plus the cumulative amounts that were paid to the Class A Limited Partner in repayment of the Advance Facility, to the Class D Limited Partner on account of the Class D Return, or to the Purchaser Indemnified Parties to satisfy (in whole or in part) the indemnity obligations of Parent, Lamington or the Class B Limited Partner) plus (ii) the amount necessary such that the Class B Limited Partners shall have received 27.5% of Total Return Distributions after giving effect to the amounts to be paid to the Class B Limited Partner on account of the Minimum Class B Interest Monthly Distributions and amounts paid to the Class B Limited Partners on such Distribution Date in the priority of payments after payment of any Class A True Up Payments and Class B True Up Payments (plus the cumulative amounts that would have been distributed to the Class B Limited Partners but that were paid to the Class A Limited Partner in repayment of the Advance Facility, to the Class D Limited Partner on account of the Class D Return, or to the Purchaser Indemnified Parties to satisfy (in whole or in part) the indemnity obligations of Parent, Lamington or the Class B Limited Partner).

At August 31, 2020 there was no Class B true up payment outstanding.

Class D Return. The aggregate repayment amount of approximately \$8.0 million (as described above) owed by the Class B Limited Partner to the Class D Limited Partner, payable in accordance with the terms herein, which shall equal the greater of (x) 125% of the Class D Payment Amount (which is \$10.0 million), and (y) the Class D Payment Amount plus the total amount of unpaid interest accruing on the Class D Payment Amount at a rate equal to 11% per annum compounded quarterly from the Effective Date through the date on which the Class D payment amount and all accrued and unpaid interest is repaid in full.

At August 31, 2020, accrued and unpaid interest on the Class D Return was approximately \$934,000 with outstanding principal of \$8.0 million. The amount is to be repaid through the waterfall distribution as stated above. There was no payment made during the nine months ended August 31, 2020.

Distribution Date. The 5th Business Day of each month.

Minimum Class B Interest Monthly Distribution. The monthly amount equal to (i) for each month commencing prior to the third anniversary of the Effective Date, the greater of \$667,000 and 1/12th of 1.50% of the Net Asset Value as determined by the most recent valuation report obtained on or prior to such Distribution Date and (ii) for each month commencing on or after the third anniversary of the Effective Date and prior to the tenth anniversary of the Effective Date, the greater of \$333,000 and 1/12th of 0.75% of the net asset value as determined by the most recent valuation report obtained on or prior to such Distribution Date.

During the three months and nine months ended August 31, 2020, approximately \$ 2.0 million and \$6.0 million, respectively, were received by the Company for the minimum Class B interest monthly distribution. These amounts are included in change in fair value of investment in limited partnership, net of distributions on the consolidated statements of operations.

Expense. On August 16, 2019, the Class A Limited Partner contributed \$ 21.8 million to the premium/expense reserve account in satisfaction of its obligations to fund the premium/expense reserve account as of the Effective Date, and (ii) advanced under the Advance Facility \$8.3 million by deposit into the premium/expense reserve account on behalf of the Class B Limited Partner, in satisfaction of the Class B Limited Partner's obligations to fund the premium/reserve fund as of the Effective Date. This \$8.3 million is to be repaid through the waterfall distribution from amounts to be distributed to the Company. Total initial premium/expense reserve was approximately \$30.0 million on August 16, 2019. The Class A Limited Partner also contributed \$ 1.8 million towards expenses on August 16, 2019.

At August 31, 2020, approximately \$1.0 million in accrued and unpaid interest was outstanding on the \$ 8.3 million advanced on behalf of the Class B Limited Partner, the amount is to be repaid through the waterfall distribution as stated above. There was no payment during the three months ended August 31, 2020.

If at any time prior to a Distribution Date, the amount in the premium/expense reserve account is less than an amount sufficient to cover the next month of premiums and expenses, as set forth in the budget or as otherwise determined by the General Partner based upon advice of the Manager, the Class A Limited Partner will (i) contribute its percentage interest of 72.5%, and (ii) make advances under the Advance Facility of the Class B Limited Partner's percentage interest of 27.5%, for the aggregate amount of additional capital needed to increase the balance of the premium/expense reserve account to an amount sufficient to cover the next three months of premiums and expenses, as set forth in the budget.

All advances made by the Class A Limited Partner under the Advance Facility, whether prior to, on or after the Effective Date, shall accrue interest at the rate of 11% per annum, compounded quarterly, until repaid, and all such amounts (including any accrued but unpaid interest) shall be secured by the Class B Partnership Units pursuant to the Pledge Agreement. After the Effective Date, the General Partner will use commercially reasonable efforts to obtain financing proposals for premiums and expenses on terms more favorable to the Class B Limited Partner than the Advance Facility, if and to the extent available, and in the event such financing is obtained, the Class A Limited Partner shall no longer have any obligation to fund advances under the Advance Facility.

Funds in the premium/expense reserve account shall be used or otherwise distributed in the following order of priority (in thousands):

Premium/Expense Reserve Account	Three Months	Nine Months	Use of Proceeds
	Ended August 31, 2020	Ended August 31, 2020	
	Amount	Amount	
First	\$ 28,289	\$ 79,241	Premiums, Expenses and Manager Fees
Second	2,000	6,000	Minimum Class B Interest Monthly Distribution - after three years, Class D Returns takes priority until paid in full
Third	—	—	Minimum Class B Interest Monthly Distribution
Fourth	—	—	Retained for Premium/Expense to Cover Three Months of Transactions, excess to be sent to the Collection Account
	<u>\$ 30,289</u>	<u>\$ 85,241</u>	

During the three months ended August 31, 2020, approximately \$ 30.3 million was distributed from the premium/expense reserve inclusive of approximately \$26.6 million utilized to pay premiums, approximately \$ 1.7 million in facility related expenses and approximately \$ 2.0 million utilized for distribution to the Company to satisfy the requirements of the Class B monthly distribution.

During the nine months ended August 31, 2020, approximately \$ 85.2 million was distributed from the premium/expense reserve inclusive of approximately \$74.0 million utilized to pay premiums, approximately \$ 5.3 million in facility related expenses and approximately \$ 6.0 million utilized for distribution to the Company to satisfy the requirements of the Class B monthly distribution.

Premium/Expense Reserve Account	Three Months	Nine Months	Use of Proceeds
	Ended August 31, 2019	Ended August 31, 2019	
	Amount	Amount	
First	\$ 8,210	\$ 8,210	Premiums, Expenses and Manager Fees
Second	—	—	Minimum Class B Interest Monthly Distribution - after three years, Class D Returns takes priority until paid in full
Third	—	—	Minimum Class B Interest Monthly Distribution
Fourth	—	—	Retained for Premium/Expense to Cover Three Months of Transactions, excess to be sent to the Collection Account
	<u>\$ 8,210</u>	<u>\$ 8,210</u>	

During the three months and nine months ended August 31, 2019, approximately \$ 8.2 million was distributed from the premium/expense reserve with the balance of approximately \$21.8 million remaining in the account at August 31, 2019.

During the three months and nine months ended August 31, 2020, the premium/expense reserve account received approximately \$ 34.2 million and \$ 107.2 million, respectively from the collection account through maturity proceeds collected. The account balance was approximately \$26.1 million at August 31, 2020. Approximately \$3.8 million was in the collection account pending distributions to the premium/expense account at August 31, 2020. The below is a reconciliation of the premium/expense reserve account for the three months and nine months ended August 31, 2020 (in thousands).

	Three Months Ended August 31, 2020	Nine Months Ended August 31, 2020
Beginning balance	\$ 22,224	\$ 4,195
Distributions received		
Collections account	34,188	107,169
Total distribution received	<u>\$ 56,412</u>	<u>\$ 111,364</u>
Less Payments:		
Premiums and expenses	28,289	79,241
Class B monthly distribution	2,000	6,000
Total payments	<u>\$ 30,289</u>	<u>\$ 85,241</u>
Balance at August 31, 2020	<u>\$ 26,123</u>	<u>\$ 26,123</u>

Approximately \$667,000 was due for distribution to the Company to cover the period ended August 31, 2020 and the amount was received subsequent to the quarter end.

Distribution. The General Partner has established a separate bank account on behalf of, and in the name of, the Partnership to hold, and shall direct all death benefits and other cash received by the Partnership (other than capital contributions, proceeds of the Advance Facility, and death benefits from matured policies which shall be distributed in accordance with Section 2.02(b) of the Subscription Agreement) into such account (the "Collections Account").

On each Distribution Date, funds on deposit in the Collections Account shall be distributed by the Paying Agent ("Wilmington Trust, N.A") pursuant to the Waterfall Notice in the following order of priority:

Collection Account	Three Months Ended August 31, 2020	Nine Months Ended August 31, 2020	
Priority	Amount		Use of Proceeds
First	\$ 34,188	\$ 107,169	Premium/Expense Reserve Account - to cover next three months of premiums and expense
Second	—	9,969	Class A Minimum Return Cumulative Amount*
Third	—	—	Minimum Class B Interest Monthly Distribution
Fourth	—	—	Re-balancing the Total Return Distributions with 72.5% to the Class A Limited Partner and 27.5% to Class B Limited Partner
Fifth	—	—	72.5% to the Class A Limited Partner and 27.5% to the Class B Limited Partner
	<u>\$ 34,188</u>	<u>\$ 117,138</u>	

*Second - To pay the Class A Limited Partner the amount necessary such that the Class A Limited Partner shall have received the Class A Minimum Return Cumulative Amount (applied first which is 11%), second to the amounts necessary to reduce the principal balance from \$106.0 million on the Effective Date to April 2039 when it is expected to be paid in full (the A&R LPA stipulate the expected monthly reduction in target principal commencing in April 2021), third to later contributions by the Class A Limited Partner, excluding Advance Facility but includes funded into premium/expense account on its own behalf and fourth the Class D Return, in each case of the definition of Class A Minimum Return Cumulative Amount as of the last day of the month immediately prior to such Distribution Date.

The below is a reconciliation of funds received in and distributed from the collection account for the three months ended August 31, 2020 and nine months ended August 31, 2020 (in thousands).

	Three Months Ended August 31, 2020	Nine Months Ended August 31, 2020
Beginning balance	\$ 5,643	\$ 13,007
Maturity proceeds received - face	32,050	107,276
Proceeds received - other*	272	632
Total receipts	<u>37,965</u>	<u>120,915</u>
Less distribution		
Premium/expense account	34,188	107,169
Class A	—	9,969
Total distributions	<u>34,188</u>	<u>117,138</u>
Balance at August 31, 2020	<u>\$ 3,777</u>	<u>\$ 3,777</u>

*Includes refund of premiums and interest earned on maturity proceeds

During the three months ended August 31, 2020, the portfolio experienced maturities of 13 policies with face value of approximately \$43.2 million, gain on maturity of \$30.0 million, weighted average age of 88.9 years and weighted average remaining life expectancy of 4.5 years. The ratio of realized gain to face value was approximately 69%. Approximately \$32.1 million was collected during the three months ended August 31, 2020.

During the nine months ended August 31, 2020, the portfolio experienced maturities of 33 policies with face value of approximately \$133.3 million, gain on maturity of \$78.5 million, weighted average age of 88.6 years and weighted average remaining life expectancy of 4.1 years. The ratio of realized gain to face value was approximately 58.9%. Approximately \$107.3 million was collected during the nine months ended August 31, 2020 with \$39.7 million pending collection at August 31, 2020.

The below is a reconciliation of receivable for maturity of life settlement held by the limited partnership for the three months and nine months ended August 31, 2020 (in thousands).

	Three Months Ended August 31, 2020	Nine Months Ended August 31, 2020
Balance at start	\$ 28,550	\$ 13,726
Maturities	43,225	133,275
Less: proceeds received	32,050	107,276
Receivable at August 31, 2020	<u>\$ 39,725</u>	<u>\$ 39,725</u>

The Company performed a valuation at August 31, 2020 resulting in a fair value of approximately \$ 152.5 million compared to \$137.8 million at November 30, 2019, resulting in a change in fair value of approximately \$4.3 million and \$20.6 million for the three months and nine months ended August 31, 2020. See [Note 16, "Fair Value Measurements"](#), to the accompanying consolidated financial statements for further information.

At August 31, 2020, there were 500 policies in the White Eagle portfolio with death benefits of approximately \$ 2.4 billion and the weighted average remaining life expectancy calculated based on death benefit of the insureds in the policies was 6.6 years.

<u>Remaining Life Expectancy (In Years)*</u>	Number of Life Settlement Contracts	Face Value
0-1	9	\$ 40,780
1-2	30	114,006
2-3	30	121,696
3-4	54	281,198
4-5	54	253,239
Thereafter	323	1,556,622
Total	<u>500</u>	<u>\$ 2,367,541</u>

*Based on remaining life expectancy at August 31, 2020, as derived from reports of third party life expectancy providers, and does not indicate the timing of expected death benefits.

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 August 31, 2020, are as follows (in thousands):

Year	Expected Premiums
2020	\$ 25,197
2021	104,768
2022	100,021
2023	93,316
2024	87,998
Thereafter	572,074
	<u>\$ 983,374</u>

The amount of \$1.0 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.

See [Note 16, "Fair Value Measurements"](#), to the accompanying consolidated financial statements for further information.

(12) 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, December 29, 2016 and January 31, 2017.

General & Security. The White Eagle Revolving Credit Facility provides for an asset-based revolving credit facility backed by White Eagle's portfolio of life insurance policies with an aggregate lender commitment of up to \$370.0 million, subject to borrowing base availability.

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 & 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 & Other		Distribution to White Eagle - 55%	Lender Participation - 45%
	Fees	Principal		
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%).

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 \$47.6 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 5.0% 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 which was fully repaid during the year ended November 30, 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 [13](#), "[8.50% Senior Unsecured Convertible Notes](#)", Note [14](#), "[5.0% Senior Unsecured Convertible Notes](#)" and Note [15](#), "[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.

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 and the White Eagle Revolving Credit Facility termination agreement (in thousands):

	Nine Months Ended August 31, 2019	
Collection account balance at December 1, 2018	\$	28,059
Face value collected in current quarter		60,163
Face value collected in prior quarters		32,342
Other collections *		2,575
	\$	123,139
Expenses paid from the collection account Post-Petition		
Premiums paid 2019	\$	(65,905)
Interest expenses		(28,331)
Payment toward principal		(1,804)
White Eagle credit facility expenses		(9,304)
Refund of premium payments advanced by parent		(3,000)
Lender allowed claim-Beal		(5,839)
Transfers of remaining funds to Lamington		(8,956)
	\$	(123,139)
Collection account balance at August 16, 2019**	\$	—

*Includes refund of premiums and interest earned on maturity proceeds

** Collection account was closed on August 16, 2019 in connection with the termination of the White Eagle Revolving Credit Facility.

During the three months and nine months ended August 31, 2019, advances for premium payments and fees to service providers amounted to (in thousands):

	Three Months Ended August 31,		Nine Months Ended August	
	2019		31,	
	2019		2019	
Amount drawn for premium payments	\$	—	\$	4,221
Total amount drawn	\$	—	\$	4,221

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 August 15, 2019 and August 31, 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 of approximately \$23.3 million and \$28.3 million was paid during the three months and nine months ended August 31, 2019.

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 include 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.

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*, 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 was the limited partner and owned 99.99%, and WEGP was the general partner and owned 0.01% of White Eagle. In its capacity as general partner, WEGP managed 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 of 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 September 16, 2019, the Bankruptcy Court entered an order and final decree closing the White Eagle Chapter 11 Case. The Lamington and WEGP Chapter 11 Cases were closed on November 25, 2019.

On December 13, 2018, White Eagle filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court. 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 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 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. On September 16, 2019, the Bankruptcy Court entered an order and final decree closing the White Eagle Chapter 11 Case. The Lamington and WEGP Chapter 11 Cases were closed on November 25, 2019.

Deconsolidation and Subsequent Measurement of the Deconsolidated Entities

Lamington and its subsidiaries' (White Eagle, WEGP and Lamington Bermuda) financial results were excluded from the Company's consolidated results for the period from November 14, 2018, the Petition Date, to August 16, 2019, the day the date the White Eagle Revolving Credit Facility was terminated. 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 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. Effective August 17, 2019, the entities were deemed to have emerged from bankruptcy and were no longer deconsolidated. See [Note 2](#), "Summary of Significant Accounting Policies - Reorganization and Consolidation" to the accompanying consolidated financial statements.

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 Bankruptcy Court where the Suit will be administered together with the previously filed Chapter 11 Cases. LNV, a subsidiary of Beal, is the lender under the White Eagle Revolving 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 Court authorized the Debtors to use the proceeds of pre-petition cash collateral for a period of twenty (20) weeks (the "Cash Collateral"), which allowance was extended in May 2019 for another nine (9) weeks. 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.

Global Settlement Agreement in Principle in Bankruptcies

On May 7, 2019, the Proposed Settlement, a global settlement in principle of the Chapter 11 Cases and the Suit, was announced on the record to, and filed with, the Bankruptcy Court jointly by the Debtors and Defendants.

The Proposed Settlement would be effected together with the plan of reorganization, in accordance with the following schedule: (x) the Proposed Settlement and plan of reorganization, and other relevant documents, would be filed with the Bankruptcy Court by May 24, 2019, (y) the parties would use their best efforts to have the Proposed Settlement approved by the Bankruptcy Court by June 7, 2019, and (z) the parties would use their best efforts to have a confirmation hearing for approval of the plan of reorganization by the Bankruptcy Court held on or before June 21, 2019.

Pursuant to the Proposed Settlement, among other things:

- White Eagle shall have up to and including September 17, 2019 to satisfy any and all obligations to LNV under the Credit Facility by paying LNV 102% of its outstanding principal plus accrued interest at the relevant default rate, accrued fees and costs, which aggregate amount would include the resolution of the 45% participation interest element of the Credit Facility which was part of the subject matter of the Suit;
- If White Eagle satisfies such obligations after September 17, 2019 and by December 30, 2019, the amount due on the outstanding principal would increase to 104%;
- In the event LNV has not received the payoff described above by September 17, 2019, the court-appointed liquidation trustee, together with investment banking assistance from Maple Life Financial, LLC, shall have full authority to sell White Eagle's life insurance policy portfolio (which constitutes collateral under the Credit Facility) for the maximum amount achievable through an orderly sale process, taking into account that the transaction must be closed no later than December 30, 2019; in connection with this authority, the liquidation trustee and the investment banker may work prior to September 17, 2019 to prepare the portfolio for sale, but may not take actions to actually commence a sale including, but not limited to, marketing the portfolio or contacting potential buyers about the portfolio, prior to such date;
- If the portfolio is sold in whole or in part, LNV shall only have the right to step in to bid for such sale if, and to the extent, the total amounts generated through the sale thereof do not fully satisfy the payoff amount; and
- If the sale of any portion of the Collateral has not closed or the proceeds of such sale(s) have not been received by CLMG by December 30, 2019, (i) if the Payoff Amount has not then been paid in cash in full, such Collateral shall be transferred on or before Noon Eastern on December 31, 2019 to CLMG (or its designee) in full satisfaction of the remaining unpaid portion of the amounts due to LNV.

In addition, in order to provide sufficient cash flow to the Company during this period, and subject to negotiation of mutually-agreed upon terms and conditions, the Debtors shall have the right to use proceeds from the maturity of any portfolio policy and resolution of certain claims, and LNV will provide the Debtors a revolving \$15.0 million of debtor-in-possession financing (which amount may be increased if found to be insufficient) through December 30, 2019 (the "DIP Financing").

Plan of Reorganization

On June 5, 2019, the Bankruptcy Court approved the Settlement Agreement memorializing the Proposed Settlement and the DIP Financing. The Plan of Reorganization for the Chapter 11 Cases, which implements the Settlement Agreement and the DIP Financing, was confirmed by the Bankruptcy Court on June 19, 2019.

On July 18, 2019, the Company entered into the Commitment Letter with Lamington, White Eagle and Jade Mountain in connection with the Plan of Reorganization. The Commitment Letter provided for a transaction in which Jade Mountain and/or certain of its affiliates and/or certain investors would acquire 72.5% of the equity interests of White Eagle in exchange for \$ 384.3 million as may be adjusted in accordance with the final documentation. The Commitment Letter and its terms and the transactions contemplated thereby were approved by the Bankruptcy Court on July 22, 2019.

Repayment and Termination of the White Eagle Revolving Credit Facility

On August 16, 2019, the Company entered into the Subscription Agreement, in connection with the Commitment Letter, pursuant to which White Eagle sold to Palomino 72.5% of its limited partnership interests, consisting of all of the newly issued and outstanding Class A and Class D interests, and WEGP sold to an affiliate of Jade Mountain all of its general partnership interests for a purchase price of approximately \$366.2 million and \$8.0 million for the Class A and Class D interests, respectively.

Pursuant to the Subscription Agreement, Lamington retained 27.5% of the limited partnership interests of White Eagle, consisting of all of the newly issued and outstanding Class B interests in exchange for all of its previously owned White Eagle limited partnership interests with a value of approximately \$138.9 million on the closing date.

The proceeds of the WE Investment were used to satisfy in full (i) the White Eagle Revolving Credit Facility, and (ii) the DIP Financing extended by CLMG, as agent, and LNV, as lender, to White Eagle, each in connection with the termination of the White Eagle Revolving Credit Facility and the release of the related liens on the collateral thereunder pursuant to the Master Termination Agreement. The repayment and termination of the White Eagle Revolving Credit Facility and the termination of the DIP Financing, which had not been drawn against, were in accordance with the Plan of Reorganization.

The WE Investment was consummated, and the White Eagle Revolving Credit Facility was paid off in full and terminated, on August 16, 2019. The payoff totaled \$402.5 million, which included payment directly to CLMG by Palomino of \$ 374.2 million and payment to CLMG by White Eagle of \$ 28.3 million, collectively sufficient to repay, under the White Eagle Revolving Credit Facility, the outstanding principal of \$368.0 million, accrued and unpaid interest of \$ 21.3 million plus, under the Plan of Reorganization, an early payment amount due to LNV of \$7.4 million which was included in the income statement as loss on extinguishment of debt and lender-allowed claims of \$5.8 million.

(13) 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 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 .

On March 14, 2017, the Company issued Additional Convertible Notes for an aggregate principal amount of \$ 3.5 million in lieu of a cash payment of interest on the Convertible Notes.

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 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.

On August 28, 2019, the Company paid off the outstanding principal and accrued interest on its Convertible Notes, consisting of \$ 1.2 million in principal, \$110,000 in accrued and unpaid interest and \$ 38,000 in administrative fees and expenses. The Convertible Notes matured on February 15, 2019. Upon the payoff, the Convertible Notes were extinguished.

The Company recorded \$22,000 of interest expense on the Convertible Notes during the three months ended August 31, 2019.

The Company recorded \$93,000 of interest expense on the Convertible Notes during the nine months ended August 31, 2019, which included \$ 73,000, \$18,000 and \$3,000 from interest, amortizing debt discounts and origination costs, respectively.

(14) 5.0% Senior Unsecured Convertible Notes

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

In connection with the Transaction Closing, the Company caused to be issued the New Convertible Notes in an aggregate amount of approximately \$ 75.8 million pursuant to an Indenture the ("New Convertible Note Indenture") between the Company and U.S. Bank, National Association, as indenture trustee.

The terms of the New Convertible Notes are governed by the New Convertible Note Indenture, which provide, among other things, that the New Convertible Notes are unsecured senior obligations of the Company and will mature on February 15, 2023. The New Convertible Notes bear interest at a rate of 5.0% 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 of dissolution of the Company, and the Common Stock ceasing to be listed or quoted on a Trading Market. 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, or a registration statement regarding the resale by the holders of the securities or holders of any shares of common stock issuable upon conversion. 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.

Repurchase of Notes

On December 11, 2019, the Company redeemed \$ 8.0 million principal amount of the 5.0% Convertible Notes in exchange for cash consideration of \$ 4.8 million inclusive of unpaid interest of approximately \$123,000. The Company incurred a net gain on extinguishment of approximately \$ 2.8 million after expense for derivative and origination cost write off of approximately \$442,000 and \$66,000, respectively. Upon such redemption, the New Convertible Notes were surrendered and canceled.

As of August 31, 2020, the outstanding principal of the New Convertible Notes is \$ 67.8 million with a carrying value of \$ 64.4 million, net of unamortized debt discounts and origination costs of \$3.0 million and \$441,000, respectively. These are being amortized over the remaining life of the New Convertible Notes using the effective interest method.

During the three months ended August 31, 2020, the Company recorded \$ 1.2 million of interest expense on the New Convertible Notes, including \$848,000, \$282,000 and \$42,000 from interest, amortization of debt discount and origination costs, respectively, compared to interest expense of \$ 1.3 million during the three months ended August 31, 2019, which included \$948,000, \$290,000 and \$43,000 from interest, amortizing debt discounts and origination costs, respectively.

During the nine months ended August 31, 2020, the Company recorded \$ 3.4 million of interest expense on the 5.0% Convertible Notes, including \$2.6 million, \$776,000 and \$ 115,000 from interest, amortization of debt discount and origination costs, respectively, compared to interest expense of \$3.8 million during the nine months ended August 31, 2019, which included \$2.8 million, \$832,000 and \$ 123,000 from interest, amortization of debt discount and origination costs, respectively.

(15) 8.5% Senior Secured Notes

In connection with the Transaction Closing, the Company and the Senior Secured Note Trustee entered into an Amended and Restated Senior Secured Note Indenture (the "Amended and Restated Senior Secured Indenture") to amend and restate the Senior Secured Indenture between the Company and the Senior Secured Note Trustee following the Company's receipt of requisite consents of the holders of the 15% Senior Secured Notes. Pursuant to the terms of the Amended and Restated Senior Secured Indenture, the Company caused the cancellation of all outstanding 15% Senior Secured Notes and the issuance of 8.5% Senior Secured Notes due 2021 (the "8.5% Senior Secured Notes") in an aggregate amount of \$ 30.0 million. The Amended and Restated Senior Secured Indenture 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 will 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 on the 8.5% Senior Secured Notes redeemed, 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 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, 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 was completed in late 2019. 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 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 August 11, 2017, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") by and between the Company and Brennan Opportunities Fund I LP ("Brennan"). Pursuant to the Securities Purchase Agreement, Brennan purchased from the Company (i) 12,500,000 shares (the "Brennan Shares") of Common Stock at a price of \$0.40 per share for an aggregate purchase price of \$ 5.0 million and (ii) \$5.0 million principal amount of the Company's 8.5% Senior Secured Notes (the "Brennan Notes," and together with the Brennan Shares, the "Brennan Securities"). The Securities Purchase Agreement contained customary representations, warranties, and covenants.

The sale of the Brennan Securities was consummated on August 11, 2017, as to 8,750,000 shares of Common Stock and \$ 3.5 million principal amount of 8.5% Senior Secured Notes, and on August 14, 2017, as to 3,750,000 shares of Common Stock and \$ 1.5 million principal amount of 8.5% Senior Secured Notes.

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 \$40.0 million to \$70.0 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. All terms of the Indenture that were not amended by the Second Supplemental Indenture remain in full force and effect.

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 Senior 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.

The Company issued an additional \$4.0 million in additional 8.5% Senior Secured Notes in lieu of a cash payment of interest to the relevant holders of the notes during the year ended November 30, 2019.

At August 31, 2020, the outstanding principal of the 8.5% Senior Secured Notes was \$47.6 million with a carrying value of \$46.5 million, net of discount and unamortized debt issuance cost of \$904,000 and \$205,000, respectively.

During the three months ended August 31, 2020, the Company recorded approximately \$ 1.6 million of interest expense on the 8.5% Senior Secured Notes, which includes \$1.3 million of interest expense, \$54,000 of amortizing debt issuance costs and \$231,000 of amortizing of debt discount, respectively, compared to approximately \$1.5 million of interest expense on the 8.5% Senior Secured Notes, during the three months ended August 31, 2019, which includes \$ 1.3 million of interest and \$76,000 of amortizing debt issuance costs, and \$152,000 of amortizing of debt discount, respectively.

During the nine months ended August 31, 2020, the Company recorded approximately \$ 4.2 million of interest expense on the 8.5% Senior Secured Notes, which includes \$3.3 million of interest and \$156,000 of amortizing debt issuance costs and \$660,000 of amortizing of debt discount respectively, compared to approximately \$4.4 million of interest expense on the 8.5% Senior Secured Notes, during the nine months ended August 31, 2019, which includes \$ 3.8 million of interest and \$209,000 of amortizing debt issuance costs and \$346,000 of amortizing of debt discount respectively.

(16) Fair Value Measurements

The Company carries investment in limited partnership, life settlements and investment in deconsolidated subsidiaries at fair value. As of August 31, 2020, life settlements and investment in deconsolidated subsidiaries are no longer held on the Company's consolidated balance sheet. 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 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 August 31, 2020, are as follows (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investment in limited partnership	\$ —	\$ —	\$ 152,450	\$ 152,450
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 152,450</u>	<u>\$ 152,450</u>

The balances of the Company's assets measured at fair value on a recurring basis as of November 30, 2019, are as follows (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Assets:				
Investment in limited partnership	\$ —	\$ —	\$ 137,849	\$ 137,849
Investment in life settlements	—	—	1,297	1,297
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 139,146</u>	<u>\$ 139,146</u>

The below is a quantitative analysis of the Company's level 3 assets fair value measurements at August 31, 2020:

(\$ in thousands)	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at 8/31/2020	Aggregate death benefit at 8/31/20	Valuation Technique	Unobservable Input	Range (Weighted Average)
Investment in limited partnership	\$ 152,450	\$ 663,033	Discounted cash flow	Discount rate	14.04%
				Life expectancy evaluation, distributions, return on investment	

Following is a description of the methodologies used to estimate the fair values of assets measured at fair value on a recurring basis and within the fair value hierarchy which is our investment in limited partnership which holds a portfolio of life settlements for the nine months ended August 31, 2020. At August 31, 2020, the Company did not directly own any life settlement, as a result, the analysis included is for the nine months ended August 31, 2019 for this category.

Investment in limited partnership - In connection with the WE Investment, the Limited Partnership Agreement of White Eagle was amended and restated (the "A&R LPA") to provide for the issuance of the Class A, B and D limited partnership interests, and for funding of an "Advance Facility" evidenced by the Class D limited partnership interests, to maintain reserves sufficient to fund premiums, certain operating expenses of White Eagle and certain minimum payments to Lamington as the holder of the Class B interests. The A&R LPA provides generally that holders of the Class A and Class B Interests receive distributions of proceeds of the assets of White Eagle based on their 72.5% and 27.5% ownership, respectively, after certain expenses and reserves are funded (including such minimum payments to Lamington totaling approximately \$8.0 million per year for the first three (3) years and \$4.0 million for the subsequent seven (7) years, provided that commencing after year three (3), such minimum payments will be utilized to repay the Class D Return of \$ 8.0 million, which was advanced at closing, plus

the greater of \$2.0 million or 11% per annum on such \$8.0 million to the extent necessary to fully repay such Class D Return. The minimum payments to the Company will occur regardless of maturities with payments through the premium/expense reserve account when there are no maturity proceeds available for distribution as described below). However, the A&R LPA also provides that all payments to holders of the Class B interests (other than such minimum payments to Lamington during the first eight (8) years following the Closing Date) are fully subordinated to payments in respect of the minimum returns to holders of the Class A and Class D interests (including repayment of all amounts advanced in respect of the Advance Facility) and to any indemnification payments, if any, due to such holders and related indemnified persons pursuant to the indemnities afforded them in and in relation to the A&R LPA, Subscription Agreement, Master Termination Agreement and related documents.

ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* requires that 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.

White Eagle previously valued its life settlement policies at fair value whose valuation are based on inputs that are both significant to the fair value measurement and unobservable. The Company now holds an equity investment of 27.5% in White Eagle whose only assets are these life settlements. Additionally, the investment includes a mezzanine financing which the Company assumed at closing which repayment by, and ultimate distributions to, the Company are based on a prescribed waterfall with a guaranteed 11% return to the majority owner partner. The Company will utilize a fair value approach to account for its 27.5% investment in White Eagle, and the calculation will be performed consistent with ASC 820, *Fair Value Measurement* with changes in fair value recorded in current earnings.

The Company performed a valuation at August 31, 2020 resulting in a value of approximately \$ 152.5 million using an estimated discount rate of approximately 14.04%.

See Note [11, "Investment in Limited Partnership"](#), to the accompanying consolidated financial statements for further information.

Discount rate of investment in limited partnership

The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy, the Company's estimates of the return and investor would require and the current rate of return of the major partner.

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 27.5% investment in White Eagle. 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 and engages in discussions with other market participants. In considering these factors, at August 31, 2020, the Company determined that the estimated discount rate was 14.04%.

Market interest rate sensitivity analysis of the investment in limited partnership

The extent to which the fair value of the investment in limited partnership 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 investment in limited partnership as of August 31, 2020 would be as follows (dollars in thousands):

Weighted Average Rate	Rate Adjustment	Value	Change in Value
13.54%	(0.50) %	\$ 156,438	\$ 3,988
14.04%	—	\$ 152,450	\$ —
14.54%	0.50 %	\$ 148,616	\$ (3,834)

Life settlements- The Company previously owned a portfolio of life settlements. With the sale of the 72.5% interest in White Eagle and the Sun Life settlement, the Company no longer owns life settlements. During the period of ownership, the Company elected to account for the life settlement policies it acquires using the fair value method. The Company used 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 used a probabilistic method

of valuing the life insurance policies, which the Company believes to be the preferred valuation method in the industry. The most significant assumptions were the estimates of life expectancy of the insured and the discount rate.

Investment in deconsolidated subsidiaries - As previously discussed in Note 4, "Deconsolidation of Subsidiaries" upon the deconsolidation of Lamington, the Company recorded an investment which was equivalent to the carrying value of Lamington's net assets at fair value. The Company calculated the fair value using unobservable inputs, primarily discounted cash flow analysis which required significant management judgment due to the absence of quoted market prices or observable inputs for assets of similar nature, hence, we utilized a discounted cash flow analysis considering the anticipated date the Company would emerge from bankruptcy, the settlement amount of the debt under the then White Eagle Revolving Credit Facility, and future expenses. The calculation resulted in a fair value of approximately \$128.8 million at November 30, 2018, the Company further evaluate its investment at August 16, 2019 and recognized a gain of approximately \$37.9 million, the amount is reflected in current earnings as change in fair value of investment in deconsolidated subsidiaries. The amount is associated with gains incurred by Lamington for the period up to August 16, 2019 in considering the proceeds received through the transaction for the Subscription Agreement, the actual payoff of the White Eagle Revolving Credit Facility and all other third party claims. Effective August 16, 2019, Lamington was reconsolidated under the provisions of ASC 810, *Consolidation*.

Changes in Fair Value

The following tables provides a roll-forward in the changes in fair value for the nine months ended August 31, 2020, for all assets for which the Company determines fair value using a material level of unobservable (Level 3) inputs (in thousands):

Life Settlements - Consolidated:	
Balance, December 1, 2019	\$ 1,297
Sale of policies	(2,040)
Gain on sale of life settlement	743
Change in fair value	—
Premiums paid	—
Balance, August 31, 2020	<u>\$ —</u>
Changes in fair value included in earnings for the period relating to assets held at August 31, 2020	<u>\$ —</u>
Investment in Limited Partnership	
Balance, December 1, 2019	\$ 137,849
Change in fair value	20,601
Distributions	(6,000)
Balance, August 31, 2020	<u>\$ 152,450</u>
Changes in fair value included in earnings for the period relating to assets held at August 31, 2020	<u>\$ 14,601</u>

The following tables provides a roll-forward in the changes in fair value for the periods ended August 31, 2019, 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 - Consolidated:	
Balance, December 1, 2018	\$ 1,172
Purchase of policies	—
Change in fair value	(37)
Matured/lapsed/sold policies	—
Premiums paid	118
Balance, August 31, 2019	<u>\$ 1,253</u>
Changes in fair value included in earnings for the period relating to assets held at August 31, 2019	<u>\$ (37)</u>

Life Settlements - Deconsolidated:

Balance, December 1, 2018	\$ 505,235
Purchase of policies	—
Change in fair value	(16,841)
Receivable for maturity of life settlement write off	17,800
Policies sold	(344,845)
Policies matured	(100,373)
Premiums paid	69,827
Transfer to investment in limited partnership	(130,803)
Balance at, August 31, 2019	<u>\$ —</u>
Changes in fair value included in earnings for the period relating to deconsolidated assets held at August 31, 2019	<u>\$ —</u>

The following tables provides a roll-forward in the changes in fair value for the periods ended August 31, 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 - Deconsolidated:

Balance, December 1, 2018	\$ 346,670
Draws under the White Eagle Revolving Credit Facility	4,221
Payments on White Eagle Revolving Credit Facility	(367,985)
Unrealized change in fair value	17,094
Balance, August 31, 2019	<u>\$ —</u>
Changes in fair value included in earnings for the period relating to liabilities at August 31, 2019	<u>\$ —</u>

The following table provides a roll-forward in the changes in fair value for the period ended August 31, 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
Change in fair value	37,941
Transferred to consolidation	(166,736)
Investment in Lamington at August 31, 2019	<u>\$ —</u>

There were no transfers of financial assets or liabilities between levels of the fair value hierarchy during the nine months ended August 31, 2020 and 2019.

Other Fair Value Considerations - Carrying value of certificate of deposits, prepaid expenses and other assets, 8.5% Senior Secured 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.

(17) 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.

(18) Commitments and Contingencies

Lease Agreements

Effective December 1, 2019, the Company adopted ASC 842, *Leases*, which requires lessees to recognize on the balance sheet at lease commencement, the lease assets and the related lease liabilities for the rights and obligations created by operating and finance leases with lease terms of more than 12 months. The lease term commences on the date the lessor makes the underlying property available, irrespective of when lease payment begins under the contract.

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 \$268,000, with a provision for a 3% increase on each anniversary of the rent commencement date.

Upon adoption, our lease liability was \$203,000 and was calculated based on the present value of the minimum lease payments from December 1, 2019 to September 30, 2020, the lease expiration date, consisting of the base rent, provision for a 3% increase on each anniversary of the rent commencement date and our incremental borrowing rate applicable to the lease term. The interest rate used in our calculation is estimated and was derived using the interest rate we pay on our existing borrowings, adjusted for other factors which requires judgment by management. The lease liability is increased by accreted interest and reduced by the lease payment made by the Company on a monthly basis. At August 31, 2020, there was no operating lease liability.

The Company initially measured the right-of-use asset ("ROU asset" or "operating lease asset") at the initial measurement of the lease liability, adjusted for payments made before the commencement date and lease incentives received before the commencement date, which resulted in an initial ROU assets value of approximately \$179,000.

At August 31, 2020, the operating lease asset was \$22,000 and is included under assets on the consolidated balance sheet.

Over the lease term, the Company is required to amortize the ROU asset and record interest expense on the lease liability created at lease commencement. Operating lease expense was approximately \$107,000 for the three months ended August 31, 2020 and \$352,000 for the nine months ended August 31, 2020. Rent expense was \$104,000 for the three months ended August 31, 2019 and \$332,000 for the nine months ended August 31, 2019. Effective September 30, 2020 the lease expired.

Short Term Lease

On August 5, 2020, the Company signed a lease agreement for office space. The monthly base rent was \$700 with a commencement date of September 1, 2020 and an expiration date of December 1, 2020. This Agreement lasts for the period beginning on September 1, 2020 and will then automatically renew for successive periods for the same duration as to the initial term, until terminated by either party in accordance with the terms and conditions of the lease agreement.

Sublease Agreement

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. On March 11, 2019, the sublease contract was amended to increase the square footage thereunder, hence increasing the annual base rent to \$89,000. Effective July 31, 2020, the sublease was terminated.

The sublease did not relieve the Company of its primary obligation under the original lease. As a result, the Company will continue to account for the original lease as an operating lease independent of the sublease agreement, in terms of balance sheet presentation. Rental income is recognized on a monthly basis and was approximately \$29,000 and \$41,000, respectively, for the three months ended August 31, 2020 and three months ended August 31, 2019, respectively, \$119,000 and \$117,000, respectively, for the nine months ended August 31, 2020 and nine months ended August 31, 2019, respectively and is included as other income in the consolidated statements of operations.

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.

Severance Agreements

On November 12, 2019, the Company entered into a retention agreement with each of Mr. Simony, (the "Simony Retention Agreement"), and Mr. Werblowsky, (the "Werblowsky Retention Agreement" and, together with the Simony Retention Agreement, the "Retention Agreements"). Each Retention Agreement provides for a cash retention payment (each, a "Retention Payment") and certain extended benefits to each of Mr. Simony and Mr. Werblowsky (the "Benefits") in recognition of his significant contributions to consummating the Company's August 2019 transaction with Jade Mountain Partners, LLC, which allowed the Company and its then subsidiary White Eagle Asset Portfolio, L.P to refinance an onerous credit facility and improve the Company's overall financial position (the "White Eagle Transaction"), and in consideration of Mr. Simony's and Mr. Werblowsky's continued support and assistance with the current restructuring under consideration by the Company (the "Restructuring").

The Retention Agreements provide that in exchange for the Retention Payment and Benefits, each of Mr. Simony and Mr. Werblowsky will remain employed by Imperial pursuant to his current employment agreement, each dated March 13, 2018 (the "Employment Agreements"), and that each Retention Payment is in lieu of any severance otherwise payable to Mr. Simony or Mr. Werblowsky under his Employment Agreement. In addition, each of Mr. Simony and Mr. Werblowsky will not be eligible

to receive any portion of his Retention Payment if he is terminated for Cause (as defined in the Employment Agreements) or resigns without Good Reason (as defined in the Employment Agreements). The Retention Payments consist of \$1.0 million for Mr. Simony and \$500,000 for Mr. Werblowsky. The Benefits consist of, for each of Mr. Simony and Mr. Werblowsky, 12 months of (x) COBRA health insurance coverage reimbursement from the company and (x) other benefits to which he would be entitled upon an involuntary termination without Cause under his Employment Agreement. The Retention Payments are payable as to two-thirds upon entering into the Retention Agreements and one-third within three (3) business days of the consummation of the Restructuring, so long as the White Eagle Transaction remains in full force and effect and White Eagle and its limited partnership agreement remain operative and in good standing.

On December 10, 2019, the Company, entered into a retention agreement with Miriam Martinez, the Company's Senior Vice President, Chief Financial Officer and Secretary (the "Martinez Retention Agreement"). The Martinez Retention Agreement provides for a cash retention payment (the "Martinez Retention Payment") and certain extended benefits to Ms. Martinez (the "Martinez Benefits") in recognition of the significant contributions to consummating the Company's August 2019 transaction with Jade Mountain, which allowed the Company and White Eagle to refinance the White Eagle Revolving Credit Facility and improve the Company's overall financial position (the "White Eagle Transaction"), and in consideration of Ms. Martinez's continued support and assistance with the Restructuring.

The Martinez Retention Agreement provides that in exchange for the Martinez Retention Payment and Martinez Benefits, Ms. Martinez will remain employed by Imperial pursuant to the 2018 Martinez Agreement, and that the Martinez Retention Payment is in lieu of any severance otherwise payable to Ms. Martinez under the 2018 Martinez Agreement. In addition, Ms. Martinez will not be eligible to receive any portion of the Martinez Retention Payment if she is terminated for Cause (as defined in the 2018 Martinez Agreement) or resigns without Good Reason (as defined in the 2018 Martinez Agreement). The Martinez Retention Payment consists of \$700,000. The Martinez Benefits consist of 18 months of (x) COBRA health insurance coverage reimbursement from the Company and (x) other benefits to which she would be entitled upon an involuntary termination without Cause under the 2018 Martinez Agreement. The Martinez Retention Payment is payable as to two-thirds upon entering into the Martinez Retention Agreement and one-third within three (3) business days of the consummation of the Restructuring, so long as the White Eagle Transaction remains in full force and effect and White Eagle and its limited partnership agreement remain operative and in good standing. In the event that the Company files for bankruptcy prior to the payment of any portion of the Martinez Retention Payment or Martinez Benefits, the Company will file with the bankruptcy court a motion to approve a Key Employee Retention Plan to preserve each of Ms. Martinez's rights under the Martinez Retention Agreement to the full Martinez Retention Payment and Martinez Benefits provided that she must comply with all of the provisions of the Martinez Retention Agreement.

Bonus - Chief Executive Officer

On January 27, 2020, the Company, granted a bonus to Patrick J. Curry, the Company's Chief Executive Officer (the "Bonus"), in recognition of his past and ongoing work for the Company. The Bonus consists of: (i) \$400,000 in cash, payable promptly after the grant, and 1,000,000 shares of restricted common stock of Emergent, vesting in thirds upon the first three anniversaries of the grant date, (ii) up to \$300,000 in cash, as determined by the Compensation Committee (the "Compensation Committee") of Emergent's Board of Directors (the "Board"), payable upon the consummation of the Company's contemplated restructuring, and (iii) up to \$300,000 in cash, as determined by the Compensation Committee, if the Company effects the Restructuring at least \$ 600,000 under the budget for such Restructuring that is approved by the Board within 45 days of the date hereof, measured as of 30 days after the date of the Restructuring.

Resignation - Chief Investment Officer

On January 29, 2020, Jack Simony, the Company's Chief Investment Officer, notified the Company of his resignation, effective on February 7, 2020. Also, on January 29, 2020, the Company and Mr. Simony entered into an amendment (the "Amendment") to the Simony Retention Agreement. Pursuant to the Amendment, the remaining one-third of the retention payment is accelerated and will be paid within seven (7) days of the date of the Amendment.

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.

Subsequent Events

Departure - Chief Legal Officer and General Counsel

On September 30, 2020, the Company and Harvey Werblowsky, the Company's Chief Legal Officer and General Counsel, agreed to eliminate Mr. Werblowsky's position. Mr. Werblowsky's employment with the Company is terminated effective October 9, 2020.

Voluntary Petitions for Reorganization

On October 15, 2020 (the "2020 Petition Date"), Emergent Capital and its wholly-owned subsidiary Red Reef Alternative Investment, LLC ("Red Reef") filed voluntary petitions for relief (the "2020 Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

Emergent Capital and Red Reef will continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

On October 14, 2020, Emergent Capital entered into two substantially identical Restructuring Support Agreements (together with all exhibits and schedules thereto, the "RSAs") with certain holders of the 8.5% Senior Secured Notes and with certain holders of the 5.0% Convertible Notes (such holders collectively, the "Supporting Holders"). In the aggregate, the Supporting Holders hold at least a majority of each of the 8.5% Senior Secured Notes and the 5.0% Convertible Notes.

See Note [21](#), "Subsequent Events," to the accompanying consolidated financial statements for further information.

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.

Lincoln Benefit Settlement

On May 22, 2019, a settlement in the amount of \$ 21.3 million was signed between Lincoln Benefit Life Company, White Eagle Asset Portfolio, L.P. and Emergent Capital, Inc. pursuant to which Lincoln Benefit, agreed to not to contest the 55 life insurance policies that are presently owned by White Eagle and Emergent Capital agreed to drop its legal action against Allstate Life Insurance Company and settle for \$2.0 million. The settlement relates to six separate legal actions pertaining to the validity of certain White Eagle policies and receivables for maturities of life settlements totaling \$39.1 million. The settlement of the litigation was approved by the Bankruptcy Court in June 2019, and accordingly, the receivable for maturities of life settlement was adjusted to reflect the reduction which resulted in approximately \$17.8 million recorded as change in fair value of life settlements loss in the condensed and consolidated financial statements of the Debtors at May 31, 2019. The \$2.0 million settlement related to the Allstate lawsuit was recorded as other income in the consolidated statements of operations upon receipt.

Sun Life Settlement

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.

On December 4, 2019 the Company and certain of its subsidiaries entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with Sun Life and Wilmington Trust, N.A. as securities intermediary ("Wilmington Trust"). The Settlement Agreement relates to both the Sun Life 2013 Case and the Imperial Case (the "Legal Action").

Pursuant to the Settlement Agreement, (i) 31 life insurance policies with face totaling \$ 163.5 million issued by Sun Life were canceled in exchange for a lump sum payment of \$36.1 million. The settlement included two policies held by the Company outside of White Eagle with an aggregate face value of \$ 12.0 million, 28 policies held by White Eagle with an aggregate face value of \$141.5 million and one policy with a face value of \$ 10.0 million in receivable for maturity for White Eagle. Of this amount, approximately \$12.7 million was received by the Company, \$ 13.4 million was paid to White Eagle and \$ 10.0 million was paid to Wilmington Trust for the maturity receivable, (ii) the Legal Action dismissed with prejudice, (iii) Sun Life agreed not to challenge the validity of or to seek to deny coverage (other than for non-payment of premiums) for certain life insurance policies issued by it and held by White Eagle that were specifically excluded from the settlement or have already matured, and (iv) Sun Life released all claims against the Company and Wilmington Trust, and the Company and Wilmington Trust released all claims against Sun Life.

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.

(19) Stockholders' Deficit/Equity

Shares of Common Stock under Omnibus Plan

The Company has reserved an aggregate of 12,600,000 shares of common stock under its Omnibus Plan, pursuant to which, as of August 31, 2020, 100,000 shares of stock appreciation rights had been granted to a director and were fully vested

and outstanding, 633,215 shares of restricted stock had been granted to directors and were fully vested, 3,270,000 shares of restricted stock units had been granted to certain employees, with a total of 1,000,000 shares subject to vesting. Approximately 2,270,000 shares have been vested since granted. There were 8,511,785 securities remaining for future issuance under the Omnibus Plan as of August 31, 2020.

Share Note Repurchase Program

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, the amount is included in stockholder's equity on the consolidated balance sheet at August 31, 2020. The repurchase program was terminated during the year ended December 31, 2017.

Warrants

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 number of Warrant Shares is 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, \$0.01 par value 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 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 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.

(20) Income Taxes

The Company's provision for income taxes from continuing operations is estimated to result in an effective tax rate of 13.12% as of August 31, 2020 and a total tax expense of approximately \$2.4 million for the nine months ended August 31, 2020. The Company's effective tax rate is principally impacted by expected income inclusions under the GILTI tax regime, limitations imposed on the use of historical net operating losses, and interest expense limitations under IRC Sec. 264(a)(4) that apply when determining tested income for the GILTI inclusion. The GILTI inclusion is driven in large part by the Company's allocable share of taxable income from the WE Investment. The Company coordinates with the manager of the WE Investment to obtain reasonable estimates of the Company's share of taxable results. As the estimated allocable share of taxable income from the WE investment represents a significant portion of the Company's expected taxable income, in accordance with ASC 740 principles, the Company's tax provision recorded to date is based on actual results through August 31, 2020. The Company believes this approach most fairly represents its income tax provision as of August 31, 2020.

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 August 31, 2020, the Company does not expect that position to change and therefore is not recording any income tax benefit.

Impact of Tax Reform

Beginning with the tax year ended November 30, 2019, the Company became subject to the Global Intangible Lowed-Taxed Income regime (referred to as "GILTI"), which is a tax on certain foreign income earned in excess of a deemed return on tangible assets held by a controlled foreign corporation. The GILTI is included in U.S. taxable income on a current basis by its U.S. shareholders and can generally be offset by a deduction of up to 50% of the income inclusion (through the end of 2025, thereafter the deduction is reduced to 37.5%) subject to certain limitations. Based on the Company's partnership interest in White Eagle that is held through Lamington (which represents its principal business asset), its allocable share of taxable income is subject to the GILTI regime. 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.

Palomino Transaction

On August 16, 2019, the WE Investment was consummated whereby White Eagle, an indirectly-owned entity of the Company, sold to Palomino a 72.5% limited partnership interest in White Eagle, consisting of newly issued and outstanding Class A and Class D interests. Pursuant to the agreement, Lamington retained 27.5% of the limited partnership interests of White Eagle, consisting of all of the newly issued and outstanding Class B interests. For U.S. income tax purposes, this transaction was treated as a contribution by White Eagle of its assets and liabilities to a newly-formed partnership in exchange for the 27.5% interest in White Eagle's capital and profits. The Company recognized no gain or loss as a result of the transaction.

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.

(21) Subsequent Events

Sale of Imperial Life Settlements, LLC

On September 15, 2020, the Company sold its wholly-owned subsidiary, Imperial Life Settlements, LLC ("ILS"), to an unrelated third party. Included in the sale were viatical and/or life settlement provider licenses, permits and authorizations issued to ILS by 12 states. In connection with the sale of ILS and such licenses, the Company voluntarily surrendered licenses issued to ILS by 17 other states. Such licenses are required in connection with the purchase of existing life settlements, but are not required for ownership of life settlements. The Company, which indirectly owns a 27.5% equity investment in White Eagle Asset Portfolio, LP, which holds a portfolio of life settlements, no longer acquires life settlements, and therefore does not need to maintain the licenses and their related deposits and expenses.

Departure - Chief Legal Officer and General Counsel

On September 30, 2020, the Company and Harvey Werblowsky, the Company's Chief Legal Officer and General Counsel, agreed to eliminate Mr. Werblowsky's position. Mr. Werblowsky's employment with the Company is terminated effective October 9, 2020.

Voluntary Petitions for Reorganization

On October 15, 2020 (the "2020 Petition Date"), Emergent Capital and its wholly-owned subsidiary Red Reef Alternative Investment, LLC ("Red Reef") filed voluntary petitions for relief (the "2020 Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

Emergent Capital and Red Reef will continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

On October 14, 2020, Emergent Capital entered into two substantially identical Restructuring Support Agreements (together with all exhibits and schedules thereto, the "RSAs") with certain holders of the 8.5% Senior Secured Notes and with certain holders of the 5.0% Convertible Notes (such holders collectively, the "Supporting Holders"). In the aggregate, the Supporting Holders hold at least a majority of each of the 8.5% Senior Secured Notes and the 5.0% Convertible Notes.

The RSAs contemplate a restructuring process that will result in the Company moving its headquarters and operations to Lamington, its indirect wholly-owned Irish subsidiary. The contemplated restructuring process will provide that holders of 8.5% Senior Secured Notes, 5.0% Convertible Notes, and Emergent Capital's common stock and common stock equivalents will receive securities of Lamington and of a Cayman grantor trust to be formed that are substantially similar in substance to, and in exchange for, their current Emergent Capital securities and that such new Lamington securities and Cayman trust certificates will be listed for trading on a European stock exchange (as agreed among the parties), all in accordance with the terms set forth in the term sheet attached to and made part of the RSAs, and existing Emergent Capital securities will be cancelled and the common stock will cease to trade on the OTCQX market (the transactions contemplated in the RSAs, the "Restructuring"). Subsequent to the Restructuring, Emergent Capital will wind up its remaining affairs. More details about the Restructuring are provided to security holders in the Disclosure Statement filed with the Bankruptcy Court. The RSAs contain various milestones with respect to the 2020 Chapter 11 Cases. Each RSA also provides that it may be terminated by the Supporting Holders party thereto or Emergent Capital upon the occurrence of certain events and upon the terms set forth therein.

Although the Company intends to pursue the Restructuring, there can be no assurance that the Company will be successful in completing the Restructuring or any other similar transaction on the terms set forth in the RSAs or at all.

The filing of the Emergent Capital 2020 Chapter 11 Case constitutes an event of default that accelerated obligations under the Amended and Restated Senior Secured Indenture and the New Convertible Note Indenture. Both such indentures provide that, as a result of the event of default triggered by the Emergent Capital 2020 Chapter 11 Case, the principal of, and the premium, if any, and accrued and unpaid interest due thereunder become immediately due and payable. Any efforts to enforce such payment obligations under both indentures are automatically stayed as a result of the Emergent Capital 2020 Chapter 11 Case, and the creditors' rights of enforcement in respect of both indentures are subject to the applicable provisions of the Bankruptcy Code.

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."

Impact of COVID-19 on the Company's Business

The outbreak of COVID-19, which is a rapidly evolving situation, has adversely impacted global commercial activities. The Company does not believe that there is any significant impact to our financial statements as of August 31, 2020 as a result of the COVID-19 pandemic. The Company is monitoring the developments relating to COVID-19 and is coordinating its operational response based on existing business continuity plans and on guidance from global health organizations, relevant governments, and general pandemic response best practices.

Business Overview

Incorporated in Florida, Emergent Capital, indirectly owns a 27.5% equity investment, having an estimated fair value of approximately \$152.5 million at August 31, 2020, in White Eagle Asset Portfolio, LP ("White Eagle"), which was previously a wholly-owned subsidiary of the Company that holds a portfolio of life settlements. The Company primarily earns income through change in fair value and distributions from its equity investment in White Eagle. At August 31, 2020 there were 500 policies in the White Eagle portfolio with death benefits of approximately \$2.4 billion and weighted average life expectancy calculated based on death benefit of the insureds in the policies was 6.6 years.

Equity Investment in White Eagle

On August 16, 2019, the Company entered into a subscription agreement (the "Subscription Agreement") with Lamington ("Class B Limited Partner"), White Eagle, WEGP ("Withdrawing General Partner"), and Palomino JV, L.P. ("Palomino" or "Class A Limited Partner"), pursuant to which White Eagle sold to Palomino 72.5% of its limited partnership interests, consisting of all of the newly issued and outstanding Class A and Class D interests, and WEGP sold to an affiliate of Jade Mountain Partners, LLC ("Jade Mountain") (the "Manager") all of its general partnership interests (collectively, the "WE Investment") for a purchase price of approximately \$366.2 million and \$8.0 million for the Class A and Class D interests, respectively. Pursuant to the Subscription Agreement, Lamington received 27.5% of the limited partnership interests of White Eagle, consisting of all of the newly issued and outstanding Class B interests in exchange for all of its previously owned White Eagle limited partnership interests with a value of approximately \$138.9 million on the closing date. The consummation of the transaction under the Subscription Agreement resulted in the Company being a minority owner in White Eagle and as a result the entity is treated as an equity investment, activities for our investment in White Eagle is included in [Note 11](#) "Investment in Limited Partnership" of the accompanying consolidated financial statements for further information.

During the nine months ended August 31, 2020, approximately \$6.0 million was received by the Company for the minimum Class B interest monthly distribution. This amount is included in change in fair value of investment in limited partnership, net of distributions on the consolidated statements of operations.

During the nine months ended August 31, 2020, the portfolio experienced maturities of 33 policies with face value of approximately \$133.3 million and approximately \$107.3 million was collected.

Litigation Settlement and Disposal of Life Settlement

On December 4, 2019 the Company and certain of its subsidiaries entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with Sun Life Assurance Company of Canada ("Sun Life") and Wilmington Trust, N.A. as securities intermediary ("Wilmington Trust").

Pursuant to the Settlement Agreement, 31 life insurance policies with face totaling \$163.5 million issued by Sun Life were canceled in exchange for a lump sum payment of \$36.1 million. The settlement included two policies held by the Company outside of White Eagle with an aggregate face value of \$12.0 million, 28 policies held by White Eagle with an aggregate face value of \$141.5 million and one policy with a face value of \$10.0 million in receivable for maturity for White Eagle. Of this amount, approximately \$12.7 million was received by the Company, \$13.4 million was paid to White Eagle and \$10.0 million was paid to Wilmington Trust for the maturity receivable. With this settlement, the Company no longer owns any life insurance policies directly.

Subsequent Events

Sale of Imperial Life Settlements, LLC

On September 15, 2020, the Company sold its wholly-owned subsidiary, Imperial Life Settlements, LLC ("ILS"), to an unrelated third party. Included in the sale were viatical and/or life settlement provider licenses, permits and authorizations issued to ILS by 12 states. In connection with the sale of ILS and such licenses, the Company voluntarily surrendered licenses issued to ILS by 17 other states. Such licenses are required in connection with the purchase of existing life settlements, but are not required for ownership of life settlements.

Voluntary Petitions for Reorganization

On October 15, 2020 (the "2020 Petition Date"), Emergent Capital and its wholly-owned subsidiary Red Reef Alternative Investment, LLC ("Red Reef") filed voluntary petitions for relief (the "2020 Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

Emergent Capital and Red Reef will continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

On October 14, 2020, Emergent Capital entered into two substantially identical Restructuring Support Agreements (together with all exhibits and schedules thereto, the "RSAs") with certain holders of the 8.5% Senior Secured Notes and with certain holders of the 5.0% Convertible Notes (such holders collectively, the "Supporting Holders"). In the aggregate, the Supporting Holders hold at least a majority of each of the 8.5% Senior Secured Notes and the 5.0% Convertible Notes.

See Note 21, "Subsequent Events," to the accompanying consolidated financial statements for further information.

Going Concern

The Company has incurred substantial losses and reported negative cash flows from operating activities of \$8.6 million for the nine months ended August 31, 2020 and \$8.5 million for the nine months ended August 31, 2019. As of August 31, 2020, we had approximately \$19.1 million of cash and cash equivalents and certificates of deposit of \$517,000.

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 distributions from its investment in its equity investment in White Eagle, cash on hand and pending approval of its prenegotiated Chapter 11 reorganization plan by the Bankruptcy Court.

As of the filing date of this Form 10-Q, we had approximately \$19.0 million of cash and cash equivalents inclusive of certificates of deposit of \$519,000. The Company's 8.5% Senior Secured Notes, which have outstanding principal of approximately \$47.6 million, currently mature on July 15, 2021. In considering our forecast for the next twelve months, including the scheduled repayment of this debt, the Company does not have sufficient liquidity to meet its obligations. Subsequent to the quarter end, the Company filed a Chapter 11 petition, including a prenegotiated reorganization plan with the support of the holders of a majority of the 8.5% Senior Secured Notes holders which plan would convert the 8.5% Senior Secured Notes into a security with a later maturity date. The plan is pending approval by the Bankruptcy Court. These facts create a substantial doubt of the Company's ability to meet its financial needs and continue as a going concern. During the bankruptcy process, management plans to continue to operate our business in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

See Note 21, "Subsequent Events", to the accompanying consolidated financial statements for further information.

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.

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 and the valuation of investment in limited partnership 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, investment in limited partnership and White Eagle 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 16, "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 16, "Fair Value Measurements" of the notes to consolidated financial statements for further information.

We have elected to account for the investment in limited partnership using the fair value method. We calculate the fair value of the investment using a present value technique to estimate the fair value the limited partnership investment. The most significant assumptions are the estimates of life expectancy of the insured for the life insurance policies that are held by the partnership, the stipulated rate of return by the Class A Holder of the partnership, repayment of advances made by the Class A holder on the Company's behalf, distributions to the Company and the discount rate. See Note 11, "Investment in Limited Partnership" and Note 16, "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, gains on life settlements, net, change in fair value of investment in limited partnership and distributions from limited partnership. 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 statements 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.
- *Change in Fair Value of Investment in Limited Partnership* - ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* requires that 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. White Eagle previously valued its life settlement policies at fair value whose valuation are based on inputs that are both significant to the fair value measurement and unobservable. The Company now holds an equity investment of 27.5% in White Eagle whose only assets are these life settlements. Additionally, the investment includes a mezzanine financing which the Company assumed at closing which repayment by, and ultimate distributions to, the Company are based on a prescribed waterfall with a guaranteed 11% return to the majority owner partner. The Company recognizes income from monthly distribution from the limited partnership as prescribed by the Subscription Agreement.

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 statements of operations. These deferred costs are related to the Company's 5% Convertible Notes and 8.5% Senior Secured Notes.

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.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act ("TCJA"). Effective 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 taxed foreign income under new Section 951A. Specifically, income earned in excess of a deemed return on tangible assets held by a controlled foreign corporation (such excess referred to as Global Intangible Low-Taxed Income ("GILTI")) must now generally be included as U.S. taxable income on a current basis by its U.S. shareholders. Based on the Company's life settlement assets held through Lamington's ownership share in the WE Investment, management expects the net income generated from these activities to qualify entirely as GILTI effective for its tax year beginning December 1, 2018. 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 its reporting period ended December 31, 2017, 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.

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

We report 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. We report 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 we 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 Statements 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, we sold substantially all of our structured settlements business. The remaining balance of \$2.4 million was written off as a result of ongoing restructuring plans in the fourth quarter of fiscal 2019 as the Company decided not to continue to pursue this line of investment. As a result, we have classified our 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.

Reorganization and Consolidation

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.

Lamington and its subsidiaries' (White Eagle and WEGP) filing 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) (collectively, and 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.

On June 19, 2019, the Bankruptcy Court entered an order confirming the Plan of Reorganization for the Chapter 11 Cases. The Plan of Reorganization implemented the Settlement Agreement and the DIP Financing. In addition, the Plan of Reorganization provided for the payment of all other allowed third party creditor claims in full, including allowed professional fees and taxes. The effective date of the Plan of Reorganization was June 19, 2019.

On August 16, 2019, the White Eagle Revolving Credit Facility was paid in full and terminated, additionally, payment was made to all White Eagle vendors and intercompany liabilities were contributed by Emergent. Lamington and WEGP had pledged their respective interests in White Eagle to secure its obligations under the White Eagle Revolving Credit Facility. With the termination of the facility, this pledge was released. There were no outstanding third party liabilities for either Lamington or WEGP at August 16, 2019 besides intercompany obligations to Emergent. Pursuant to ASC 810, *Consolidation*, management took the position that given that all third party claims had been satisfied in the case, consolidation of Lamington and WEGP as of August 17, 2019 was appropriate. However, the consummation of the transaction under the Subscription Agreement resulted in the Company being a minority owner in White Eagle, the entity was not reconsolidated but rather treated as an equity investment.

On September 16, 2019, the Bankruptcy Court entered an order and a final decree closing the White Eagle Chapter 11 Case and the Lamington and WEGP cases were closed on November 25, 2019.

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. On August 17, 2019 Lamington was reconsolidated and its transactions were eliminated in consolidation. 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 2020, 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.

Leases

At lease inception, the Company determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated financial statements. ROU assets represent the Company's right to use leased assets over the term of the lease. Lease liabilities represent the Company's contractual obligation to make lease payments over the lease term. For operating leases, ROU assets and lease liabilities are

recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. The Company uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, the Company uses its incremental borrowing rate at the commencement date of the lease to determine the present value of the lease payments. Operating ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs plus any prepayments less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement.

Selected Operating Data (dollars in thousands):

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2020	2019	2020	2019
End of Period — Policies Owned — Consolidated				
Number of policies owned	—	2	—	2
Average age of insured	—	78.4	—	78.4
Average death benefit per policy	\$ —	\$ 6,000	\$ —	\$ 6,000
Average Life Expectancy — Calculated LE (Years)	—	11.6	—	11.6
Aggregate Death Benefit	\$ —	\$ 12,000	\$ —	\$ 12,000
Aggregate fair value	\$ —	\$ 1,254	\$ —	\$ 1,254
Monthly premium — average per policy	\$ —	\$ 7.7	\$ —	\$ 7.7
White Eagle Portfolio — Deconsolidated				
Period Maturities				
Number of policies matured	—	6	—	18
Average age of insured at maturity	—	87.4	—	86.1
Average Life Expectancy — Calculated LE (Years)	—	3.6	—	5.9
Aggregate death benefit	\$ —	\$ 31,768	\$ —	\$ 100,374
Gains on maturity	\$ —	\$ 19,999	\$ —	\$ 70,300
Proceeds collected	\$ —	\$ 60,163	\$ —	\$ 92,505
Investment in Limited Partnership				
End of Period — Policies Owned				
Number of policies owned	500	568	500	568
Average age of insured	85.9	85	85.9	85.9
Average death benefit per policy	\$ 4,735	\$ 4,710	\$ 4,735	\$ 4,710
Average Life Expectancy — Calculated LE (Years)	6.6	7.2	6.6	7.2
Aggregate death benefit*	\$ 2,367,540	\$ 2,675,279	\$ 2,367,540	\$ 2,675,279
Monthly premium — average per policy	\$ 17.4	\$ 15.5	\$ 17.4	\$ 15.5
Period Maturities*				
Number of policies matured	13	—	33	—
Average age of insured at maturity	88.9	—	88.6	—
Average Life Expectancy — Calculated LE (Years)	4.5	—	4.1	—
Aggregate death benefit	\$ 43,225	\$ —	\$ 133,275	\$ —
Gains on maturity	\$ 30,041	\$ —	\$ 78,480	\$ —
Proceeds collected	\$ 32,050	\$ —	\$ 107,276	\$ —

*Subject to waterfall distribution as described in Note 11, Investment in Limited Partnership

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.

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 requires 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. The results of White Eagle represented the Company's core business, and although the results are deconsolidated, the Company analyzed significant activities for the deconsolidated subsidiaries up to the point of deemed closure of the bankruptcy case of August 16, 2019. Effective August 17, 2019, Lamington and WEGP are no longer deconsolidated.

On September 16, 2019, the Bankruptcy Court entered an order and final decree closing the White Eagle Chapter 11 Case, and on November 25, 2019, the Bankruptcy Court entered an order and final decree closing both of the Lamington and WEGP chapter 11 cases.

Our results of operations are discussed below in three parts: (i) our consolidated results of continuing operations for 2020 compared to 2019, (ii) our results of deconsolidated subsidiaries for 2019, and (iii) our results of discontinued operations 2020 compared to 2019.

Results of Continuing Operations - Consolidated Subsidiaries

Three Months Ended August 31, 2020 Compared to Three Months Ended August 31, 2019

Net loss from continued operations for the quarter ended August 31, 2020 was \$1,028,000 as compared to a net income of \$80.2 million for the same period last year. The following is our analysis for the period.

	Three Months Ended August 31,				
	2020	2019	Change	% Change	
Income	\$ 4,307	\$ 86,899	\$ (82,592)	(95) %	decrease
Expenses	5,335	6,703	(1,368)	(20) %	decrease
Provision (benefit) for income taxes	—	(5)	5	— %	decrease
Net income (loss)	\$ (1,028)	\$ 80,201	\$ (81,229)	(101) %	decrease

Income for the three months ended August 31, 2020, includes approximately \$2.0 million which represents distribution for investment in limited partnership. As a result of the WE Investment, the Company receives minimum class B interest monthly distributions equal to (i) for each month commencing prior to the third anniversary of the Effective Date, the greater of \$667,000 and 1/12th of 1.50% of the Net Asset Value as determined by the most recent valuation report obtained on or prior to such Distribution Date and (ii) for each month commencing on or after the third anniversary of the Effective Date and prior to the tenth anniversary of the Effective Date, the greater of \$333,000 and 1/12th of 0.75% of the net asset value as determined by the most recent valuation report obtained on or prior to such Distribution Date. The amount is included in change in fair value of investment in limited partnership, net of distributions on the consolidated statements of operations which shows an overall gain of approximately \$4.3 million.

Income from continuing operations for the three months ended August 31, 2019 was significantly impacted by the consolidation of Lamington and related subsidiaries due to the deemed closure of the Chapter 11 Cases on August 16, 2019 with the repayment and termination of the White Eagle Revolving Credit Facility. Approximately \$96.7 million included in income represents an increase of our investment in deconsolidated subsidiaries, the amount is reflected in current earnings as change in fair value of investment in deconsolidated subsidiaries. The Company evaluated its investment at August 16, 2019 and recognized a gain of approximately \$96.7 million, which is reflected in current earnings as change in fair value of investment in deconsolidated subsidiaries. The amount is associated with gains incurred by Lamington for the period up to August 16, 2019 in considering the proceeds received through the transactions for the subscription agreement, the actual payoff of the White Eagle Revolving Credit Facility and all other third party claims.

Total expenses from continuing operations for the three months ended August 31, 2020 were mainly comprised of interest expense of \$1.6 million on the 8.5% Senior Secured Notes, \$1.2 million on the 5% Convertible Notes, legal fees of \$738,000, professional fees of \$619,000 and personnel cost of \$444,000.

Total expenses from continuing operations for the three months ended August 31, 2019 were mainly comprised of interest expense of approximately \$1.5 million on the 8.5% Senior Secured Notes, \$1.3 million on the 5% Convertible Notes and \$22,000 on the 8.5% Convertible Notes, legal fee of \$1.4 million, professional fees of \$1.1 million and \$694,000.

See Note [20](#), "Income Taxes," to the accompanying consolidated financial statements for further information.

Change in fair value of life settlements (in thousands)

	Three Months Ended August 31,				
	2020	2019	Change	% Change	
Change in fair value of life settlements	\$ —	\$ (42)	\$ 42	(100) %	decrease

As of August 31, 2019, we owned two policies with an estimated fair value of \$1.3 million. With the settlement of the Sun Life litigation we no longer own any life settlements. Of the two policies owned as of August 31, 2019, all were previously premium financed and were valued using discount rates that range from 13.25% to 15.25%.

See Note [16](#), "Fair Value Measurements," to the accompanying consolidated financial statements for further information.

Change in fair value of investment in limited partnership (in thousands)

	Three Months Ended August 31,				
	2020	2019	Change	% Change	
Change in fair value of investment in limited partnership, net of distributions	\$ 4,250	\$ (5,821)	\$ 10,071	(173) %	increase

The Company performed a valuation at August 31, 2020 resulting in a value of approximately \$152.5 million using an estimated discount rate if approximately 14.04%. This resulted in a change in fair value of approximately \$4.3 million, net of distributions of approximately \$2.0 million for the three months ended August 31, 2020.

On August 16, 2019, Lamington's capital contribution to White Eagle was an estimated fair value of approximately \$138.2 million. The Company performed a valuation at August 31, 2019 resulting in a value of approximately \$132.3 million using an estimated discount rate if approximately 15.03%. This resulted in a change in fair value of approximately \$5.8 million for the three months ended August 31, 2019.

See Note [16](#), "Fair Value Measurements", to the accompanying consolidated financial statements for further information.

Expenses (in thousands)

	Three Months Ended August 31,				
	2020	2019	Change	% Change	
Interest expense	\$ 2,743	\$ 2,832	\$ (89)	(3) %	decrease
SG&A expenses	2,592	3,871	(1,279)	(33) %	decrease
Total Expenses	\$ 5,335	\$ 6,703	\$ (1,368)	(20) %	decrease

Interest expense (in thousands)

	Three Months Ended August 31,				
	2020	2019	Change	% Change	
8.5% Convertible Notes	\$ —	\$ 22	\$ (22)	(100) %	decrease
5% Convertible Notes	1,172	1,281	(109)	(9) %	decrease
8.5% Senior Secured Notes	1,571	1,526	45	3 %	increase
Other	—	3	(3)	(100) %	decrease
Total Interest Expense	\$ 2,743	\$ 2,832	\$ (89)	(3) %	decrease

Outstanding debt for the quarter ended August 31, 2020 included \$67.8 million of 5% Convertible Notes and \$47.6 million of 8.5% Senior Secured Notes.

During the three months ended August 31, 2020, the Company recorded \$1.2 million of interest expense on the 5% Convertible Notes, which included \$848,000, \$282,000 and \$42,000 from interest, amortization of debt discount and origination costs, respectively.

During the three months ended August 31, 2020, the Company recorded approximately \$1.6 million of interest expense on the 8.5% Senior Secured Notes, which included \$1.3 million of interest, \$54,000 of amortizing debt issuance costs and \$231,000 of amortizing of debt discount.

The Company recorded approximately \$22,000 of interest expense on the 8.5% Convertible Notes during the three months ended August 31, 2019.

The Company recorded approximately \$1.3 million on the 5% Convertible Notes, which included \$948,000, \$290,000 and \$43,000 from interest, amortization of debt discount and origination costs, respectively, during the three months ended August 31, 2019.

The Company recorded approximately \$1.5 million of interest expense on the 8.5% Senior Secured Notes, during the three months ended August 31, 2019 which included \$1.3 million of interest, \$76,000 of amortizing debt issuance costs and \$152,000 of amortizing of debt discount. Interest for 2019 is higher due to amounts having been paid by PIK at a rate of 11.5%.

See Notes [13, "8.50% Senior Unsecured Convertible Notes,"](#) [14, "5.0% Senior Unsecured Convertible Notes,"](#) and [15 "8.5% Senior Secured Notes,"](#) to the accompanying consolidated financial statements for further information.

Selling, general, and administrative expenses (in thousands)

	Three Months Ended August 31,				
	2020	2019	Change	% Change	
Personnel costs	\$ 444	\$ 694	\$ (250)	(36) %	decrease
Legal fees	738	1,448	(710)	(49) %	decrease
Professional fees	619	1,142	(523)	(46) %	decrease
Insurance	519	270	249	92 %	increase
Other SG&A expenses	272	317	(45)	(14) %	decrease
Total SG&A Expenses	\$ 2,592	\$ 3,871	\$ (1,279)	(33) %	decrease

Changes in operating expenses were primarily a result of a decrease in legal expense of \$710,000, a decrease in professional fees of \$523,000, a decrease in personnel costs of \$250,000 and a decrease in other operating expenses of \$45,000 offset by an increase in insurance of \$249,000. Expenses for the three months ended August 31, 2019 were higher in general due to amounts being allocated to the then deconsolidated subsidiaries.

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

Results of Operations for Deconsolidated Subsidiaries (in thousands)

Net income from deconsolidated operations was \$40.4 million and comprise the below:

	Three Months Ended August 31, 2019	
Income	\$	50,018
Expenses		9,620
Net income (loss)	\$	40,398

Total income for the deconsolidated subsidiaries was \$50.0 million and mainly comprised gain on maturity of \$20.0 million which is attributable to six policies maturity, gain on sale of life settlement of approximately \$21.3 million associated with the sale of the assets in White Eagle, change in fair value gain of investment in limited partnership of approximately \$15.4 million which is attributable to the pickup in value for the assets contributed at closing of the subscription agreement on August 16, 2019, offset by change in fair value of life settlements loss of approximately \$13.0 million.

Total expense was \$9.6 million and was significantly impacted by interest expense of \$23.3 million due to the repayment of the White Eagle Revolving Credit Facility, loss on extinguishment of debt of approximately \$7.4 million associated with the early repayment of the White Eagle Revolving Credit Facility, reorganization cost of \$4.8 million, legal fees of \$158,000 and professional fees of \$659,000, offset by change in fair value gain for the White Eagle Revolving Credit Facility of approximately \$26.6 million.

Change in fair value of life settlements - Deconsolidated Subsidiaries

For the period up to August 16, 2019, our deconsolidated subsidiaries had change in fair value of life settlements loss of approximately \$13.0 million. This amount was impacted by a combination to factors including maturity of six life insurance policies with face amounts totaling \$31.8 million. The net gain of these maturities was \$20.0 million and is recorded as a change in fair value of life settlements in the deconsolidated statements of operations for the quarter ended August 31, 2019. Proceeds from maturities totaling \$60.2 million were received during the quarter ended August 31, 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.

See Note 16 "Fair Value Measurements" to the accompanying consolidated financial statements for further information.

Change in fair value of investment in limited partnership

On August 16, 2019, Lamington's capital contribution to White Eagle comprised the fair value of the life settlement assets assigned by the purchaser. The Company performed a fair value calculation to include various factors impacting the waterfall distribution as dictated by the subscription agreement, including but not limited to amounts advanced for the Class D Shares, the funding of the premium reserves on the Company's behalf and the expected return by the Class A Shares which is 11%. The Company determined that the fair value was approximately \$138.2 million which resulted in a change in fair value gain of approximately \$15.4 million at August 16, 2019.

Change in fair value of White Eagle Revolving Credit Facility

As of August 16, 2019, the White Eagle Revolving Credit Facility incurred a gain of approximately \$26.6 million which is mainly attributable the early repayment of the White Eagle Revolving Credit Facility.

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 August 31, 2020 Compared to Three Months Ended August 31, 2019 (in thousands)

	Three Months Ended August 31,				
	2020	2019	Change	% Change	
Total income	\$ —	\$ —	\$ —	— %	—
Total expenses	—	(70)	70	100 %	decrease
Income (loss) before income taxes	—	70	(70)	(100) %	decrease
Net income (loss), net of income taxes	\$ —	\$ 70	\$ (70)	(100) %	decrease

Net income from our discontinued structured settlement operations for the three months ended August 31, 2020 was \$0 compared to \$70,000 for the same quarter in 2019.

Results of Continuing Operations - Consolidated Subsidiaries

Nine Months Ended August 31, 2020 Compared to Nine Months Ended August 31, 2019

Net income from continued operations for the nine months ended August 31, 2020 was \$16.1 million compared to \$16.9 million for the same period last year. The following is our analysis for the period (in thousands).

	Nine Months Ended August 31,				
	2020	2019	Change	% Change	
Income	\$ 32,219	\$ 34,228	\$ (2,009)	(6) %	decrease
Expenses	13,664	14,140	(476)	(3) %	decrease
(Benefit) provision for income taxes	2,428	3,213	(785)	24 %	decrease
Net income (loss)	\$ 16,127	\$ 16,875	\$ (748)	(4) %	decrease

Income from continuing operations for the nine months ended August 31, 2020 included approximately \$10.6 million from the settlement of the Sun Life litigation. Pursuant to the Settlement Agreement, 31 life insurance policies with face value totaling \$163.5 million issued by Sun Life were canceled in exchange for a lump sum payment of \$36.1 million. The settlement included two policies held by the Company outside of White Eagle with an aggregate face value of \$12.0 million, 28 policies held by White Eagle with an aggregate face value of \$141.5 million and one policy with a face value of \$10.0 million in receivable for maturity for White Eagle. Of this amount, approximately \$12.7 million was received by the Company, \$13.4 million was paid to White Eagle and \$10.0 million was paid to Wilmington Trust for the maturity receivable. With this settlement, the Company no longer owns any life insurance policies directly.

Of the \$12.7 million received by the Company, approximately \$2.0 million was allocated to the two policies that were owned by the Company outside of White Eagle, which resulted in a gain on disposal of approximately \$743,000, with approximately \$10.6 million allocated to other income as settlement of legal fees previously incurred.

Income for the nine months ended August 31, 2020, includes approximately \$6.0 million which represents distribution for investment in limited partnership. As a result of the WE Investment, the Company receives minimum class B interest monthly distributions equal to (i) for each month commencing prior to the third anniversary of the Effective Date, the greater of \$667,000 and 1/12th of 1.50% of the Net Asset Value as determined by the most recent valuation report obtained on or prior to such Distribution Date and (ii) for each month commencing on or after the third anniversary of the Effective Date and prior to the tenth anniversary of the Effective Date, the greater of \$333,000 and 1/12th of 0.75% of the net asset value as determined by the most recent valuation report obtained on or prior to such Distribution Date. The amount is included in change in fair value of investment in limited partnership, net of distributions on the consolidated statements of operations which shows an overall gain of approximately \$20.6 million.

Our income for the nine months ended August 31, 2020 was impacted by income tax expense of approximately \$2.4 million.

See Note [20, "Income Taxes."](#) to the accompanying consolidated financial statements for further information.

Income from continuing operations for the nine months ended August 31, 2019 was significantly impacted by the re-consolidation of Lamington and related subsidiaries due to the deemed closure of the Chapter 11 Cases on August 16, 2019 with the repayment and termination of the White Eagle Revolving Credit Facility. Approximately \$37.9 million included in income represents an increase of our investment in deconsolidated subsidiaries, the amount is reflected in current earnings as change in fair value of investment in deconsolidated subsidiaries. On September 16, 2019, subsequent to the quarter end, the Bankruptcy Court entered an order and a final decree closing the White Eagle Chapter 11 Case. Pursuant to ASC 810, *Consolidation*, management took the position that given that all third party claims had been satisfied in the case, consolidation of Lamington and WEGP as of August 17, 2019 was appropriate. The Company further evaluated its investment at August 16, 2019 and recognized a gain of approximately \$96.7 million, which amount is reflected in current earnings as change in fair value of investment in deconsolidated subsidiaries. The amount is associated with gains incurred by Lamington for the period up to August 16, 2019 in considering the proceeds received through the transactions for the subscription agreement, the actual payoff of the White Eagle Revolving Credit Facility and all other third party claims.

Income for the nine months ended August 31, 2019 was also impacted by income tax expense of approximately \$3.2 million.

Total expenses from continuing operations for the nine months ended August 31, 2020 were mainly comprised of personnel cost of approximately \$2.8 million, interest expense of \$3.4 million on the 5% Convertible Notes and \$4.2 million on the 8.5% Senior Secured Notes, offset by \$2.8 million in gain on extinguishment of 5% Convertible Notes.

Expenses for nine months ended August 31, 2020 were impacted by \$2.8 million in gain on extinguishment of 5% Convertible Notes. On December 11, 2019, the Company redeemed \$8.0 million principal amount of the 5.0% Convertible Notes in exchange for cash consideration of \$4.8 million inclusive of unpaid interest of approximately \$123,000. The Company incurred a net gain on extinguishment of approximately \$2.8 million after expense for derivative and origination cost write off of approximately \$442,000 and \$66,000, respectively. Upon such redemption, the New Convertible Notes were surrendered and canceled.

Total expenses from continuing operations for the nine months ended August 31, 2019 were mainly comprised of interest expense of approximately \$3.8 million on the 5% Convertible Notes, \$4.5 million on the 8.5% Senior Secured Notes and \$93,000 on the 8.5% Convertible Notes.

Change in fair value of life settlements (in thousands)

	Nine Months Ended August 31,				
	2020	2019	Change	% Change	
Change in fair value of life settlements	\$ —	\$ (37)	\$ 37	(100) %	decrease

As of August 31, 2019, we owned two policies with an estimated fair value of \$1.3 million. With the settlement of the Sun Life litigation we no longer own any life settlements. Of these two policies owned as of August 31, 2019, all were previously premium financed and were valued using discount rates that range from 13.25% to 15.25%.

See Note [16, "Fair Value Measurements,"](#) to the accompanying consolidated financial statements for further information.

Change in fair value of investment in limited partnership (in thousands)

	Nine Months Ended August 31,				
	2020	2019	Change	% Change	
Change in fair value of investment in limited partnership, net of distributions	\$ 20,601	(5,821)	\$ 26,422	(173) %	increase

The Company performed a valuation at August 31, 2020 resulting in a value of approximately \$152.5 million using an estimated discount rate of approximately 14.04%. This resulted in a change in fair value of approximately \$20.6 million, net of distributions of approximately \$6.0 million for the nine months ended August 31, 2020.

See Note [16. "Fair Value Measurements"](#), to the accompanying consolidated financial statements for further information.

Expenses (in thousands)

	Nine Months Ended August 31,				
	2020	2019	Change	% Change	
Interest expense	\$ 7,610	\$ 8,370	\$ (760)	(9) %	decrease
Extinguishment of debt	(2,815)	—	(2,815)	100 %	increase
SG&A expenses	8,870	5,769	3,101	54 %	increase
Total Expense	\$ 13,665	\$ 14,139	\$ (474)	(3) %	decrease

Interest expense (in thousands)

	Nine Months Ended August 31,				
	2020	2019	Change	% Change	
8.5% Convertible Notes	\$ —	\$ 93	\$ (93)	(100)%	decrease
5% Convertible Notes	3,448	3,799	(351)	(9)%	decrease
8.5% Senior Secured Notes	4,160	4,469	(309)	(7)%	decrease
Other	2	9	(7)	(78)%	decrease
Total Interest Expense	\$ 7,610	\$ 8,370	\$ (760)	(9)%	decrease

Outstanding debt for the nine months ended August 31, 2020 included \$67.8 million of 5% Convertible Notes and \$47.6 million of 8.5% Senior Secured Notes. During the nine months ended August 31, 2020, the Company repaid approximately \$8.0 million of the 5% Convertible Notes.

During the nine months ended August 31, 2020, the Company recorded \$3.4 million of interest expense on the 5% Convertible Notes, which included \$2.6 million, \$776,000 and \$115,000 from interest, amortization of debt discount and origination costs, respectively.

During the nine months ended August 31, 2020, the Company recorded approximately \$4.2 million of interest expense on the 8.5% Senior Secured Notes, which included \$3.3 million of interest, \$156,000 of amortizing debt issuance costs and \$660,000 of amortizing of debt discount.

Of the interest expense of \$8.4 million for the nine months ended August 31, 2019, approximately \$3.8 million represents interest paid on the 5% Convertible Notes and \$4.5 million represents interest paid on 8.5% Senior Secured Notes.

Interest expense on the 8.5% Convertible Notes totaled \$93,000, including \$73,000, \$18,000 and \$3,000 from interest, amortizing debt discounts and origination costs, respectively during the nine months ended August 31, 2019.

The Company recorded \$3.8 million of interest expense on the 5% Convertible Notes, including \$2.8 million, \$832,000 and \$123,000 from interest, amortization of debt discount and origination costs, during the nine months ended August 31, 2019, respectively.

The Company recorded approximately \$4.5 million of interest expense on the 8.5% Senior Secured Notes, during the nine months ended August 31, 2019 which includes \$3.8 million of interest, \$209,000 of amortizing debt issuance costs and \$346,000 of amortizing of debt discount respectively.

See Notes [13, "8.50% Senior Unsecured Convertible Notes,"](#) [14, "5.0% Senior Unsecured Convertible Notes,"](#) and [15 "8.5% Senior Secured Notes,"](#) to the accompanying consolidated financial statements for further information.

Selling, general, and administrative expenses (in thousands)

	Nine Months Ended August 31,				
	2020	2019	Change	% Change	
Personnel costs	\$ 2,833	\$ 1,001	\$ 1,832	183 %	increase
Legal fees	1,850	2,117	(267)	(13) %	decrease
Professional fees	2,034	1,470	564	38 %	increase
Insurance	1,360	666	694	104 %	increase
Other SG&A	792	516	276	53 %	increase
Total SG&A Expenses	\$ 8,869	\$ 5,770	\$ 3,099	54 %	increase

Changes in operating expenses was primarily a result of an increase in personnel costs of \$1.8 million, an increase in professional fees of \$564,000, an increase in insurance of \$694,000, and an increase in other operating expenses of \$276,000 offset by a decrease in legal expense of \$267,000.

The \$1.8 million increase in personnel costs was attributable to the following:

On November 12, 2019, the Company entered into a retention agreement with Mr. Simony, the Company's Chief Investment Officer, for \$1.0 million, approximately \$667,000 was paid immediately with \$333,000 paid upon his resignation during the nine months ended August 31, 2020.

On December 10, 2019, the Company, entered into a retention agreement with Miriam Martinez, the Company's Senior Vice President, Chief Financial Officer and Secretary for \$700,000, of this amount, payment of approximately \$467,000 was made during the period.

On January 27, 2020, the Company, granted a bonus to Patrick J. Curry, the Company's Chief Executive Officer (the "Bonus"), in recognition of his past and ongoing work for the Company, approximately \$400,000 was paid during the period.

See Note [18, "Commitment and Contingencies"](#) to the accompanying consolidated financial statements for further information.

Results of Operations for Deconsolidated Subsidiaries

Net loss from deconsolidated operations was \$51.9 million and comprise the below (in thousands):

	Nine Months Ended August 31, 2019	
Income	\$	20,556
Expenses		72,412
Net income (loss)	\$	(51,856)

Total income for the deconsolidated subsidiaries was \$20.6 million and mainly comprised gain on maturity of \$70.3 million which is attributable to 18 policies maturity, gain on sale of life settlement of approximately \$21.3 million associated

with the sale of the limited partnership interests of White Eagle, change in fair value gain of investment in limited partnership of approximately \$15.4 million which is attributable to the pickup in value for the assets contributed at closing of the subscription agreement, offset by change in fair value of life settlements loss of approximately \$16.8 million.

Expense of approximately \$72.4 million was significantly impacted by change in fair value of the White Eagle Revolving Credit Facility of approximately \$17.1 million, interest expense of \$28.3 million, reorganization cost of \$14.0 million, loss on extinguishment of debt of approximately \$7.4 million associated with the early repayment of the White Eagle Revolving Credit Facility, administrative services fees of \$2.8 million, legal fees of \$890,000 and professional fees of \$1.5 million.

Change in fair value of life settlements - Deconsolidated Subsidiaries

During the nine months ended August 31, 2019, our deconsolidated subsidiaries had 18 life insurance policies with face amounts totaling \$100.4 million that matured. The net gain of these maturities was \$70.3 million and is recorded as a change in fair value of life settlements in the deconsolidated statements of operations for the nine months ended August 31, 2019. Proceeds from maturities totaling \$92.5 million were received during the nine months ended August 31, 2019.

On May 22, 2019, a settlement in the amount of \$21.3 million was signed among Lincoln Benefit Life Company, White Eagle Asset Portfolio, L.P. and Emergent Capital, Inc. pursuant to which Lincoln Benefit, agreed to not to contest the 55 life insurance policies that were then owned by White Eagle and Emergent Capital agreed to drop its legal action against Allstate Life Insurance Company and settle for \$2.0 million. The settlement relates to six separate legal actions pertaining to the validity of certain White Eagle Policies and receivables for maturities of life settlement totaling \$39.1 million. The settlement of the litigation, was approved by the Bankruptcy Court in June 2019, and the receivable for maturities of life settlement was adjusted to reflect the reduction which resulted in approximately \$17.8 million recorded as change in fair value of life settlements at August 31, 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, which 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%.

As of August 31, 2019, White Eagle received 326 updated life expectancy reports from 21st Services. These life expectancies reported an average lengthening of life expectancies of 23.45% 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 nine months ended August 31, 2019 by approximately \$56.6 million.

See Note [16 "Fair Value Measurements"](#) to the accompanying consolidated financial statements for further information.

Change in fair value of investment in limited partnership

On August 16, 2019, Lamington's capital contribution to White Eagle comprised the fair value of the life settlement assets based on the purchaser's valuation. The Company performed a fair value calculation to include various factors impacting the waterfall distribution as dictated by the Subscription Agreement, including but not limited to amounts advanced for the Class D Shares, the funding of the premium reserves on the Company's behalf and the expected return by the Class A Shares which is 11%. The Company determined that the fair value was approximately \$138.2 million which resulted in a change in fair value gain of approximately \$15.4 million at August 16, 2019.

Change in fair value of White Eagle Revolving Credit Facility

For the nine months ended August 31, 2019, the White Eagle Revolving Credit Facility incurred a loss of approximately \$17.1 million which is mainly attributable the early repayment of the White Eagle Revolving Credit Facility.

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

Nine Months Ended August 31, 2020 Compared to Nine Months Ended August 31, 2019 (in thousands)

	Nine Months Ended August 31,				
	2020	2019	Change	% Change	
Total income (loss)	\$ —	\$ —	\$ —	— %	—
Total expenses	53	(36)	89	(247) %	increase
Income (loss) before income taxes	(53)	36	(89)	(247) %	increase
Income tax benefit	—	—	—	— %	
Net income (loss), net of income taxes	\$ (53)	\$ 36	\$ (89)	(247) %	increase

Net loss from our discontinued structured settlement operations for the nine months ended August 31, 2020 was \$53,000 as compared to a net loss of \$36,000 for the same period in 2019.

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 indentures governing our 5% Convertible Notes and 8.5% Senior Secured Notes and other financing arrangements.

Previously the payment of premiums to maintain the life insurance policies represented our most significant requirement for cash disbursement. The majority of these costs relates to the policies previously pledged as collateral under the White Eagle Revolving Credit Facility. With the termination of such facility, the sale of 72.5% of the ownership interests in the holder of the assets and the disposal through the Sun Life litigation settlement of the two remaining policies held by the Company, the Company's exposure to these risks has been substantially eliminated.

As of August 31, 2020, we had approximately \$19.1 million of cash and cash equivalents and certificates of deposit of \$517,000.

Equity Investment in White Eagle

In connection with the WE Investment, the A&R LPA provides generally that holders of the Class A Interests and Class B Interests receive distributions of proceeds of the assets of White Eagle based on their 72.5% and 27.5% ownership, respectively, after certain expenses and reserves are funded (including such minimum payments to Lamington totaling approximately \$8.0 million per year for the first three (3) years and \$4.0 million for the subsequent seven (7) years, provided that commencing after year three (3), such minimum payments will be utilized to satisfy the Class D Return of \$8.0 million, that was advanced at closing, plus the greater of \$2.0 million or 11% per annum on such \$8.0 million to the extent necessary to fully repay such Class D Return. The minimum payments to the Company will occur regardless of maturities with payments through the premium/expense reserve account when there are no maturity proceeds available for distribution as described below). However, the A&R LPA also provides that all payments to holders of the Class B interests (other than such minimum payments to Lamington during the first eight (8) years following the Closing Date) are fully subordinated to payments in respect of the minimum returns to holders of the Class A and Class D interests (including repayment of all amounts advanced in respect of the Advance Facility).

Although the WE Investment provides guaranteed payments of \$8.0 million per year for the first three (3) years and \$4.0 million for the subsequent seven (7) years to the Company, irrespective of maturities, there can be no assurance as to when proceeds from maturities of the policies in the WE Investment will be distributed to the Company. Delays will impact the timing of distribution since the Class A Interests must receive their 11% return as well as repayments for any advance to the premium reserve on the Company's behalf.

During the nine months ended August 31, 2020, approximately \$6.0 million was received by the Company for the minimum Class B interest monthly distribution. This amount is included in change in fair value of investment in limited partnership, net of distributions on the consolidated statements of operations.

Going Concern

Historically, the Company has incurred substantial losses, which has resulted in an accumulated deficit of approximately \$275.4 million as of August 31, 2020. Cash flows used in operating activities were \$8.6 million for the nine months ended August 31, 2020 and \$8.5 million for the nine months ended August 31, 2019. As of August 31, 2020, the Company had approximately \$19.1 million of cash and cash equivalents and certificates of deposit of \$517,000.

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 distributions from its equity investment in White Eagle and cash on hand.

As of the filing date of this Form 10-Q, we had approximately \$19.0 million of cash and cash equivalents inclusive of certificates of deposit of \$519,000. The Company's 8.5% Senior Secured Notes with outstanding principal of approximately \$47.6 million becomes due on July 15, 2021. The Company's 8.5% Senior Secured Notes with outstanding principal of approximately \$47.6 million will mature on July 15, 2021. In considering our forecast for the next twelve months, including the scheduled repayment of this debt, and the pending approval of Emergent Capital's Chapter 11 reorganization plan by the Bankruptcy Court and taking into account the current cash balance as of the filing for this Form 10-Q, these facts create a substantial doubt of the Company's ability to meet its financial needs and continue as a going concern. In connection with its proposed restructuring, the 8.5% Senior Secured Notes will be converted into a security with a later maturity date. In considering the factors above, management plans to continue to operate our business in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court. See below for details on the Emergent Capital 2020 Chapter 11 Case.

Subsequent Events

Sale of Imperial Life Settlements, LLC

On September 15, 2020, the Company sold its wholly-owned subsidiary, Imperial Life Settlements, LLC ("ILS"), to an unrelated third party. Included in the sale were viatical and/or life settlement provider licenses, permits and authorizations issued to ILS by 12 states. In connection with the sale of ILS and such licenses, the Company voluntarily surrendered licenses issued to ILS by 17 other states. Such licenses are required in connection with the purchase of existing life settlements, but are not required for ownership of life settlements.

Voluntary Petitions for Reorganization

On October 15, 2020 (the "2020 Petition Date"), Emergent Capital and its wholly-owned subsidiary Red Reef Alternative Investment, LLC ("Red Reef") filed voluntary petitions for relief (the "2020 Chapter 11 Cases") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

Emergent Capital and Red Reef will continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

On October 14, 2020, Emergent Capital entered into two substantially identical Restructuring Support Agreements (together with all exhibits and schedules thereto, the "RSAs") with certain holders of the 8.5% Senior Secured Notes and with certain holders of the 5.0% Convertible Notes (such holders collectively, the "Supporting Holders"). In the aggregate, the Supporting Holders hold at least a majority of each of the 8.5% Senior Secured Notes and the 5.0% Convertible Notes.

See Note [21](#), "Subsequent Events, " to the accompanying consolidated financial statements for further information.

Financing Arrangements Summary

At August 31, 2020, we had \$67.8 million and \$47.6 million in aggregate principal amount of outstanding 5% Convertible Notes and 8.5% Senior Secured Notes, which accrue interest at 5.0%, and 8.5%, respectively. Interest on the 5.0% Convertible Notes is 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 \$39.4 million, or 83%, of the 8.5% Senior Secured Notes; however, there was no interest paid in kind during the nine months ended August 31, 2020.

5.0% Senior Unsecured Convertible Notes

At August 31, 2020, there was \$67.8 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").

Repurchase of Notes

On December 11, 2019, the Company redeemed \$8.0 million principal amount of the 5.0% Convertible Notes in exchange for cash consideration of \$4.8 million inclusive of unpaid interest of approximately \$123,000. The Company incurred a net gain on extinguishment of approximately \$2.8 million after expense for derivative and origination cost write off of approximately \$442,000 and \$66,000, respectively. Upon such redemption, the New Convertible Notes were surrendered and canceled.

For a description of the New Convertible Notes see Note 14, "5.0% Senior Unsecured Convertible Notes," of the accompanying consolidated financial statements.

8.5% Senior Secured Notes

At August 31, 2020, there was \$47.6 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 15, "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 nine months ended August 31, 2020 and 2019 (in thousands):

	Nine Months Ended August 31,	
	2020	2019
Statement of Cash Flows Data:		
Total cash (used in) provided by:		
Operating activities	\$ (8,593)	\$ (8,493)
Investing activities	8,041	10,782
Financing activities	(4,677)	5,282
Increase (decrease) in cash and cash equivalents	<u>\$ (5,229)</u>	<u>\$ 7,571</u>

Operating Activities

During the nine months ended August 31, 2020, operating activities used cash of \$8.6 million. Our net income of \$16.1 million was adjusted for the following: change in fair value of investment in limited partnership gain of approximately \$20.6 million, gain on extinguishment of 5.0% Convertible Notes of \$2.8 million; gain on sale of life settlement of \$743,000; amortization of discount and deferred cost for the 5.0% Convertible Notes of \$891,000; amortization of discount and deferred cost for the 8.5% Senior Secured Notes of \$817,000; stock based compensation of \$73,000 and a net negative change in the components of operating assets and liabilities of \$2.0 million. This \$2.0 million change in operating assets and liabilities is partially attributable to a \$957,000 decrease in interest payable on the 5.0% Convertible Notes; a \$572,000 decrease in current tax liability, a \$314,000 decrease in accounts payable and accrued expenses, a 164,150 decrease in deposits and a \$86,000 decrease in other liabilities, offset by a \$471,000 increase in prepaid and other assets.

During the nine months ended August 31, 2019, operating activities used cash of \$8.5 million. Our net income of \$16.9 million was adjusted for the following: change in fair value of investment in deconsolidated subsidiaries of approximately \$37.9 million, attributable to the deconsolidation of Lamington and its subsidiaries due to the Chapter 11 cases up to August 16, 2019;

change in fair value of investment in limited partnership gain of approximately \$5.8 million; interest paid in kind on 8.5% Senior Secured Notes of approximately \$2.8 million and a net positive change in the components of operating assets and liabilities of \$1.7 million. This \$1.7 million change in operating assets and liabilities is partially attributable to a \$2.6 million increase in current tax liability, a \$576,000 decrease in deferred tax asset, a \$463,000 increase in interest payable on the 8.5% Senior Notes and a \$118,000 decrease in prepaid and other assets, offset by a \$392,000 decrease in accounts payable and accrued expenses a \$155,000 decrease in other liabilities.

Investing Activities

Net cash provided by investing activities for the nine months ended August 31, 2020 was \$8.0 million and includes \$2.0 million in proceeds from sale of life settlement and \$6.0 million for distribution from investment in limited partnership.

Net cash provided by in investing activities for the nine months ended August 31, 2019 was \$10.8 million in cash from consolidated of subsidiaries that were previously deconsolidated due to the Chapter 11 Cases offset by offset by \$118,000 for premiums paid on life settlements.

Financing Activities

Net cash used in financing activities for the nine months ended August 31, 2020 was \$4.7 million resulting from repayment of principal under the 5.0% Convertible Notes of approximately \$4.7 million.

Net cash provided by financing activities for the nine months ended August 31, 2019 was \$5.3 million resulting from proceeds from the issue of 8.5% Senior Secured Notes of approximately \$6.5 million offset by repayment of outstanding principal under the 8.5% Convertible Notes of approximately \$1.2 million.

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 August 31, 2020, 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, 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 August 31, 2020, 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. Currently, we do not own any life insurance policies directly, but these risks could apply to the policies in the White Eagle portfolio, in which we have a 27.5% ownership interest.

Interest Rate Risk

At August 31, 2020, fluctuations in interest rates did not impact interest expense in our business.

We earn income on the changes in fair value of our equity investment in White Eagle limited partnership. However, if the fair value of the investment decrease, we record this reduction as a loss.

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 nine months ended August 31, 2020, see "Litigation" under Note 18, "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-K filed for the fiscal year ended November 30, 2019, and our Quarterly Report on Form 10-Q filed for the quarter ended February 29, 2020.

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

See the disclosure under the heading Voluntary Petitions for Reorganization in Note 21, "Subsequent Events", to the accompanying consolidated financial statements for further information.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Exhibit	Filing Date	Filed/ Furnished Herewith	SEC File #
31.1	Certification of Chief Financial 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.				**	
	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				**	
32.2					**	
101	Interactive Data Files				*	
101.INS	XBRL Instance Document				*	
101.SCH	XBRL Taxonomy Extension Schema Document				*	
	XBRL Taxonomy Extension Calculation Linkbase Document				*	
101.CAL	Document				*	
101.DEF	XBRL Taxonomy Definition Linkbase Document				*	
	XBRL Taxonomy Extension Label Linkbase Document				*	
101.LAB	10.1 & 10.2				*	
	XBRL Taxonomy Extension Presentation Linkbase Document				*	
101.PRE	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.

Emergent Capital, Inc.

Chief Financial Officer
(Principal Financial Officer)

/s/ Miriam Martinez

Miriam Martinez

Date October 15, 2020

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Exhibit 31.1

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)

October 15, 2020

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)

October 15, 2020

**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 August 31, 2020 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

October 15, 2020

**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 August 31, 2020 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

October 15, 2020