Emergent Capital Inc. – Follow The Cash Flows

Target Price Analysis

***Valuation Case 1*: Target Price Versus $0.38 PPS (as of 12/22/17) = $1.27**

***Valuation Case 2*: Target Price Versus $0.38 PPS (as of 12/22/17) = 1.28**

(See Section I.C herein for calculations)

Emergent Capital Inc. (ticker: EMGC) has a fairly simple business model: it owns a portfolio of life insurance policies. Although the policies are expected to pay out over the next 9.0 years (as a weighted average), EMGC has historically been cash flow negative, since insurance premiums paid on the policies have exceeded the payouts. This led recently to a liquidity crisis when the company maxed out its line of credit and nearly went bankrupt in Q2, missing a June 2017 payment on its 15.0% Senior Secured Notes.

With the subsequent recapitalization of EMGC, however, it appears that the company has enough cash to bridge the period from now until the policy benefits more than cover EMGC's operating costs and the servicing of its insurance portfolio. In this writeup, we have calculated EMGC's net asset value (or NAV) two different ways: first, using a balance sheet analysis of net book value (Valuation Case 1), and second estimating cash inflows versus cash outflows over EMGC's remaining expected life (Valuation Case 2). Both analyses lead to the conclusion that EMGC is substantially undervalued, as indicated in our Target Price Analysis above.

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I. Description of Investment Opportunity.

A. Introduction to EMGC

In EMGC's Q2 2017 10-Q (page 9) and 2016 10-K (page 1), the company's business is described as follows:

> Incorporated in Florida, Emergent Capital, through its subsidiary companies, owns a portfolio of 614 life insurance policies, also referred to as life settlements, with a fair value of $526.3 million and an aggregate death benefit of approximately $2.9 billion at June 30, 2017. EMGC primarily earns income on these policies from changes in their fair value and through death benefits. 612 of these policies, with an aggregate death benefit of approximately $2.9 billion and a fair value of approximately $525.5 million at June 30, 2017 are pledged under a $370.0 million, revolving credit agreement (the "White Eagle Revolving Credit Facility") entered into by EMGC's indirect subsidiary, White Eagle Asset Portfolio, LP ("White Eagle"). At June 30, 2017, two policies owned by EMGC, with an aggregate death benefit of approximately $12.0 million and a fair value of $736,000 were not pledged as collateral under the White Eagle Revolving Credit Facility.
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> Life Settlements Portfolio & Portfolio Management
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> The life insurance policies in Emergent Capital's portfolio were acquired through a combination of direct policy purchases from the original policy owners (the secondary market), purchases of policies owned by other institutional investors (the tertiary market) and from policy surrenders or foreclosures in satisfaction of loans issued under EMGC's legacy premium finance business. Emergent Capital uses a probabilistic method of valuing life insurance policies, meaning the individual insured's probability of survival and probability of death are applied to the required premiums and net death benefit of the policy to extrapolate the likely cash flows over the life expectancy of the insured. These likely cash flows are then discounted using a net present value formula. Management believes this to be the preferred valuation method in the industry at the present time.
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> Until a policy matures, EMGC must pay ongoing premiums to keep that policy in force and to prevent it from lapsing. Upon a policy lapse, EMGC would suffer a complete loss on its investment in that policy. Accordingly, EMGC must proactively manage its cash in order to effectively run its business, maintain liquidity and continue to pay premiums in order to maintain the policies in its portfolio.

EMGC began its separate public corporate existence in 2006 as a Florida limited liability company, Imperial Holdings, LLC, and converted into Imperial Holdings, Inc. on February 3, 2011, in connection with EMGC's initial public offering. (See IPO prospectus here). Effective September 1, 2015, EMGC changed its name to Emergent Capital, Inc.

B. Description of Recapitalization Transactions

EMGC entered into a series of transactions with various investors on July 28, 2017 in order to recapitalize the company, including the following steps (source: August 1, 2017 Form 8-K filing):

1. Exchange Offer for 2019 Convertible Notes

EMGC exchanged 98.4% of its outstanding $74,220,450 aggregate principal amount of 8.50% Senior Unsecured Convertible Notes due 2019 (the "Old Notes") for a new series of 5.00% Senior Unsecured Convertible Notes due 2023 (the "New Unsecured Notes") in an aggregate principal amount of $75,836,966. The terms of the New Unsecured Notes are as follows:

New Convertible Note Indenture and New Convertible Notes

Contemporaneously 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 provides, among other things, that the New Convertible Notes are unsecured senior

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obligations of the Company and will mature on February 15, 2023. The New Convertible Notes bear interest at a rate of 5.00% 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 will be (x) 500 shares of Common Stock per $1,000 principal amount of New Convertible Notes (for New Convertible Notes denominated in $1,000 increments) and (y) 0.5 shares of Common Stock per $1.00 principal amount of New Convertible Notes (for New Convertible Notes denominated in $1.00 increments). 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 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.

2. Common Stock Purchase by PJC Investments

EMGC sold 115 million shares of EMGC common stock to investors led by PJC Investments at $0.20/share, for an aggregate $23 million in proceeds. This included a rights offering, pursuant to which the holders of the Old Notes elected to purchase in the aggregate 40,000,000 shares of EMGC common stock at a price of $0.20 per share for an aggregate purchase price of $8,000,000:

Common Stock Purchase Agreement

Contemporaneously 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 (the "Common Stock"), at a price of $0.20 per share for an aggregate purchase price of $23.0 million, of which PJC and the Common Stock Investors purchased 75,000,000 Stock Purchase Agreement Shares for an aggregate purchase price of $15.0 million and the Convertible Note Holder Purchasers, pursuant to the previously announced rights offering which expired on July 26, 2017, purchased 40,000,000 Stock Purchase Agreement Shares for an aggregate purchase price of $8.0 million, of which PJC purchased 19,320,038 shares in connection with the exercise of rights assigned to it by certain Convertible Note Holder Purchasers. The Stock Purchase Agreement contained customary representations, warranties, and covenants.

3. Warrant Purchase by PJC Investments

EMGC issued to investors led by PJC Investments 42.5 million warrants to purchase EMGC common stock at $0.20/share:

Common Stock Purchase Warrants

Contemporaneously with the Transaction Closing, the Company issued Common Stock Purchase Warrants (the "Warrants") to certain investors jointly designated by PJC and Triax (collectively, the "Warrant Investors") to purchase up to an aggregate of 42,500,000 shares of the 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 Existing Convertible Notes (as defined below) and New Convertible Notes (as defined below) outstanding upon the Transaction Closing into shares of Common Stock or, if earlier, upon the date that all Existing 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.

4. Cancelation of Outstanding Senior Secured Notes and Issuance of New Senior Secured Notes

EMGC redeemed $30 million of its outstanding 15% Senior Secured Notes and replaced these notes with a new $30 million issuance of 8.5% Senior Secured Notes due 2021:

New Senior Secured Note Indenture and New Senior Secured Notes

Contemporaneously with the Transaction Closing, the Company and Wilmington Trust, National Association, as indenture trustee (the "Senior Secured Note Trustee") entered into an Amended and Restated Senior Secured Note Indenture (the "New Senior Secured Indenture") to amend and restate the Indenture dated as of March 11, 2016 (as amended and supplemented or otherwise modified from time to time, 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 Senior Secured Notes. Pursuant to the terms of the New Senior Secured Indenture, the Company caused the cancellation of all outstanding Senior Secured Notes and the issuance of 8.5% Senior Secured Notes due 2021 (the "New Senior Secured Notes") in an aggregate amount of $30.0 million. The New Senior Secured Indenture provides, among other things, that the New Senior Secured Notes will be secured senior obligations of the Company and will mature on July 15, 2021. The New 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.

The New Senior Secured Indenture provides that the New 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 New Senior Secured Notes redeemed up to the date of redemption, and (ii) the Applicable Premium, if any, as defined in the New Senior Secured Indenture. Upon a change of control, the Company will be required to make an offer to holders of the New Senior Secured Notes to repurchase the New 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 New Senior Secured Indenture contains negative covenants restricting additional debt incurred by the Company, creation of liens on the collateral securing the New Senior Secured Notes, and restrictions on dividends and stock repurchases, among other things. The New 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.

The New 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 New 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 New Senior Secured Indenture, the trustee or the holders of at least 25% in aggregate principal amount of the New Senior Secured Notes then outstanding may declare the principal of and accrued but unpaid interest, plus a premium, if any, on all the New Senior Secured Notes immediately due and payable, subject to certain conditions set forth in the New Senior Secured Indenture.

5. Stock Issuance to Brennan Opportunities Fund I

In August 2017, EMGC also sold $5 million of EMGC common shares (at $0.40/share) and $5 million of 8.5% Senior Secured Notes due 2021 to Brennan Opportunities Fund I (source: August 14, 2017 Form 8-K filing):

Securities Purchase Agreement

On August 11, 2017, Emergent Capital, Inc. (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 New 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 New Senior Secured Notes, and on August 14, 2017, as to 3,750,000 shares of Common Stock and $1.5 million principal amount of New Senior Secured Notes.

C. Analysis of Investment Opportunity

1. Valuation Case 1 – Book Value Per Share

Below is EMGC's balance sheet as of the most recent quarter end (September 30, 2017):

CONSOLIDATED BALANCE SHEET - USD ($) $ in Thousands	Sep. 30, 2017
ASSETS	
Cash and cash equivalents	21,689
Cash and cash equivalents (VIE Note 4)	14,004
Certificates of deposit	1,007
Prepaid expenses and other assets	795
Deposits - other	1,377
Life settlements, at estimated fair value	721
Life settlements, at estimated fair value (VIE Note 4)	554,501
Receivable for maturity of life settlements (VIE Note 4)	30,200
Fixed assets, net	166
Investment in affiliates	2,384
Total assets	***626,844***
Liabilities	
Accounts payable and accrued expenses	3,024
Accounts payable and accrued expenses (VIE Note 4)	832
Other liabilities	210
Interest payable - 8.5% Convertible Notes (Note 11)	21
8.5% Convertible Notes, net of discount and deferred debt costs (Note 11)	1,077
Interest payable - 5.0% Convertible Notes (Note 12)	485
5.0% Convertible Notes, net of discount and deferred debt costs (Note 12)	68,358
Interest payable - 15.0% Senior Secured Notes (Note 13)	0
15.0% Senior Secured Notes, net of deferred debt costs (Note 13)	0
Interest payable - 8.5% Senior Secured Notes (Note 14)	124
8.5% Senior Secured Notes, net of deferred debt costs (Note 14)	33,863
White Eagle Revolving Credit Facility, at estimated fair value (VIE Note 4)	316,166
Deferred tax liability	2,332
Current tax liability	878
Total liabilities	***427,370***
Commitments and Contingencies (Note 18)	
Stockholders' Equity	
Common stock (par value $0.01 per share, 415,000,000 authorized at September 30, 2017; 156,572,976 issued and 155,964,976 outstanding as of September 30, 2017	1,565
Preferred stock (par value $0.01 per share, 40,000,000 authorized; 0 issued and outstanding as of September 30, 2017)	0
Treasury Stock, net of issuance cost (608,000 shares as of September 30, 2017)	-2,534
Additional paid-in-capital	333,601
Accumulated deficit	-133,158
Total stockholders' equity	***199,474***
Total liabilities and stockholders' equity	626,844

As of September 30, 2017, cash/CE (ex-VIE cash) was $22.7 million and the number of outstanding shares was 156.6 million. Thus, cash/CE (ex-VIE cash) equaled $0.14/share, or about 1/3rd of the current market cap. In addition, ***EMGC's book value was $199.5 million at the most recent quarter end, or $1.27/share, which is 3.35X the current market cap***. Granted, these figures do not account for the in-the-money warrants described in Section I.B.3 above, which would increase the cash balance by $8 million and the total share count by 40 million if fully exercised.

2. Valuation Case 2 – Cash In Versus Cash Out

We also approach valuation for EMGC using a sources and uses of cash model. In other words, from EMGC's SEC filings we can either precisely determine or roughly estimate the sources and uses of cash for the company for the expected weighted average remaining life of its portfolio of insurance policies. This indicates that net positive cash flow should be $594 million over the 9.0-year remaining life[1], or $3.02/share based on our 196.6 fully-diluted million share count, indicating 696% total upside. We have discounted this cash flow back to a ***present value of $1.28/share using a 10% discount factor*** and assuming that the weighted average date that the cash is returned is 9.0 years from today. Please find below the relevant calculations:

SOURCES	$ Amount	***Source***
Existing Cash + Warrant Proceeds	34,700	9/30/17 balance sheet
Existing Receivables	30,200	9/30/17 balance sheet
Future Policy Proceeds	2,887,827	Q3 2017 10-Q, page 31
TOTAL	2,952,727	
USES		
Future Policy Premiums	1,278,659	Q3 2017 10-Q, page 17
Debt Payoff and Interest Payable	420,094	9/30/17 balance sheet
Interest Payments	214,200	6% * 420MM * 8.5
Opex 9 years	144,000	16K *9
TOTAL	2,056,953	

Sources - Uses	895,774
White Eagle Lenders Cut	301,314
Remainder for Common	594,460
S-U / Shs O/S	3.02
PV of S-U / Shs O/S	1.28
TOTAL UPSIDE	695.71%

[1] Note that, per page 17 of the Q3 2017 10-Q, the weighted average life expectancy calculated based on death benefit of insureds in the policies owned by EMGC at September 30, 2017 was 9.0 years.

II. Financial Information and Corporate Governance

A. EMGC's Historical Financial Data

For reference, below please find past 5-year financial operating data for EMGC:

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except share and per share data)				
Income					
Interest income	67	22	29	28	1,685
Interest and dividends on investment securities available for sale	—	—	—	14	391
Origination fee income	—	—	—	—	500
(Loss) gain on life settlements, net	—	(41)	(426)	(1,990)	151
Change in fair value of life settlements	864	46,717	44,128	88,686	(5,660)
Servicing fee income	—	—	—	310	1,183
Gain on maturities of life settlements with subrogation rights, net	—	—	—	—	6,090
Other income	184	193	85	2,030	748
Total income	1,115	46,891	43,816	89,078	5,088
Expenses					
Interest expense	29,439	27,286	16,245	13,657	1,255
Change in fair value of Revolving Credit Facilities	(1,898)	12,197	(5,472)	(9,373)	—
Extinguishment of Secured Notes	—	8,782	—	—	—
Extinguishment of Bridge Facility	—	—	—	3,991	—
Extinguishment of Red Falcon Revolving Credit Facility	554	—	—	—	—
Change in fair value of conversion derivative liability	—	—	6,759	—	—
Provision for losses on loans receivable	—	—	—	—	515
(Gain) loss on loan payoffs and settlements, net	—	—	—	(65)	125
Amortization of deferred costs	—	—	—	7	1,867
Personnel costs	6,070	6,384	8,763	8,177	9,452
Legal fees	6,427	20,739	13,620	11,701	23,974
Professional fees	7,081	7,133	5,254	5,281	5,262
Insurance	835	1,275	1,667	1,953	2,330
Other selling, general and administrative expenses	2,036	2,194	2,006	1,887	2,366
Total expenses	50,544	85,990	48,842	37,216	47,146
(Loss) income from continuing operations before income taxes	(49,429)	(39,099)	(5,026)	51,862	(42,058)
(Benefit) provision for income taxes	—	(8,719)	125	39	(39)
Net (loss) income from continuing operations	$ (49,429)	$ (30,380)	$ (5,151)	$ 51,823	$ (42,019)
Discontinued Operations:					
(Loss) Income from discontinued operations, net of income taxes	(260)	(644)	(601)	2,198	(2,615)
Gain on disposal of discontinued operations, net of income taxes	—	—	—	11,311	—
Benefit for income taxes	—	—	232	—	—
Net (loss) income from discontinued operations	(260)	(644)	(369)	13,509	(2,615)
Net (loss) income	$ (49,689)	$ (31,024)	$ (5,520)	$ 65,332	$ (44,634)
(Loss) earnings per share:					
Basic and diluted (loss) earnings per common share					
Continuing operations	$ (1.79)	$ (1.22)	$ (0.24)	$ 2.44	$ (1.98)
Discontinued operations	$ (0.01)	$ (0.03)	$ (0.02)	$ 0.64	$ (0.12)
Net (loss) income	$ (1.80)	$ (1.25)	$ (0.26)	$ 3.08	$ (2.10)
Weighted average shares outstanding:					
Basic and diluted (1)	27,660,711	24,851,178	21,354,567	21,216,487	21,205,747

(1) As of December 31, 2016, there were 29,021,844 and 28,413,844 shares of common stock issued and outstanding, respectively, and 608,000 shares of treasury stock.

For reference, below please find 1st nine months 2017 financial operating data for EMGC:

	For the Three Months Ended September 30, 2017	For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30, 2017	For the Nine Months Ended September 30, 2016
	(in thousands, except share and per share data)			
Income				
Change in fair value of life settlements (Notes 8 & 16)	$ 24,372	$ 4,735	$ 53,294	$ (2,690)
Other income	116	32	245	125
Total income	24,488	4,767	53,539	(2,565)
Expenses				
Interest expense	9,773	7,895	25,471	21,330
Loss on extinguishment of debt	2,018	—	2,018	—
Change in fair value of Revolving Credit Facilities (Notes 9, 10 & 16)	1,163	(551)	11,209	(16,121)
Personnel costs	2,040	1,303	4,174	5,133
Legal fees	821	1,833	2,473	5,361
Professional fees	667	2,136	3,475	5,347
Insurance	198	200	587	639
Other selling, general and administrative expenses	381	494	1,294	1,511
Total expenses	17,061	13,310	50,701	23,200
Income (loss) from continuing operations before income taxes	7,427	(8,543)	2,838	(25,765)
(Benefit) provision for income taxes	3,210	—	3,210	—
Net income (loss) from continuing operations	$ 4,217	$ (8,543)	$ (372)	$ (25,765)
Discontinued Operations:				
Income (loss) from discontinued operations before income taxes	(33)	(54)	(257)	(248)
(Benefit) provision for income taxes	—	—	—	—
Net income (loss) from discontinued operations	(33)	(54)	(257)	(248)
Net income (loss)	$ 4,184	$ (8,597)	$ (629)	$ (26,013)
Basic income (loss) per share:				
Continuing operations	$ 0.04	$ (0.31)	$ (0.01)	$ (0.94)
Discontinued operations	$ —	$ —	$ —	$ (0.01)
Net income (loss) - basic	$ 0.04	$ (0.31)	$ (0.01)	$ (0.95)
Diluted income (loss) per share:				
Continuing operations	$ 0.03	$ (0.31)	$ (0.01)	$ (0.94)

Below please find past 5-year balance sheets for EMGC:

	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012
	(In thousands except share data)				
ASSETS					
Assets					
Cash and cash equivalents	$ 2,246	$ 12,946	$ 51,166	$ 14,722	$ 7,001
Cash and cash equivalents (VIE)	9,072	7,395	3,751	7,977	—
Restricted cash	—	—	—	13,506	1,162
Certificate of deposit	6,025	2,501	—	—	—
Investment securities available for sale, at estimated fair value	—	—	—	—	12,147
Prepaid expenses and other assets	1,112	1,017	1,502	1,331	14,172
Deposits—other	1,347	1,347	1,340	1,597	2,855
Deposits on purchases of life settlements	—	—	1,630	—	—
Interest receivable, net	—	—	—	—	822
Loans receivable, net	—	—	—	—	3,044
Structured settlement receivables at estimated fair value, net	—	—	384	660	1,680
Structured settlement receivables at cost, net	—	—	597	797	1,574
Investment in life settlements, at estimated fair value	680	11,946	82,575	48,442	113,441
Investment in life settlements, at estimated fair value (VIE)	497,720	449,979	306,311	254,519	—
Receivable for maturity of life settlements (VIE)	5,000	18,223	4,000	2,100	—
Fixed assets, net	232	322	355	74	217
Investment in affiliates	2,384	2,384	2,384	2,378	2,212
Assets of segment held for sale	—	—	—	—	15
Total assets	$ 525,818	$ 508,060	$ 455,995	$ 348,103	$ 160,342
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities					
Accounts payable and accrued expenses	2,590	$ 3,051	6,140	2,977	6,606
Accounts payable and accrued expenses (VIE)	593	419	423	341	—
Other liabilities	359	360	1,256	21,221	20,796
Interest payable—senior unsecured convertible notes	2,272	2,272	2,272	—	—
Senior unsecured convertible notes, net of discount and deferred debt costs	60,535	56,812	51,945	—	—
Interest payable—senior secured notes	213	—	261	—	—
Senior secured notes, net of discount and deferred debt costs	29,297	—	—	—	—
Secured notes, net of discount and deferred debt costs	—	—	24,036	—	—
White Eagle Revolving Credit Facility, at estimated fair value (VIE)	257,085	169,131	145,831	123,847	—
Red Falcon Revolving Credit Facility, at estimated fair value (VIE)	—	55,658	—	—	—
Income taxes payable	—	—	—	6,295	6,295
Deferred tax liability	—	—	8,728	—	—
Total liabilities	352,944	287,703	240,892	154,681	33,697
Stockholders' Equity					
Common stock, $0.01 par value (80,000,000 authorized; 29,021,844 issued and 28,413,844 outstanding as of December 31, 2016, 28,130,508 issued and 27,522,508 outstanding as of December 31, 2015, 21,402,990, 21,237,166, and 21,206,121 issued and outstanding as of December 31, 2014, 2013, and 2012, respectively)	290	281	214	212	212
Preferred stock, $0.01 par value (40,000,000 authorized; 0 issued and outstanding as of December 31, 2016, 2015, 2014, 2013, and 2012)	—	—	—	—	—
Treasury stock (608,000 shares as of December 31, 2016 and 2015 and 0 shares as of December 31, 2014, 2013, and 2012)	(2,534)	(2,534)	—	—	—
Additional paid-in-capital	307,647	305,450	266,705	239,506	238,064
Accumulated other comprehensive loss	—	—	—	—	(3)
Accumulated deficit	(132,529)	(82,840)	(51,816)	(46,296)	(111,628)
Total stockholders' equity	172,874	220,357	215,103	193,422	126,645
Total liabilities and stockholders' equity	$ 525,818	$ 508,060	$ 455,995	$ 348,103	$ 160,342

For reference, below please find the September 30, 2017 balance sheet for EMGC:

Emergent Capital, Inc.
CONSOLIDATED BALANCE SHEETS

	September 30, 2017	December 31, 2016*
	(Unaudited)	
	(In thousands except share data)	
ASSETS		
Assets		
Cash and cash equivalents	$ 21,689	$ 2,246
Cash and cash equivalents (VIE Note 4)	14,004	9,072
Certificates of deposit	1,007	6,025
Prepaid expenses and other assets	795	1,112
Deposits - other	1,377	1,347
Life settlements, at estimated fair value	721	680
Life settlements, at estimated fair value (VIE Note 4)	554,501	497,720
Receivable for maturity of life settlements (VIE Note 4)	30,200	5,000
Fixed assets, net	166	232
Investment in affiliates	2,384	2,384
Total assets	$ 626,844	$ 525,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 3,024	$ 2,590
Accounts payable and accrued expenses (VIE Note 4)	832	593
Other liabilities	210	359
Interest payable - 8.5% Convertible Notes (Note 11)	21	2,272
8.5% Convertible Notes, net of discount and deferred debt costs (Note 11)	1,077	60,535
Interest payable - 5.0% Convertible Notes (Note 12)	485	—
5.0% Convertible Notes, net of discount and deferred debt costs (Note 12)	68,358	—
Interest payable - 15.0% Senior Secured Notes (Note 13)	—	213
15.0% Senior Secured Notes, net of deferred debt costs (Note 13)	—	29,297
Interest payable - 8.5% Senior Secured Notes (Note 14)	124	—
8.5% Senior Secured Notes, net of deferred debt costs (Note 14)	33,863	—
White Eagle Revolving Credit Facility, at estimated fair value (VIE Note 4)	316,166	257,085
Deferred tax liability	2,332	—
Current tax liability	878	—
Total liabilities	427,370	352,944
Commitments and Contingencies (Note 18)		
Stockholders' Equity		
Common stock (par value $0.01 per share, 415,000,000 authorized at September 30, 2017 and 80,000,000 at December 31, 2016; 156,572,976 issued and 155,964,976 outstanding as of September 30, 2017 and 29,021,844 issued and 28,413,844 outstanding as of December 31, 2016	1,565	290
Preferred stock (par value $0.01 per share, 40,000,000 authorized; 0 issued and outstanding as of September 30, 2017 and December 31, 2016)	—	—
Treasury Stock, net of issuance cost (608,000 shares as of September 30, 2017 and December 31, 2016)	(2,534)	(2,534)
Additional paid-in-capital	333,601	307,647
Accumulated deficit	(133,158)	(132,529)
Total stockholders' equity	199,474	172,874
Total liabilities and stockholders' equity	$ 626,844	$ 525,818

Below please find past 3-year statements of cash flow for EMGC:

	2016	2015	2014
		(In thousands)	
Cash flows from operating activities			
Net (loss) income	$ (49,689)	$ (31,024)	$ (5,520)
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization	108	113	88
Red Falcon Revolving Credit Facility origination cost	297	3,329	—
White Eagle Revolving Credit Facility origination cost	388	—	—
Revolving Credit Facilities financing cost and fees withheld by lender	1,020	7,493	6,716
Amortization of discount and deferred debt costs for Convertible Notes	3,724	3,132	2,371
Amortization of discount and deferred debt costs for 15% Senior Secured Notes	348	—	—
Amortization of discount and deferred debt costs for Secured Notes	—	541	102
Stock-based compensation	403	490	956
Change in fair value of life settlements	(864)	(46,717)	(44,128)
Unrealized change in fair value of structured settlements	—	(20)	(32)
Change in fair value of Revolving Credit Facilities	(1,898)	12,197	(5,472)
Loss on life settlements	—	41	426
Interest income	(67)	(87)	(136)
Extinguishment of Red Falcon Revolving Credit Facility	554	—	—
Extinguishment of Secured Notes	—	8,782	—
Change in fair value of conversion derivative liability	—	—	6,759
Deferred income tax	—	(8,729)	(107)
Change in assets and liabilities:			
Restricted cash	—	—	13,506
Deposits—other	—	(654)	257
Investment in affiliates	—	—	(6)
Structured settlement receivables	—	1,065	614
Prepaid expenses and other assets	161	(74)	(153)
Deferred costs	—	—	(739)
Accounts payable and accrued expenses	(287)	(3,105)	3,244
Other liabilities	34	(860)	(14,178)
Interest payable- Convertible Notes	—	—	2,533
Interest payable- 15% Senior Secured Notes	213	—	—
Interest payable- Secured Notes	—	(261)	—
Net cash used in operating activities	(45,555)	(54,348)	(32,899)
Cash flows from investing activities			
Purchase of fixed assets, net of disposals	(9)	(69)	(256)
Certificate of deposit	(3,500)	(2,501)	—
Premiums paid on life settlements	(71,681)	(64,923)	(55,458)
Purchases of life settlements	(1,390)	(29,065)	(16,296)
Proceeds from sale of life settlements, net	—	2,150	4,031
Proceeds from maturity of life settlements	50,460	53,454	23,600
Deposit on purchase of life settlement	—	—	(1,630)
Net cash used in investing activities	(26,120)	(40,954)	(46,009)
Cash flows from financing activities			
Repayment of borrowings under White Eagle Revolving Credit Facility	(34,799)	(43,241)	(29,777)
Repayment of borrowings under Red Falcon Revolving Credit Facility	(10,452)	(4,378)	—
Borrowings from White Eagle Revolving Credit Facility	57,978	47,146	50,518
Borrowings from Red Falcon Revolving Credit Facility	19,673	5,741	—
Proceeds from issue of common stock, net	1,803	—	—
Proceeds from 15% Senior Secured Notes, net	30,000	—	—
Proceeds from Convertible Notes, net	—	—	67,893
Proceeds from rights offering, net	—	38,334	—
Proceeds from Secured Notes, net	—	23,750	22,500
Purchase of treasury shares	—	(2,534)	—
Payment under finance lease obligations	(35)	(34)	(8)
Extinguishment of Secured Notes	—	(3,570)	—
Extinguishment of Red Falcon Revolving Credit Facility	(315)	—	—
Red Falcon Revolving Credit Facility origination costs	(150)	(483)	—
15% Senior Secured Notes origination cost	(1,051)	—	—
Secured Notes deferred debt costs	—	(5)	—
Net cash provided by financing activities	62,652	60,726	111,126
Net (decrease)/increase in cash and cash equivalents	(9,023)	(34,576)	32,218
Cash and cash equivalents, at beginning of the year	20,341	54,917	22,699
Cash and cash equivalents, at end of the year	$ 11,318	$ 20,341	$ 54,917

For reference, below please find 1st nine months 2017 cash flow data for EMGC:

	For the Nine Months Ended September 30, 2017	2016
	(In thousands)	
Cash flows from operating activities		
Net income (loss)	$ (629)	$ (26,013)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	78	76
Red Falcon Revolving Credit Facility origination cost	—	297
8.5% Convertible Notes debt modification costs	2,537	—
Amortization of discount and deferred costs for 8.5% Convertible Notes	2,413	2,721
Amortization of discount and deferred costs for 15.00% Senior Secured Notes	184	260
Amortization of deferred cost for 5.0% Convertible Notes	199	—
Amortization of deferred costs for 8.5% Senior Secured Notes	35	—
Loss on extinguishment of debt	2,018	—
Stock-based compensation expense	340	262
Finance cost and fees withheld by borrower	686	664
Interest Paid in Kind on 8.5% Convertible Notes	6,288	—
Change in fair value of life settlements	(53,294)	2,690
Change in fair value of Revolving Credit Facilities	11,209	(16,121)
Interest income	(14)	(23)
Deferred tax liability	2,332	—
Change in assets and liabilities:		
Deposits - other	(30)	—
Prepaid expenses and other assets	142	1,177
Accounts payable and accrued expenses	1,865	602
Other liabilities	(125)	60
Current tax liability	878	—
Interest payable - 8.5% Convertible Notes	(2,251)	(1,503)
Interest payable - 5.0% Convertible Notes	485	—
Interest payable - 15.0% Senior Secured Notes	(213)	200
Interest payable - 8.5% Senior Secured Notes	124	—
Net cash used in operating activities	(24,743)	(34,651)
Cash flows from investing activities		
Purchase of fixed assets, net of disposals	(4)	(9)
Certificate of deposit	5,025	(5,000)
Purchase of life settlements	—	(1,390)
Premiums paid on life settlements	(63,101)	(52,750)
Proceeds from maturity of life settlements	34,373	27,980
Net cash used in investing activities	(23,707)	(31,169)
Cash flows from financing activities		
Borrowings from White Eagle Revolving Credit Facility	64,400	38,771
Repayment of borrowings under White Eagle Revolving Credit Facility	(17,214)	(10,577)
Proceeds from 8.5% Senior Secured Notes	5,000	—
Borrowings under Red Falcon Revolving Credit Facility	—	15,101
Repayment of borrowings under Red Falcon Revolving Credit Facility	—	(9,195)
Proceeds from issue of common stock, net	19,188	1,505
Proceeds from 15.0% Senior Secured Notes	—	30,000
Payment under finance lease obligations	(25)	(26)
Borrowings under 15.0% Promissory Note	2,763	—
Payment of Recapitalization Transaction Closing Costs	(1,287)	—
Red Falcon Revolving Credit Facility origination costs	—	(150)
15.0% Senior Secured Notes deferred cost	—	(1,051)
Net cash provided by financing activities	72,825	64,378
Net increase (decrease) in cash and cash equivalents	24,375	(1,442)
Cash and cash equivalents, at beginning of the period	11,318	20,341
Cash and cash equivalents, at end of the period	$ 35,693	$ 18,899
Supplemental disclosures of cash flow information:		
Cash paid for interest during the period	$ 14,851	$ 19,339
Interest Paid in Kind on 8.5% Convertible Notes	$ 6,288	$ —
Supplemental disclosures of non-cash financing activities:		
Interest payment and fees withheld from borrowings by lender of the White Eagle Revolving Credit Facility	$ 686	$ 664
Repayment of 15.0 % Senior Secured Notes Principal, Interest and Penalty through Recapitalization Transaction	$ 31,675	$ —
Issue of 8.5% Senior Secured Notes through Recapitalization Transaction	$ 30,000	—
Recapitalization Transaction Closing Cost and Other Costs withheld from Proceeds	$ 4,338	$ —
Repayment of 15% Promissory Note Principal and Interest through Recapitalization Transaction	$ 2,799	$ —

B. Corporate Governance

In connection with the recapitalization of EMGC, the board of directors of EMGC was substantially changed effective July 28, 2017, as follows: EMGC accepted the resignations of the following members of EMGC's Board of Directors: James Chadwick, Michael Crow, Phillip Goldstein, Gerald Hellerman and Gilbert Nathan (in addition, director Andrew Dakos subsequently resigned on September 11th). Contemporaneously, EMGC appointed Patrick J. Curry, Joseph E. Sarachek, Matthew T. Epstein, James Hua and Robert Knapp to join the Board of Directors. Biographies of the new directors are shown below:

As previously disclosed by Emergent Capital, Inc. (the "Company"), following the consummation of the Master Transaction Agreements made as of March 15 and May 12, 2017, as amended to date and from time to time (collectively, the "Master Transaction Agreements"), by and between the Company, PJC Investments, LLC, a Texas limited liability company ("PJC"), and the Consenting Convertible Note Holders party to each Master Transaction Agreement ("Consenting Holders"), five members of the Company's Board of Directors (the "Board") will resign and PJC or its designee will be entitled to designate four directors, and certain Consenting Holders will be entitled to designate one director (each, a "Designee"), to fill the resulting vacancies. The Designees consist of:

Name	Age
Patrick J. Curry	52
Joseph E. Saracheck	55
Matthew T. Epstein	34
James Hua	34
Robert Knapp	50

Set forth below is a brief description of the business experience of each Designee, as well as certain specific experiences, qualifications and skills that the Board may use to determine that each of the persons set forth below is qualified to serve as a director. As of June 20, 2017, each of the Designees beneficially owned less than 1% of the Company's common stock. There are no family relationships between any of the Designees and any director or executive officer of the Company or any other Designee.

Patrick J. Curry

Mr. Curry currently serves as the President and Chief Executive Officer of PJC Investments, LLC. Previously, from 1997 to 2003, Mr. Curry served as Executive Vice President and a director of Central Freight Lines, Inc. From 1994 to 1997, Mr. Curry was the President and Chief Executive Officer of Universal Express Limited, LLC. From 1991 to 1993, Mr. Curry served as President and Chief Executive Officer of Lortex, Inc. Prior to these roles, Mr. Curry was also a licensed stock and bond broker for Legg Mason Wood Walker, Inc. and a financial analyst for Hercules Aerospace, Inc. Mr. Curry has previous experience in investing in entities in the life settlement business. Mr. Curry has a Bachelor of Business Administration in Finance from Texas A&M University.

Joseph E. Saracheck

Mr. Sarachek has been the founding principal of Triax Capital Advisors since 2001. Mr. Saracheck currently serves as Chapter 11 Trustee appointed by the US Department of Justice to turnaround a multi-million dollar agricultural business. Prior to founding Triax, Mr. Sarachek was a portfolio manager and consultant with Balfour Investors. Prior to joining Balfour, Mr. Sarachek was a partner at the New York office of the law firm of McDermott, Will & Emery where his primary focus was principal outside counsel to several investment partnerships, which acquired bank debt, trade claims, and distressed assets. Mr. Sarachek is a director of Chazak Value Corp. and Kominox, a Korean experimental cancer research corporation. Mr. Sarachek has previous experience in investing in entities in the life settlement business.

Matthew T. Epstein

Mr. Epstein currently serves as a Senior Analyst for Evermore Global Advisors. Previously, from 2005 to 2014, Mr. Epstein served as a Senior Analyst for W.R. Huff. Mr. Epstein has a Bachelor degree in Finance and International Business from New York University and an M.B.A. from Columbia University, and is a CFA charter holder.

James Hua

Mr. Hua currently serves as Portfolio Manager for Opal Advisors and as Chief Investment Officer for Sheppard Wealth Management. Previously, from 2011 to 2012, Mr. Hua served as Investment Analyst for Freestone Capital. From 2009 to 2011, Mr. Hua served as Controller of Liberty Capital. Mr. Hua has a Bachelor of Arts in Business Administration with a concentration in Accounting from the University of Washington.

Robert Knapp

Mr. Knapp is the Managing Director of Ironsides Partners LLC, which is a registered investment advisor that specializes in discounted assets and distressed credit investments. Mr. Knapp is also (i) a director of MVC Capital, Inc., which is listed on the New York Stock Exchange, (ii) a director and audit committee member of Castle Private Equity AG, which is listed on the SIX Swiss Exchange, (iii) a director of the Africa Opportunity Fund Limited, which is listed on the London Stock Exchange, and (iv) a director of MPC Container Ships AS, which is listed on the Oslo Børs' Merkur Market.

In addition, on August 10, 2017, concurrently with a reduction in headcount at EMGC from 20 to 12 employees, EMGC's CEO announced his decision to resign:

On August 3, 2017 and August 11, 2017, as a reduction in force, the Company reduced its headcount from 20 employees to 12 employees, included in this reduction in force on August 11, 2017, were two of the Company's executive officers - David

Sasso, Vice President of Investor Relations and Business Development and Christopher O'Reilly, General Counsel and Secretary. The Company will incur a onetime severance cost of approximately $1.2 million related to this reduction, for the quarter ended September 30, 2017, the amounts are being paid over a period of twelve months.

On August 10, 2017, Antony Mitchell, the Chief Executive Officer the Company, notified the Company of his intention to terminate his employment agreement with the company, effective as of a date to be determined in accordance with the terms of such agreement.

On August 15, 2017, PJC's Patrick Curry became the new CEO:

On August 15, 2017, Emergent Capital, Inc. (the "Company") notified Antony Mitchell of its intention to pursue the termination of his employment as Chief Executive Officer in accordance with the terms of his employment agreement with the Company.

Effective August 15, 2017, the Board of Directors of the Company (the "Board") appointed Patrick J. Curry, the Chairman of the Board, as Interim Chief Executive Officer to serve in such capacity during the termination process set forth in Mr. Mitchell's employment agreement and until a new Chief Executive Officer is appointed.

Mr. Curry currently serves as the President and Chief Executive Officer of PJC Investments, LLC. Previously, from 1997 to 2003, Mr. Curry served as Executive Vice President and a director of Central Freight Lines, Inc. From 1994 to 1997, Mr. Curry was the President and Chief Executive Officer of Universal Express Limited, LLC. From 1991 to 1993, Mr. Curry served as President and Chief Executive Officer of Lortex, Inc. Prior to these roles, Mr. Curry was also a licensed stock and bond broker for Legg Mason Wood Walker, Inc. and a financial analyst for Hercules Aerospace, Inc. Mr. Curry has previous experience in investing in entities in the life settlement business. Mr. Curry has a Bachelor of Business Administration in Finance from Texas A&M University. Mr. Curry does not have any family relationship with any director, executive officer or other director designee of the Company, or and has not held any previous employment position with the Company nor has he been involved in any transactions with the Company or any of our directors, executive officers, affiliates or associates that are required to be disclosed pursuant to the rules and regulations of the SEC.

III. Risk Factors

Below are some key risk factors involved in an investment in EMGC shares (investors should also carefully review all of the risk factors set forth EMGC's SEC filings):

1. Risk of Additional Dilution

If liquidity runs low again, the company may need to issue more shares. Due to the recapitalization, the number of shares of EMGC's common stock outstanding increased from 28,413,844 as of March 16, 2017 to approximately 196 million fully-diluted shares recently, an increase of 590% in less than two years.

2. White Eagle Facility Cash Sweep Risk

Risk that lenders under the White Eagle facility unilaterally sweep all of the cash flow from the insurance portfolio: Under the credit agreement, if (a) EMGC fails to maintain a cash interest coverage ratio of at least 2.00:1.00 at any time during the immediately preceding calendar quarter[2] or (b) *EMGC 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 White Eagle lenders shall equal one-hundred percent (100%), which could impair the company's liquidity.

3. Cost of Insurance Risk

Risk that cost of insurance could go up (i.e., higher premiums = lower cash flows) and/or insurance companies will be successful at voiding policies for lack of an insurable interest. The New York Times ran the following article regarding COI inflation from 2016:

> ***Why Some Life Insurance Premiums Are Skyrocketing***
>
> By JULIE CRESWELL and MARY WILLIAMS WALSHAUG. 13, 2016
>
> Jo Ann Sparks's elderly parents, Sara and James Cook, faced the near doubling of their life insurance premium and were persuaded by the insurance company to walk away from the policy, despite paying into it for years.
>
> Like clockwork, Sara and James Cook paid $452 a month for life insurance. That is, until a letter arrived last year telling the elderly Georgia couple the premiums on the policy they'd had for 25 years were rising sharply.
>
> They held a universal life policy, a popular type that includes an investment account that accumulates cash when interest rates are high. But with rates at historic lows, it was being drained — quickly.
>
> When the Cooks' daughter, Jo Ann Sparks, asked an expert to explain her options, she recalls: "He said to me, 'Please don't take this the wrong way and, not to be morbid, but your mother needs to die.'"
>
> Around the world, life insurers are wrestling with existential questions. Interest rates are near zero, and in some places have turned negative — unprecedented until recent years. It is contributing to a crisis moment for a business once considered a bedrock of financial stability and an industry that supports the retirement of millions.

[2] As of September 30, 2017, the cash interest coverage ratio was 4.00:1.00, per the Q3 2017 10-Q filing, page 21.

In particular, companies that sell policies that run for decades, like life and long-term care insurance, face a twofold challenge: how to fund policies that were sold back when their actuaries couldn't envision a world of interest rates below 8 percent, and what to sell now, when those same actuaries can't envision an appreciable rise in rates anytime soon.

People who bought universal life policies in the 1980s and 1990s — some of which guaranteed annual returns of 4 percent or more — are seeing their premiums soar.

It has precipitated about a dozen lawsuits against insurers, some seeking class-action status. Many of the lawsuits claim that the insurers are raising their rates to force people to drop their policies entirely, often when they are too old to buy replacements. A canceled policy means an insurer gets to keep years of premiums without facing a future death-benefit payout.

Low interest rates are a big part of this new pressure on insurers; their earnings are being squeezed. But in recent years insurers have also undertaken various financial maneuvers to pay dividends to their shareholders despite their low earnings. Now, some say, policyholders like the Cooks are having to pay for that.

While the Federal Reserve bumped up short-term interest rates late last year, yields in the bond market continue to remain at depressed levels. In recent weeks, the yield on the 10-year Treasury note slid to a record low of 1.358 percent.

Very low interest rates cut both ways. They are good for home buyers and corporate borrowers, who can get cheap loans.

But for life insurers — where more than three-quarters of the industry's $6.4 trillion in invested assets are parked in bonds — low rates like these can be calamitous.

If, say, an 8 percent bond from the 1990s matures, the cash must be reinvested in something new. But now, a similar bond may pay only 2 percent. The insurance policy sold to a customer back in the 1990s guaranteed a 4 percent return.

It adds up to a vexing math problem: how to back a promise of 4 percent in a 2-percent-or-less world.

The predicament crosses borders. This year, the head of Allianz of Germany, the largest insurer in Europe, called the move by the European Central Bank to slash rates to zero "a catastrophe."

And last year, several Japanese life insurers acquired American insurers. But that says more about the weakness in Japan than it does about the strength of the American insurers. Japan, like Germany, now has negative interest rates — so interest rates in the United States are considered high.

In the United States, in the hope of staving off a reckoning, some insurers have stopped selling certain products, and have raised what policyholders must pay for some existing policies.

And they have moved into riskier investments in search of higher returns. Last year, MetLife, the nation's largest insurer, reported a 46 percent drop in its fourth-quarter profits, not because of low interest rates but because of poor performance in the company's hedge fund and private equity investments. Although performance has improved somewhat, MetLife now says it will drop most hedge fund investments.

Juggling to Pay Dividends

Universal life insurance was invented in the 1970s as an alternative to popular, lower-cost term life insurance. A term life policyholder buys coverage that expires at the end of a term, usually one to 30 years.

Universal policies typically cost more, but the coverage never expires and the buyer gets both a fixed death benefit and a "cash value" account, designed to earn tax-exempt interest. Money in the account can be used to help pay the policy's premiums. But there is a risk: If the account gets used up paying those costs, the policy can lapse and coverage ends.

Universal life insurance policies sold today do not guarantee returns of 4 percent or more. Instead, many policies are loosely tied to the growth of the stock market.

Still, in the United States, some doomsayers warn that big trouble is ahead. "The word 'insolvency' hasn't been said very loudly, but certainly on the street people are concerned about insurance companies and their promises and the ways they are trying to avoid keeping their promises," said J. Robert Hunter, a former Texas insurance commissioner who is now the director of insurance for the Consumer Federation of America, an advocacy group.

Louann Sherbach, of Amityville, N.Y., bought a long-term care policy from Genworth and was assured the premium would not go up. But it did, and she could not continue paying. Heather Walsh for The New York Times

Others dispute such alarmist sentiments. They argue that the life insurance industry today is already vastly different from the industry your grandfather knew. The companies, they say, are better capitalized than they have been in a decade, and the big ones have gone into new lines of business, offering a plethora of insurance and asset management products and services.

“We don’t have a doom-and-gloom scenario for the industry,” said Laura Bazer, a senior credit officer at the ratings agency Moody’s Investors Service.

But in recent years, even as low interest rates ate into the industry’s profits, some companies engaged in complex financial maneuvers that enabled them to pay hefty shareholder dividends. Normally, life insurers cannot pay shareholder dividends unless their balance sheets are flush. These maneuvers involve shifting a company’s future obligations to policyholders into special financial vehicles that do not appear on the insurer’s balance sheets.

Many of the moves were made with the blessing of state regulators who, in some cases, waived accounting rules or also approved the dividends.

For instance, one British company told investors in 2011 that it used techniques like these to navigate around “redundant” American insurance regulations requiring it to hold “excess” reserves for future claims. The firm’s American subsidiary, Banner Life Insurance, then sent the parent company “extraordinary dividends” totaling $785 million.

But now some Banner policyholders are being told their monthly payments must rise as much as sixfold, prompting a lawsuit that accuses Banner of raiding customers’ accounts to pay the dividends.

Banner said in court filings that the Maryland Insurance Administration had reviewed and approved the dividends, as well as the calculations justifying them.

In a similar vein, this spring, Axa Equitable Life Insurance raised the monthly payments on about 1,700 universal life policyholders who were over 70 and whose policies had a face value of over $1 million.

Axa said the increase was necessary because its customers were dying sooner than it expected.

Some policyholders question that argument, saying the increases were aimed at improving Axa’s bottom line. Axa, which has been increasing its dividend payouts for shareholders, projects that the premium increases will raise its profits by approximately $500 million, according to a lawsuit filed in federal court in Manhattan this year by a policyholder.

In its court filings, Axa included a letter from the New York State Department of Financial Services that found the proposed increase for the small group of policyholders to be “unobjectionable” and that the higher charges did “not reflect an increase in your profit goals.” In a statement, Jennifer Recine, an Axa spokeswoman, said the company believed that the lawsuit had no merit.

Having to Walk Away

Similar problems are playing out in the long-term care insurance business, which has sold policies designed to pay for nursing homes, assisted-living facilities and home health. Today, however, long-term care insurers face accusations of badly underpricing their policies as costs skyrocket. Many have either left the industry or severely reduced benefits. The remaining players, contending with low interest rates, are getting state regulators across the country to approve big premium increases.

Twelve years ago, Louann Sherbach, of Amityville, N.Y., bought a long-term care policy from Genworth. “I was assured when I purchased the policy, even though the premium was high for me at $2,300 a year, that the premium would not increase,” said Mrs. Sherbach, 65, who recently retired as an administrative director for a day care center.

About a month ago, the rate increased to $3,700. “That’s outrageous! I can’t afford that,” she said.

After paying $27,000 in premiums over the years, Mrs. Sherbach dropped the policy, believing she was walking away empty-handed. “I feel like they mismanaged my money to pay other people’s claims and now I have nothing,” she said.

But after being asked about Mrs. Sherbach’s situation, a spokeswoman for Genworth said the company was voluntarily giving customers like Mrs. Sherbach who canceled their policies new coverage, reflecting the premiums already paid.

“If a policyholder had paid $27,000 in premiums and did not have any claims,” wrote Julie Westermann, a spokeswoman for Genworth, in an email, then that customer “would have a maximum available benefit of $27,000.”

> For Ms. Sparks — whose elderly parents, the Cooks, faced the near doubling of their life insurance bill — the insurance company's strategy was clear: persuade her parents to simply walk away from the policy, despite a quarter-century of paying in.
>
> "There's no doubt in my mind that they were trying to get us to drop the policy," Ms. Sparks said.
>
> She said the insurer, Transamerica Life Insurance, sent the family charts showing the financial damage her parents would suffer if her mother lived a few more years. The charts showed that keeping the policy at the higher monthly payments "would have wiped them out for everything they had," Ms. Sparks said.
>
> In recent years, Transamerica has used a series of complex financial transactions to shift a large share of its obligations to policyholders into off-balance-sheet vehicles. That allowed it to send about $2 billion in "extraordinary dividends" to its corporate parent in the Netherlands, Aegon.
>
> That left a hole in Transamerica's finances, which policyholders like the Cooks are now being forced to fill, according to one of several federal lawsuits filed against the insurer seeking class-action status. Lawyers in those cases are seeking an injunction to block the rate increase.
>
> Transamerica said it was "in full compliance with its contractual obligations, and intends to contest vigorously the recently filed litigation."
>
> After months of considering their options, the Cooks ultimately decided to drop their life policy, walking away from the $55,000 that they had spent on it over the last 25 years, Ms. Sparks said. They took the remaining cash in the account, which totaled $4,100.

Regarding challenges to the enforceability of life insurance (especially third-party financed), below is a summary of the status of current litigation on this subject from pp. 39-40 of EMGC's Q3 2017 10-Q:

Sun Life

On April 18, 2013, Sun Life Assurance Company of Canada ("Sun Life") filed a complaint against the Company and several of its affiliates in the United States District Court for the Southern District of Florida, captioned *Sun Life Assurance Company of Canada v. Imperial Holdings, Inc., et al.* ("Sun Life Case"). In the case, Sun Life asserted, 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. Sun Life's complaint, as amended, asserted the following claims: (1) violation 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) declaratory judgment that the policies were void *ab initio*. Following the Company's filing of a motion to dismiss the Sun Life Case, on December 9, 2014, the court dismissed counts (2), (4), (5), (6) and (7) with prejudice. The Company then filed a

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motion for summary judgment on the remaining counts. Shortly after, on February 4, 2015, the Court issued an order granting the Company's motion for summary judgment on counts (1) and (3), as a result of which the Company prevailed 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.

Other Litigation

The Company is party to various other legal proceedings that arise in the ordinary course of business. Due to the inherent difficulty of predicting the outcome of litigation 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.

4. Corporate Governance Risk

Little information exists regarding the newly-appointed directors for EMGC. Apparently Patrick J. Curry (who is also the new CEO) was in the past a patent troll, per the following news report excerpt:

> ***Inventor Behind Patents In Ringback-Tone Lawsuits: 'I Don't Know The Details, I Just Invent Shit', by Gregory Thomas***
>
> There is a man in the heart of Texas who wants his companies to get paid any time a cell phone sends out a customized "ringback tone" instead of a standard ring; and any time a vehicle outfitted with a tracking-and-security system rolls off the production floor. His name is Patrick J. Curry, he's based near Waco, and in the last week companies he manages have filed a barrage of patent infringement lawsuits

against the nation's biggest cell phone service providers and some of the world's largest automobile manufacturers.

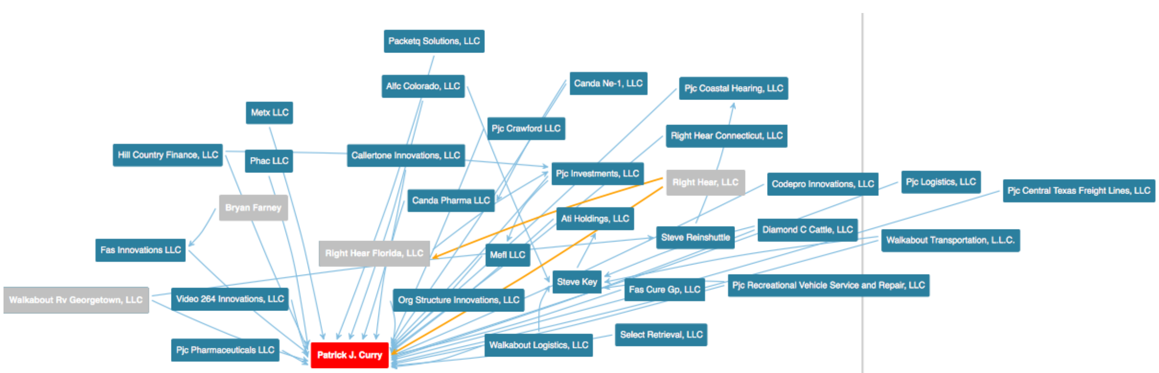
In several near-identical complaints filed Oct. 28 and Oct. 31 in Delaware district court, PJC Logistics, one of Curry's companies, alleges that General Motors, Ford, Mercedes-Benz, BMW of North America, Rolls-Royce, Hyundai, KIA and ATX Group owe royalties for the Global Positioning System-based tracking and security systems (such as OnStar) in their vehicles. The patent, No. 5,223,844, is titled "Vehicle tracking and security system" and was issued in 1993.

Meanwhile, a volley of lawsuits against cell service providers filed by Callertone Innovations LLC on and Nov. 1, Oct. 28 and Oct. 18 takes aim at AT&T, Verizon, Sprint Nextel, MetroPCS, T-Mobile and others for infringing two patents covering ring-tone advertising. The patents in question are Nos. 7,852,995 and 7,860,225, titled "Method and apparatus for selectively providing messages in telecommunications systems." The complaints vaguely claim that the companies use "methods and instrumentalities that embody the inventions," but offer one specific example of infringement—the use of "ringback tones." That's when a cell phone owner chooses a song or sound clip to be played when people call, rather than a standard ringing noise.

All of these lawsuits—18 recent ones in total—stem from a business address in Hewitt, Texas at 777 Enterprise Blvd. A host of companies (LLCs) are registered at that address and list Curry as manager, including Callertone Innovations, PJC Logistics, PJC Properties, PJC Innovations, Select Retrieval, CodePro Innovations and others, according to online business directories. The businesses linked to that address examined for this report offer little to no public information online as to what they are or what they do.

The Patent Examiner has written about Curry before, when Select Retrieval asserted a patent for online retail against more than 100 companies at once, in September. Curry and his lawyers at Stamoulis & Weinblatt LLC, in Delaware, did not return calls and emails for comment.

In addition, Curry has been involved in dozens of other business ventures, as illustrated by the following diagram of his various connections (source):



IV. Conclusion

EMGC represents a fairly straightforward valuation exercise, after taking into consideration the recent recapitalization transactions. On the one hand, book value as of September 30, 2017 is $1.27/share (Valuation Case 1), none of which consists of intangible assets such as goodwill. Alternatively, an investor can value EMGC on a cash-in versus cash-out basis (Valuation Case 2), leading to the conclusion that net cash flow over the remaining life of the company's insurance portfolio has a present value of $1.28/share. Each valuation case indicates approximately 235% upside versus the current market price of $0.38/share. Consequently, we believe that EMGC represents a compelling investment opportunity for the patient investor.

V. Disclaimer

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