

ASTA FUNDING INC  
Form 10-Q  
November 15, 2018

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

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**FORM 10-Q**

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

**For the quarterly period ended December 31, 2017**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-35637**

**ASTA FUNDING, INC.**

**(Exact name of registrant as specified in its charter)**

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**Delaware**

**(State or other jurisdiction  
of incorporation or organization)**

**22-3388607**

**(IRS Employer  
Identification  
No.)**

**210 Sylvan Ave., Englewood Cliffs, New Jersey**  
**(Address of principal executive offices)**

**07632**  
**(Zip Code)**

**Registrant's telephone number: (201) 567-5648**

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Former name, former address and former fiscal year, if changed since last report: N/A

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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 12, 2018, the registrant had 6,685,415 common shares outstanding.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ASTA FUNDING, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

(rounded to the nearest thousands, except share data)

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 23,185,000	\$ 17,591,000
Available for sale investments (at fair value)	5,577,000	5,511,000
Consumer receivables acquired for liquidation (at cost)	6,010,000	6,841,000
Investment in personal injury claims, net	3,150,000	3,704,000
Due from third party collection agencies and attorneys	836,000	819,000
Prepaid and income taxes receivable	8,634,000	9,090,000
Furniture and equipment, net	106,000	124,000
Equity method investment	51,433,000	50,474,000
Note receivable	5,271,000	—
Deferred income taxes	9,186,000	12,696,000
Goodwill	1,410,000	1,410,000
Other assets	932,000	1,043,000
Assets related to discontinued operations	—	92,235,000
Total assets	\$ 115,730,000	\$ 201,538,000
<b>LIABILITIES</b>		
Other liabilities	\$ 3,491,000	\$ 4,980,000
Liabilities related to discontinued operations	—	81,751,000
Total liabilities	3,491,000	86,731,000
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value; authorized 5,000,000 shares; issued and outstanding — none	—	—
Preferred stock, Series A Junior Participating, \$.01 par value; authorized 30,000 shares; issued and outstanding — none	—	—
	134,000	134,000

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Common stock, \$.01 par value, authorized 30,000,000 shares; issued 13,398,108 at December 31, 2017 and September 30, 2017; and outstanding 6,623,815 at December 31, 2017 and September 30, 2017

Additional paid-in capital	68,126,000	68,047,000
Retained earnings	111,067,000	113,736,000
Accumulated other comprehensive income, net of taxes	40,000	18,000
Treasury stock (at cost) 6,774,293 shares at December 31, 2017 and September 30, 2017	(67,128,000 )	(67,128,000 )
Total stockholders' equity	112,239,000	114,807,000
Total liabilities and stockholders' equity	\$ 115,730,000	\$ 201,538,000

See accompanying notes to consolidated financial statements

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****Consolidated Statements of Operations****(Unaudited)**

(rounded to the nearest thousands, except share data)

	<b>Three Months  Ended  December 31,  2017</b>	<b>Three Months  Ended  December 31,  2016</b>
Revenues:		
Finance income, net	\$4,185,000	\$4,095,000
Personal injury claims income	141,000	—
Disability fee income	911,000	1,354,000
Total revenues	5,237,000	5,449,000
Other income, net — includes \$0 and (\$45,000) during the three month periods ended December 31, 2017 and 2016, respectively, of accumulated other comprehensive income reclassification for unrealized net (losses) / gains on available for sale securities	34,000	451,000
	5,271,000	5,900,000
Expenses:		
General and administrative	4,212,000	7,295,000
Earnings from equity method investment	(352,000 )	(404,000 )
	3,860,000	6,891,000
Income (loss) from continuing operations before income tax	1,411,000	(991,000 )
Income tax expense — includes tax benefit of \$0 and \$18,000 during the three month periods ended December 31, 2017 and 2016, respectively, of accumulated other comprehensive income reclassifications for unrealized net (loss) / gain on available for sale securities	4,000,000	697,000
Net loss from continuing operations	(2,589,000)	(1,688,000 )
Net loss from discontinued operations, net of income tax	(80,000 )	(1,258,000 )
Net loss	\$(2,669,000)	\$(2,946,000 )
Net loss per basic shares:		
Continuing operations	\$(0.39 )	\$(0.14 )
Discontinued operations	(0.01 )	(0.11 )



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Net loss per diluted shares:	(0.40	)	(0.25	)
Continuing operations	(0.39	)	(0.14	)
Discontinued operations	(0.01	)	(0.11	)
	\$(0.40	)	\$(0.25	)
Weighted average number of common shares outstanding:				
Basic	6,623,815		11,876,224	
Diluted	6,623,815		11,876,224	

See accompanying notes to consolidated financial statements

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss)****December 31, 2017 and 2016****(Unaudited)**

(rounded to the nearest thousands)

	<b>Three Months Ended December 31,  2017</b>	<b>Three Months Ended December 31,  2016</b>
Comprehensive loss is as follows:		
Net loss	\$ (2,669,000)	\$ (2,946,000)
Net unrealized securities (loss), net of tax benefit/ (expense) of \$0 and \$826,000 during the three month periods ended December 31, 2017 and 2016, respectively.	(7,000 )	(1,239,000)
Reclassification adjustments for securities sold, net of tax benefit of \$0 and \$18,000 during the three month periods ended December 31, 2017 and 2016, respectively.	—	(27,000 )
Foreign currency translation, net of tax expense of (\$14,000) and (\$12,000) during the three month periods ended December 31, 2017 and 2016, respectively.	29,000	18,000
Other comprehensive income (loss)	22,000	(1,248,000)
Total comprehensive loss	\$ (2,647,000)	\$ (4,194,000)

See accompanying notes to consolidated financial statements

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity****(Unaudited)**

(rounded to the nearest thousands, except share data)

	<b>Common Stock</b>		<b>Additional</b>		<b>Accumulated</b>		<b>Total</b>
	<b>Issued</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Retained</b>	<b>Other</b>	<b>Treasury</b>	<b>Stockholders'</b>
	<b>Shares</b>		<b>Capital</b>	<b>Earnings</b>	<b>Comprehensive</b>	<b>Stock</b>	<b>Equity</b>
					<b>Income</b>		
					<b>(Loss)</b>		
<b>Balance,</b>							
<b>September 30,</b>	13,398,108	\$ 134,000	\$68,047,000	\$ 113,736,000	\$ 18,000	\$(67,128,000)	\$ 114,807,000
<b>2017</b>							
Stock based							
compensation	—	—	79,000	—	—	—	79,000
expense							
Net loss	—	—	—	(2,669,000 )	—	—	(2,669,000 )
Unrealized							
(loss) on	—	—	—	—	(7,000 )	—	(7,000 )
marketable							
securities, net							
Foreign							
currency	—	—	—	—	29,000	—	29,000
translation, net							
<b>Balance,</b>							
<b>December 31,</b>	13,398,108	\$ 134,000	\$68,126,000	\$ 111,067,000	\$ 40,000	\$(67,128,000)	\$ 112,239,000
<b>2017</b>							

See accompanying notes to consolidated financial statements

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(Unaudited)**

(rounded to the nearest thousands)

	<b>Three Months Ended</b>	
	<b>December</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net loss from continuing operations	\$(2,589,000 )	\$(1,688,000 )
Net loss from discontinued operations	(80,000 )	(1,258,000 )
Net loss	\$(2,669,000 )	\$(2,946,000 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,000	26,000
Deferred income taxes	3,514,000	420,000
Stock based compensation	79,000	(6,000 )
Loss on sale of available-for-sale securities	—	45,000
Provision for bad debts – personal injury claims	475,000	—
Unrealized gain on other investments	—	(18,000 )
Unrealized foreign exchange loss on other investments	—	254,000
Earnings from equity method investment	(352,000 )	(404,000 )
Changes in:		
Prepaid and income taxes receivable	456,000	(4,182,000 )
Due from third party collection agencies and attorneys	(23,000 )	40,000
Other assets	111,000	307,000
Other liabilities	(1,460,000 )	761,000
Net cash provided by operating activities of discontinued operations	710,000	369,000
Net cash provided by (used in) operating activities	859,000	(5,334,000 )
<b>Cash flows from investing activities:</b>		
Purchase of consumer receivables acquired for liquidation	—	(2,213,000 )
Principal collected on receivables acquired for liquidation	754,000	2,129,000
Purchase of available-for-sale securities	(77,000 )	(7,568,000 )
Proceeds from sale of available-for-sale securities	—	7,132,000
Proceeds from sale of CBC	4,491,000	—
Proceeds from note receivable	479,000	—
Personal injury claims - advances	(60,000 )	—
Personal injury claims - receipts	139,000	—
Increase in equity method investment	(607,000 )	(155,000 )
Capital expenditures	—	(6,000 )
Net cash used in investing activities of discontinued operations	(1,538,000 )	(2,632,000 )

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Net cash provided by (used in) investing activities	3,581,000	(3,313,000 )
<b>Cash flows from financing activities:</b>		
Net cash provided by financing activities of discontinued operations	1,387,000	4,131,000
Net cash provided by financing activities	1,387,000	4,131,000
Foreign currency effect on cash	83,000	52,000
Net increase (decrease) in cash, cash equivalents and restricted cash including cash, cash equivalents and restricted cash classified within assets related to discontinued operations	5,910,000	(4,464,000 )
Less: net (decrease) increase in cash, cash equivalents and restricted cash classified within assets related to discontinued operations	(316,000 )	43,000
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>5,594,000</b>	<b>(4,421,000 )</b>
Cash and cash equivalents and restricted cash at beginning of period	17,591,000	16,282,000
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$23,185,000</b>	<b>\$11,861,000</b>

**Supplemental disclosure of cash flow information:**

Continuing operations:		
Cash paid for: Income taxes	\$—	\$6,200,000
Discontinued operations:		
Cash paid for: Interest	\$824,000	\$914,000

**Supplemental disclosure of non-cash investing:**

Continuing operations:		
Note receivable	\$5,750,000	\$—

See accompanying notes to consolidated financial statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1—Business and Basis of Presentation**

***Business***

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection, LLC, Palisades Acquisition XVI, LLC (“Palisades XVI”), Palisades Acquisition XIX, LLC (“Palisades XIX”), Palisades Acquisition XXIII, LLC (“Palisades XXIII”), VATIV Recovery Solutions LLC (“VATIV”), ASFI Pegasus Holdings, LLC (“APH”), EMIRIC, LLC (“EMIRIC”), Fund Pegasus, LLC (“Fund Pegasus”), GAR Disability Advocates, LLC (“GAR Disability Advocates”), Five Star Veterans Disability, LLC (“Five Star”), Simia Capital, LLC (“Simia”) and other subsidiaries, which are not all wholly owned (the “Company,” “we” or “us”), is engaged in the financial services industry including funding of personal injury claims, through our 80% owned, 50% controlled equity investment in Pegasus Funding, LLC (“Pegasus”) and our wholly owned subsidiary Simia, social security and disability advocacy through our wholly owned subsidiaries GAR Disability Advocates and Five Star and the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged off receivables, and semi-performing receivables.

For the period covered by these financial statements, Pegasus was 80% owned and 50% controlled, and accounted for under the equity method. On January 12, 2018, the Company acquired the remaining 20% minority shareholder's interest in Pegasus, and now currently owns 100% of Pegasus. Commencing in the quarter ending March 31, 2018, the Company will consolidate the financial results of this entity.

We operate principally in the United States in three reportable business segments: consumer receivables, GAR disability advocates and personal injury claims. We previously operated a fourth segment when we engaged in the structured settlements business through our wholly owned subsidiary CBC Settlement Funding, LLC (“CBC”), which we sold on December 13, 2017.

As a result of the sale of CBC all prior periods presented in the Company's consolidated financial statements account for CBC as a discontinued operation. This determination resulted in the reclassification of the assets and liabilities comprising the structured settlement business to assets and liabilities related to discontinued operations in the

consolidated balance sheets, and a corresponding adjustment to our consolidated statements of operations to reflect discontinued operations for all periods presented. See Note 7 - Discontinued Operations in the Company's notes to the consolidated financial statements.

### Consumer receivables

The Company started out in the consumer receivable business in 1995. Recently, our effort has been in the international areas (mainly South America), as we have curtailed our active purchasing of consumer receivables in the United States. We define consumer receivables as primary charged-off, semi-performing and distressed depending on their collectability. We acquire these consumer receivables at substantial discounts to their face values, based on the characteristics of the underlying accounts of each portfolio.

### Personal injury claims

Simia commenced operations in January 2017, and conducts its business solely in the United States. Simia obtains its business from external brokers and internal sales professionals soliciting individuals with personal injury claims. Business is also obtained from its website and through attorneys. Our equity method investment in Pegasus operates in the personal injury claims business.

### Social security benefit advocacy

GAR Disability Advocates and Five Star provide disability advocacy services throughout the United States. It relies upon search engine optimization (“SEO”) to bring awareness to its intended market.

### ***Basis of Presentation***

The consolidated balance sheet as of December 31, 2017, the consolidated statements of operations for the three months ended December 31, 2017 and 2016, the consolidated statements of comprehensive income (loss) for the three months ended December 31, 2017 and 2016, the consolidated statements of stockholders' equity as of and for the three months ended December 31, 2017, and the consolidated statements of cash flows for the three months ended December 31, 2017 and 2016, are unaudited. The September 30, 2017 financial information included in this report was derived from our audited financial statements included in our Form 10-K. In the opinion of management, all adjustments necessary to present fairly our financial position at December 31, 2017, the results of operations for the three months ended December 31, 2017 and 2016 and cash flows for the three months ended December 31, 2017 and 2016 have been made. The results of operations for the three months ended December 31, 2017 and 2016 are not

necessarily indicative of the operating results for any other interim period or the full fiscal year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and therefore do not include all information and note disclosures required under generally accepted accounting principles. The Company suggests that these financial statements be read in conjunction with the financial statements and notes thereto included in the Form 10-K filed with the Securities and Exchange Commission.

The consolidated financial statements are prepared in accordance with US GAAP and industry practices.



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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1—Business and Basis of Presentation (Continued)**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates including management’s estimates of future cash flows and the resulting rates of return.

The consolidated financial statements include the accounts of Asta Funding, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

***Concentration of Credit Risk – Cash and Restricted Cash***

The Company considers all highly liquid investments with a maturity date of three months or less at the date of purchase to be cash equivalents.

Cash balances are maintained at various depository institutions and are insured by the Federal Deposit Insurance Corporation (“FDIC”). The Company had cash balances with 11 banks at December 31, 2017 that exceeded the balance insured by the FDIC by approximately \$17.8 million. Additionally, two foreign banks with an aggregate \$2.0 million balances are not FDIC insured. The Company does not believe it is exposed to any significant credit risk due to concentration of cash.

As of September 30, 2017 there is \$0.5 million, of cash in a domestic bank that is classified as restricted. This amount is included in net assets related to discontinued operations on the Company's consolidated balance sheets. The Company does not believe it is exposed to any significant credit risk due to concentration of cash.

***Equity method investments***

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee company's board of directors and ownership level, which is generally a 20% to 50% interest in voting securities of the investee company. Under the equity method of accounting, an investee company's accounts are not reflected within the Company's consolidated balance sheets and statements of operations, however, the Company's share of the earnings of the investee company is reflected as earnings and loss from equity method investment in the Company's consolidated statement of operations. The Company's carrying value in an equity method investee company is reflected on the Company's consolidated balance sheet, as equity method investment.

Pegasus is the Company's 50% controlled equity investment with Pegasus Legal Funding ("PLF"). Under the operating agreement, the Company and PLF, each maintain 50% voting rights of the entity, and the Company is 80% owned by Asta. Based on these shared voting rights with PLF, the Company lacks requisite control of Pegasus, and therefore accounts for its investment in Pegasus under the equity method of accounting.

On January 12, 2018, the Company entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with PLF. Under the Purchase Agreement, the Company bought PLF's interest in Pegasus, which was 20% of the issued and outstanding limited liability company interests of Pegasus, for an aggregate purchase price of \$1.8 million. As a result of this purchase, the Company owns 100% of Pegasus. Accordingly, based on the purchase of PLF's interest, the Company now has full voting control of the entity. Therefore, commencing on January 12, 2018, the Company will no longer account for this entity under the equity method, but instead will consolidate the entity into its financial statements.

Serlefin BPO&O Peru S.A.C. ("Serlefin Peru") is the Company's 49% owned joint venture. The other 51% is owned by three individuals who share common ownership with Serlefin BPO&O Serlefin S.A. ("Serlefin"). Each owner maintains voting rights equivalent to their share ownership, and the 51% shareholders collectively manage the operations of the business. Based on the Company's ownership and voting rights, the Company lacks requisite control of Serlefin Peru, and therefore accounts for its investment in Serlefin Peru under the equity method of accounting.

Additionally, the Company and Serlefin jointly purchase international consumer debt portfolios under a purchase agreement. The Company and Serlefin purchase the portfolios on a pro-rata basis of 80% and 20%, respectively. The purchased portfolios are transferred to an administrative and payment trust, where the Company and Serlefin are trustees. Serlefin provides collection services to the trust, and receives a performance fee determined by the parties for each loan portfolio acquired. Serlefin received approximately \$0.1 million and \$0.2 million in performance fees for the three months ended December 31, 2017 and 2016, respectively.



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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1—Business and Basis of Presentation (Continued)**

The carrying value of the investment in Serlefin Peru was \$0.2 million as of December 31, 2017 and September 30, 2017. The Company has included the carrying value of this investment in other assets on its consolidated balance sheets. The cumulative net loss from our investment in Serlefin Peru through December 31, 2017 was approximately \$0.1 million, and was not significant to the Company's consolidated statement of operations.

When the Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized. There were no impairment losses recorded on the equity method investments for the three months ended December 31, 2017 and 2016.

***Personal Injury Claim Advances***

Management assesses the quality of the personal injury claims portfolio through an analysis of the underlying personal injury fundings on a case by case basis. Cases are reviewed through periodic updates with attorneys handling the cases, as well as with third party research tools which monitor public filings, such as motions or judgments rendered on specific cases. The Company specifically reserves for those fundings where the underlying cases are identified as uncollectible, due to anticipated non-favorable verdicts and/or settlements at levels where recovery of the advance outstanding is unlikely. For cases that have not exhibited any specific negative collection indicators, the Company establishes reserves based on the historical collection rates of the Company's fundings. Fee income on advances is reserved for on all cases where a specific reserve is established on the initially funded amount. In addition, management also monitors its historical collection rates on fee income and establishes reserves on fee income consistent with the historically experienced collection rates. Management regularly analyzes and updates the historical collection rates of its initially funded cases as well as its fee income.

***Income Recognition***

The Company accounts for certain of its investments in finance receivables using the guidance of FASB Accounting Standards Codification (“ASC”), Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310”). Under the guidance of ASC 310, static pools of accounts are established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost and is accounted for as a single unit for the recognition of income, principal payments and loss provision. Due to the substantial reduction of portfolios reported under the interest method, and the inability to reasonably estimate cash collections required to account for those portfolios under the interest method the Company concluded the cost recovery method is the appropriate accounting method under the circumstances.

Under the guidance of ASC 310-30, the Company must analyze a portfolio upon acquisition to ensure which method is appropriate, and once a static pool is established for a quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller).

The Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. Under the cost recovery method, no income is recognized until the cost of the portfolio has been fully recovered. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received.

The Company accounts for its investments in personal injury claims at an agreed upon interest rate, in anticipation of a future settlement. The interest purchased by Pegasus in each claim consisted of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or reward with respect to such claimant’s claim. Open case revenue is estimated, recognized and accrued at a rate based on the expected realization and underwriting guidelines and facts and circumstances for each individual case. These personal injury claims are non-recourse. When a case is closed and the cash is received for the advance provided to a claimant, revenue is recognized based upon the contractually agreed upon interest rate, and, if applicable, adjusted for any changes due to a settled amount and fees charged to the claimant.

The funding of matrimonial actions is on a non-recourse basis. Revenue from matrimonial actions is recognized under the cost recovery method.

The Company recognizes revenue for GAR Disability Advocates and Five Star Veterans when disability claimants cases close with the social security administration and the applicable fees are collected.

### ***Impairments***

The Company accounts for its impairments in accordance with ASC 310, which provides guidance on how to account for differences between contractual and expected cash flows from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The recognition of income under ASC 310 is dependent on the Company having the ability to develop reasonable expectations of both the timing and amount of cash flows to be collected. In the event the Company cannot develop a reasonable expectation as to both the timing and amount of cash flows expected to be collected, ASC 310 permits the change to the cost recovery method. The Company will recognize income only after it has recovered its carrying value. If collection projections indicate the carrying value will not be recovered, an impairment is required. The impairment will be equal to the difference between the carrying value at the time of the forecast and the corresponding estimated remaining future collections.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1—Business and Basis of Presentation (Continued)**

In October 2014, the Company invested \$5.0 million in Class A shares of the Topaz MP Fixed Income Fund (“Topaz Fund”), a closed end fund. The Topaz Fund invests indirectly in various portfolios of Non-Performing Small Consumer Loans. The objective of the fund is to obtain a fixed return cash flow representing interest on the invested capital. According to the investment memorandum of the fund, the Topaz Fund proposed to make semi-annual distributions of 14% annual compounded interest on June and December of each year. Since December 2015, no distribution has been received by the Company. The Company received letters from the fund’s General Partner explaining that the distributions were not made due to the negative performance of the fund for the periods.

During the fiscal year 2017, the Company recorded an impairment loss on this investment of \$3.4 million, which was included in general and administrative expenses in the consolidated statements of operations. The full value of this investment was written off as of September 30, 2017. As of December 31, 2017 no amounts have been recovered on this investment.

***Commissions and fees***

Commissions and fees are the contractual commissions earned by third party collection agencies and attorneys, and direct costs associated with the collection effort, generally court costs. The Company utilizes third party collection agencies and attorney networks.

***Fair Value Hierarchy***

The Company recorded its available-for-sale investments at estimated fair value on a recurring basis. The accompanying consolidated financial statements include estimated fair value information regarding its available-for-sale investments as of December 31, 2017, as required by FASB ASC 820, Fair Value Measurements and Disclosures (“ASC 820”). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. ASC

820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to assess at the measurement date.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active for identical or similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs that are supported by little or no market activity and significant to the fair value of the liabilities that are developed using the reporting entities' estimates and assumptions, which reflect those that market participants would use.

FASB ASC 825, Financial Instruments, ("ASC 825"), requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. Because there are a limited number of market participants for certain of the Company's assets and liabilities, fair value estimates are based upon judgments regarding credit risk, investor expectation of economic conditions, normal cost of administration and other risk characteristics, including interest rate and prepayment risk. These estimates are subjective in nature and involve uncertainties and matters of judgment, which significantly affect the estimates.

### ***Discontinued Operations***

US GAAP requires the results of operations of a component of an equity that either has been disposed of or is classified as held for sale to be reported as discontinued operations in the consolidated financial statements if the sale or disposition represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued an update to ASC 606, "Revenue from Contracts with Customers," that will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the entitled consideration received in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and



uncertainty of revenue and cash flows arising from the customer contracts. This update is effective for annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1—Business and Basis of Presentation** *(Continued)*

The Company has completed its initial assessment of the new standard, including a detailed review of the Company's revenue streams to identify potential differences in accounting as a result of the new standard, and selected the modified retrospective method. Based on the Company's initial assessment, we do not believe that the adoption of the standard and related amendments will have a significant impact on our revenue recognition patterns, assuming that our revenue streams will be similar to those currently in place are in effect at the time of our adoption. Through the date of adoption, we will continue to evaluate the impacts of the standard to ensure that our preliminary conclusions continue to remain accurate. Additionally, we will continue our assessment of the impact of the standard on our financial statement disclosures which are expected to be more extensive based on the requirements of the new standard.

In January 2016, the FASB issued Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective in developing this update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date for this update is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Upon adoption of this ASU, the Company's investments will no longer be classified as available for sale, and changes to fair value will be reflected in the Company's consolidated statement of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. For a lease with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right-of-use asset and lease liability. Additionally, when measuring assets and liabilities arising from a lease, optional payments should be included only if the lessee is reasonably certain to exercise an option to extend the lease, exercise a purchase option or not exercise an option to terminate the lease. In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. ASU 2018-01 was issued to address concerns about the cost and complexity of complying with the transition provisions of ASU 2018-01. The standard becomes effective in for fiscal years beginning after December 15, 2019 and interim periods within those years and early adoption is permitted. The Company is in the process of reviewing its existing leases, including service contracts for embedded leases to evaluate the impact of this standard on its consolidated financial statements and the impact on regulatory capital.

In March 2016, the FASB issued ASU No. 2016-07, *Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. The amendments in ASU 2016-07 are effective for public companies for fiscal years beginning after December 15, 2016 including interim periods therein. Early adoption is permitted. The new standard should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued Update No. 2016-09, *Improvements to Employee Share Based Payment Accounting*, to simplify and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The effective date for this update is for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For the Company, this update will be effective for interim periods and annual periods beginning after December 15, 2019. Upon adoption, the Company expects that it will accelerate the recording of its credit losses in its financial statements.

In August 2016 the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This ASU will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case the Company would be required to apply the amendments prospectively as of the earliest date practicable. The Company is in the process of evaluating the provisions of the ASU, but does not expect it to have a material effect on the Company's consolidated statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, *Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*. The main objective in developing this update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date for this update is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The impact of this update will not have a material impact on the Company's consolidated financial statements.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1—Business and Basis of Presentation** *(Continued)*

In January 2017, the FASB issued ASU 2017-04 Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The objective of this update is to simplify the subsequent measurement of goodwill, by eliminating step 2 from the goodwill impairment test. The amendments in this update are effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. The Company does not believe this update will have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share Based Payment Accounting, to simplify and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The effective date for this update is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The adoption of this update will not have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017, and requires certain disclosures about stranded tax effects. ASU 2018-02 will be effective for the Company's fiscal year beginning October 1, 2019, with early adoption permitted, and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The adoption of this ASU is not expected to have a material impact on the Company's its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements on fair value measurements. The ASU removes the requirement to disclose: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The ASU requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This ASU is effective for fiscal years, and interim periods within those

fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

## Note 2—Available-for-Sale Investments

Investments classified as available-for-sale at December 31, 2017 and September 30, 2017, consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2017	\$5,577,000	\$ —	\$ —	\$5,577,000
September 30, 2017	\$5,500,000	\$ 11,000	\$ —	\$5,511,000

The available-for-sale investments do not have any contractual maturities. The Company did not sell any investments during the three months ended December 31, 2017. The Company sold two investments during the three months ended December 31, 2016, with a realized loss of \$45,000. The Company didn't receive any capital gain distribution during the three months ended December 31, 2017. The Company received \$177,000 in capital gains distributions during the three months ended December 31, 2016. The Company recorded an aggregate realized gain of \$0 and \$132,000 related to its available-for-sale securities for the three months ended December 31, 2017 and 2016, respectively.

Unrealized holding gains and losses on available-for-sale securities are included in other comprehensive income within stockholders' equity. Realized gains (losses) on available-for-sale securities are included in other income and, when applicable, are reported as a reclassification adjustment in other comprehensive income.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 3—Consumer Receivables Acquired for Liquidation**

Accounts acquired for liquidation are stated at cost and consist primarily of defaulted consumer loans of individuals primarily throughout the United States and South America.

The Company may account for its investments in consumer receivable portfolios, using either:

• the interest method; or

• the cost recovery method.

Prior to October 1, 2013, the Company accounted for certain of its investments in finance receivables using the interest method in accordance with the guidance of ASC 310, Receivables. Under the guidance of ASC 310-30, static pools of accounts are established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost and is accounted for as a single unit for the recognition of income, principal payments and loss provision. Effective October 1, 2013, due to the substantial reduction of portfolios reported under the interest method, and the ability to reasonably estimate cash collections required to account for those portfolios under the interest method, the Company concluded the cost recovery method is the appropriate accounting method in the circumstances.

Although the Company has switched to the cost recovery method on its current inventory of portfolios, the Company must still analyze a portfolio upon acquisition to ensure which method is appropriate, and once a static pool is established for a quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller).

The Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. Under the cost recovery method, no income is recognized until the cost of the portfolio has been fully recovered. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash

collections. In this case, all cash collections are recognized as revenue when received.

The Company aggregates portfolios of receivables acquired sharing specific common characteristics which were acquired within a given quarter. In addition, the Company uses a variety of qualitative and quantitative factors to estimate collections and the timing thereof. The Company obtains and utilizes, as appropriate, input, including but not limited to, monthly collection projections and liquidation rates, from third party collection agencies and attorneys, as further evidentiary matter, to assist in evaluating and developing collection strategies and in evaluating and modeling the expected cash flows for a given portfolio.

The following tables summarize the changes in the consolidated balance sheet account of consumer receivables acquired for liquidation during the following periods:

	<b>For the Three Months Ended December 31,</b>			
	<b>2017</b>		<b>2016</b>	
Balance, beginning of period	\$6,841,000		\$13,427,000	
Acquisitions of receivable portfolios	—		2,213,000	
Net cash collections from collection of consumer receivables acquired for liquidation	(4,945,000)		(6,015,000)	)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(2,000	)	(190,000	)
Effect of foreign currency translation	(69,000	)	(68,000	)
Finance income recognized	4,185,000		4,095,000	
Balance, end of period	\$6,010,000		\$13,462,000	
Finance income as a percentage of collections	84.60	%	66.00	%

During the three months ended December 31, 2017, the Company did not purchase any new portfolios. During the three months ended December 31, 2016, the Company purchased \$35.0 million of face value portfolios, at a cost of \$2.2 million.

As of December 31, 2017, the Company held consumer receivables acquired for liquidation from Peru and Colombia of \$3.0 million and \$2.4 million, respectively. The total amount of foreign consumer receivables acquired for liquidation was \$5.4 million, or 89.3% of the total consumer receivables held of \$6.0 million at December 31, 2017.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 3—Consumer Receivables Acquired for Liquidation** *(Continued)*

As of September 30, 2017, the Company held consumer receivables acquired for liquidation from Peru and Colombia of \$3.3 million and \$2.9 million, respectively. The total amount of foreign consumer receivables acquired for liquidation was \$6.2 million, or 89.9% of the total consumer receivables held of \$6.8 million at September 30, 2017.

As of December 31, 2017 and September 30, 2017, 6.9% and 5.0% of the Company's total assets were related to its international operation, respectively. For the three months ended December 31, 2017 and 2016, 2.2% and 4.9% of the Company's total revenue related to its international operation, respectively.

The following table summarizes collections received by the Company's third party collection agencies and attorneys, less commissions and direct costs, for the three months ended December 31, 2017 and 2016, respectively.

	<b>For the Three Months Ended</b>	
	<b>December 31 ,</b>	
	<b>2017</b>	<b>2016</b>
Gross collections (1)	\$8,992,000	\$11,400,000
Commissions and fees (2)	(4,045,000)	(5,195,000 )
Net collections	\$4,947,000	\$6,205,000

(1) Gross collections include collections from third party collection agencies and attorneys, collections from in-house efforts and collections represented by account sales.

Commissions are earned by third party collection agencies and attorneys, and include direct costs associated with the collection effort, generally court costs. In December 2007 an arrangement was consummated with one servicer (2) who also received a 3% fee on gross collections received by the Company in connection with the related portfolio purchase. The fee is charged for asset location, skip tracing and ultimately suing debtors in connection with this portfolio purchase.



**Note 4—Litigation Funding*****Equity Method Investment***

On December 28, 2011, the Company entered into a joint venture, Pegasus Funding, LLC ("Pegasus") with Pegasus Legal Funding, LLC ("PLF"). The Company has an 80% non-controlling interest in the joint venture. Pegasus purchases interests in claims from claimants who are a party to personal injury litigation. Pegasus advances, to each claimant, funds, on a non-recourse basis at an agreed upon interest rate, in anticipation of a future settlement. The interest in each claim purchased by Pegasus consists of the right to receive, from such claimant, part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant's claims. Pegasus, earned \$0.5 million and \$2.3 million in interest and fees during the three months ended December 31, 2017 and 2016, respectively. The Company had a net invested balance in personal injury claims of \$51.4 million and \$50.5 million on December 31, 2017 and September 30, 2017, respectively.

Equity method investments as of December 31, 2017 and September 30, 2017 are as follows:

	December 31, 2017			September 30, 2017		
	Carrying	Ownership		Carrying	Ownership	
	Value	Percentage		Value	Percentage	
Pegasus Funding, LLC	\$51,433,000	80	%	\$50,474,000	80	%

The carrying value of the Company's equity investment at December 31, 2017 was \$51,433,000, an increase of \$959,000 over the prior year's carrying value of \$50,474,000. The increase in carrying value was attributed to equity earnings of \$352,000 for the three months ended December 31, 2017, and additional investments of \$607,000 for the three months ended December 31, 2017.

The carrying value of the Company's equity investment at September 30, 2017 was \$50,474,000, an increase of \$1,892,000 over the prior year's carrying value of \$48,582,000. The increase in carrying value was attributed to current year equity earnings of \$4,619,000, less net distributions of \$2,727,000 during fiscal 2017.

On November 8, 2016, the Company entered into a binding Term Sheet (the "Term Sheet") with ASFI Pegasus Holdings, LLC, Fund Pegasus, LLC, Pegasus Funding, LLC, Pegasus Legal Funding, LLC, Max Alperovich and Alexander Khanas. The Company and PLF decided not to renew the Pegasus joint venture that, by its terms, was scheduled to terminate on December 28, 2016. The Term Sheet amended certain provisions to Pegasus' operating agreement dated as of December 28, 2011 (as amended, the "Operating Agreement") and governed the terms relating to the collection of its existing Pegasus portfolio (the "Portfolio").



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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 4—Litigation Funding** *(Continued)*

Pursuant to the Term Sheet, the parties thereto have agreed that Pegasus would continue in existence in order to collect advances on its existing Portfolio. The Company would fund overhead expenses relating to the collection of its Portfolio based on a budget agreed upon by the Company and PLF. Any cash received by Pegasus would be distributed to its members in the order provided for in the Operating Agreement. The Company would be repaid an amount equal to 20% of all principal collected on each investment paid back beginning October 1, 2016 and continuing through the collection of the Portfolio, which would be applied against the outstanding balance of overhead expenses previously advanced by the Company to Pegasus. After January 2, 2017, additional overhead expenses advanced would be paid back monthly as incurred by the Company prior to the calculation and distribution of any profits.

In connection with the Term Sheet, the parties thereto also entered into a customary mutual release and non-disparagement agreement as well as a release from the non-competition obligations under the Operating Agreement. See Note 19 - Subsequent Events.

The Company filed for arbitration with the American Arbitration Association ("AAA") against Pegasus in April 2017 for breaches in the Operating and Term Sheet. On April 18, 2017, the Company was granted an Emergent Award restraining the cash in Pegasus, until a formal arbitration panel was confirmed and could review the case. As of December 31, 2017 there was approximately \$37.8 million in cash that was restrained under the Emergent Award.

On July 17, 2017, an arbitration panel was confirmed, and a hearing date was scheduled for August 25, 2017 on the Company's motion to have PLF removed from managing Pegasus and replacing them with Company designated representatives, and to permit disbursements to the Company in accordance with the Operating and Liquidation Agreements.

On January 12, 2018, the Company, ASFI and Fund Pegasus entered into a Settlement Agreement and Release (the "Settlement Agreement") by and among the Company, ASFI, Fund Pegasus, Pegasus, the Seller, Max Alperovich, Alexander Khanas, Larry Stoddard, III, Louis Piccolo and A.L. Piccolo & Co., Inc., a New York corporation. The Settlement Agreement releases certain claims in exchange for, among other things, the parties' entry into the Purchase Agreement.

Additionally, on January 12, 2018, ASFI Pegasus Holdings, LLC (“ASFI”), a Delaware limited liability company and a subsidiary of Asta Funding, Inc. (the “Company” or “Asta”), a Delaware corporation, entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with Pegasus Legal Funding, LLC, a Delaware limited liability company (the “Seller”). Under the Purchase Agreement, ASFI bought the Seller’s ownership interests of Pegasus Funding, LLC (“Pegasus”), which was 20% of the issued and outstanding limited liability company interests of Pegasus, for an aggregate purchase price of \$1.8 million. As a result of the execution of the Purchase Agreement, ASFI became the owner of 100% of the limited liability company interests of Pegasus.

As a result of the purchase of the Seller’s 20% interest in Pegasus on January 12, 2018 under the Purchase Agreement, beginning with the quarter ended March 31, 2018, the Company will consolidate the financial statements of Pegasus. The Company currently accounts for its investment in Pegasus under the equity method of accounting.

The results of operations and financial position of the Company’s equity investment in Pegasus are summarized below:

	<b>Condensed Statement of Operations Information Three months ended December December 31, 2017 31, 2016</b>	
Personal injury claims income	\$499,000	\$2,302,000
Operating expenses	59,000	1,797,000
Income from operations	\$440,000	\$505,000

Company’s equity income from operations	\$352,000	\$404,000
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	<b>Condensed Balance Sheet Information December September 31, 2017 30, 2017</b>	
Cash	\$37,942,000 <sup>(1)</sup>	\$35,631,000 <sup>(1)</sup>
Investment in personal injury claims	14,427,000	16,855,000
Other assets	3,000	109,000
Total Assets	\$52,372,000	\$52,595,000
Due to Asta	\$32,284,000	\$31,677,000
Other liabilities	682,000	1,952,000
Equity	19,406,000	18,966,000
Total Liabilities and Equity	\$52,372,000	\$52,595,000

(1) Included in cash is \$37.8 million and \$35.4 million in restricted cash as of December 31, 2017 and September 30, 2017 respectively. The restriction was put in place during the Company's arbitration with PLF.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 4—Litigation Funding** *(Continued)*

***Simia***

On November 11, 2016, the Company formed Simia, a wholly owned subsidiary, to continue its personal injury claims funding business. Simia commenced operation in January 2017, and conducts its business solely in the United States. As of December 31, 2017, Simia had a personal injury claims portfolio of \$3.1 million, and recognized revenue for the three months then ended of \$0.1 million.

***Matrimonial Claims (included in Other Assets)***

On May 8, 2012, EMIRIC entered into a joint venture with California-based Balance Point Divorce Funding, LLC (“BP Divorce Funding”) to create the operating subsidiary BP Case Management, LLC (“BPCM”). BPCM is 60% owned by the Company and 40% owned by BP Divorce Funding. BPCM provides non-recourse funding to a spouse in a matrimonial action. In 2012, the Company provided a \$1.0 million revolving line of credit to partially fund BPCM’s operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. In September 2014, the agreement was revised to extend the term of the loan to August 2017, increase the credit line to \$1.5 million and include a personal guarantee of the principal of BP Divorce Funding. Effective August 14, 2016, the Company extended its revolving line of credit with BP Divorce Funding until March 31, 2017, at substantially the same terms as the September 2014 amendment. On April 1, 2017, BP Divorce Funding defaulted on this agreement, and as such, the loan balance of approximately \$1.5 million was deemed uncollectible and was written off to general and administrative expenses on the consolidated statement of operations during the year ended September 30, 2017.

As of December 31, 2017, BPCM had fully reserved against its invested amount of approximately \$2.5 million. There was no income recognized in the three months ended December 31, 2017 and 2016.

**Note 5—Furniture & Equipment**

Furniture and equipment consist of the following:

	<b>December 31,</b>	<b>September 30,</b>
	<b>2017</b>	<b>2017</b>
Furniture	\$273,000	\$273,000
Equipment	241,000	241,000
Software	1,369,000	1,369,000
	1,883,000	1,883,000
Less accumulated depreciation and amortization	1,777,000	1,759,000
Balance, end of period	\$106,000	\$124,000

Depreciation expense for the three months ended December 31, 2017 and 2016, was \$18,000 and \$26,000 respectively.

#### **Note 6—Non Recourse Debt**

##### ***Non-Recourse Debt –Bank of Montreal (“BMO”)***

In March 2007, Palisades XVI borrowed approximately \$227 million under the Receivables Financing Agreement, as amended in July 2007, December 2007, May 2008, February 2009, October 2010 and August 2013 (the “RFA”) from BMO, in order to finance the Portfolio Purchase which had a purchase price of \$300 million. The original term of the agreement was three years. This term was extended by each of the Second, Third, Fourth and Fifth Amendments and the most recent agreement signed in August 2013.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 6—Non Recourse Debt** *(continued)*

On August 7, 2013, Palisades XVI, a 100% owned bankruptcy remote subsidiary, entered into a Settlement Agreement and Omnibus Amendment (the “Settlement Agreement”) with BMO as an amendment to the RFA. In consideration for a \$15 million prepayment funded by the Company, BMO agreed to significantly reduce minimum monthly collection requirements and the interest rate. If and when BMO receives the next \$15 million of collections from the Portfolio Purchase or from voluntary prepayments by Asta Funding, Inc., less certain credits for payments made prior to the consummation of the Settlement Agreement (the “Remaining Amount”), Palisades XVI and its affiliates would be automatically released from liability in connection with the RFA (subject to customary exceptions). A condition to the release was Palisade XVI’s agreement to grant BMO, as of the time of the payment of the Remaining Amount, the right to receive 30% of net collections from the Portfolio Purchase once Palisades XVI has received from future net collections, the sum of \$15 million plus voluntary prepayments included in the payment of the Remaining Amount (the “Income Interest”). On June 3, 2014, Palisades XVI paid the Remaining Amount. The final principal payment of \$2.9 million included a voluntary prepayment of \$1.9 million provided from funds of the Company. Accordingly, Palisades XVI was entitled to receive \$16.9 million of future collections from the Portfolio Purchase before BMO would be entitled to receive any payments with respect to its Income Interest.

During the month of June, 2016, the Company received the balance of the \$16.9 million, and, as of December 31, 2017 and September 30, 2017, the Company recorded a liability to BMO of approximately \$127,000 and \$148,000, respectively, which has been recorded in other liabilities in the Company’s consolidated balance sheet. The funds outstanding at December 31, 2017 were subsequently remitted to BMO on January 10, 2018. The liability to BMO is recorded when actual collections are received.

***Bank Hapoalim B.M. (“Bank Hapoalim”) Line of Credit***

On May 2, 2014, the Company obtained a \$20 million line of credit facility from Bank Hapoalim, pursuant to a Loan Agreement (the “Loan Agreement”) among the Company and its subsidiary, Palisades Collection, LLC, as borrowers (the “Borrowers”), and Bank Hapoalim, as agent and lender. The Loan Agreement provides for a \$20.0 million committed line of credit and an accordion feature providing an increase in the line of credit of up to \$30 million, at the discretion of the lenders. The facility was for a term of three years at an interest rate of either LIBOR plus 275 basis points or prime, at the Company’s option. The Loan Agreement included covenants that require the Company to maintain a minimum net worth of \$150 million and pay an unused line fee. The facility was secured pursuant to a Security Agreement among the parties to the Loan Agreement, with property of the Borrowers serving as collateral. On March 30, 2016, the Company signed the First Amendment to the Loan Agreement (the “First Amendment”) with



Bank Hapoalim which amended certain terms of their banking arrangement. The First Amendment included (a) the reduction of the interest rate to LIBOR plus 225 basis points; (b) a decrease in the minimum net worth requirement by \$50 million, to \$100 million and (c) modifies the No Net Loss requirement from a quarterly to an annual basis. All other terms of the original agreement remain in effect. The Company borrowed \$9.6 million in February 2017 against this facility. There was a \$10 million aggregate balance on deposit at Bank Hapoalim, which served as collateral for the line of credit. On April 28, 2017, the Company renewed the line of credit facility with the new maturity date of August 2, 2017, under the existing terms and conditions. On August 2, 2017, the \$9.6 million line of credit expired and the Company satisfied the debt with cash that was held in deposit as collateral with the bank. As of December 31, 2017 and September 30, 2017, there were no outstanding balances on this facility.

#### **Note 7—Discontinued Operations**

On December 31, 2013, the Company acquired 80% ownership of CBC and its affiliate, CBC Management Services, LLC for approximately \$5.9 million.

On December 31, 2015, the Company acquired the remaining 20% ownership of CBC for \$1,800,000, through the issuance of restricted stock valued at approximately \$1,000,000 and \$800,000 in cash. Each of the two original principals received 61,652 shares of restricted stock at a fair market value of \$7.95 per share and \$400,000 in cash. An aggregate of 123,304 shares of restricted stock were issued as part of the transaction.

On January 1, 2016, the Company renewed the expiring two-year employment agreements of the two CBC principals for one year terms. The employment contracts of the original two principals expired at the end of December 2016. The Company did not renew those contracts. Ryan Silverman was appointed CEO/General Counsel effective January 1, 2017.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 7—Discontinued Operations** *(Continued)*

During November 2017, a competitor of CBC alleged that CBC had unlawfully purchased certain of the competitor's trade secrets and customer lists from intermediaries who allegedly arranged and/or paid for said materials from the competitor. CBC denied any wrongdoing and disclaimed liability. The parties settled the matter for a payment of \$0.5 million on or about November 22, 2017, in exchange for a complete release.

On December 13, 2017, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with CBC Holdings LLC, a Delaware limited liability company (the “Buyer”). Under the Purchase Agreement, the Company sold all of the issued and outstanding equity capital of CBC for an aggregate purchase price of approximately \$10.3 million. Of the aggregate purchase price, approximately \$4.5 million was paid in cash, and \$5.8 million was paid under a promissory note at an annual interest rate of 7% to be paid quarterly to the Company and secured by a first priority security interest in and lien on such Buyer’s affiliates’ rights to certain servicing fees. The remaining amount of the aggregate purchase price was paid as reimbursement of certain invoices of CBC. The Company recognized a loss of approximately \$2.4 million on the above sale of CBC as of September 30, 2017.

As a result of the sale of CBC all prior periods presented in the Company's consolidated financial statements will account for CBC as a discontinued operation. This determination resulted in the reclassification of the assets and liabilities comprising the structured settlement business to assets related to discontinued operations in the consolidated balance sheets, and a corresponding adjustment to our consolidated statements of operations to reflect discontinued operations for all periods presented.

As of December 31, 2017, the components of the Company designated as discontinued operations had no assets or liabilities. As of September 30, 2017, the components of the Company designated as discontinued operations had assets and liabilities of \$92.2 million and \$81.8 million respectively. For the three months ended December 31, 2017 and 2016, the Company designated as discontinued operations reported a income (loss), net of income tax benefit of \$44,000 and \$928,000, respectively, and (\$0.1) million and (\$1.3) million, respectively.

The major components of assets and liabilities related to discontinued operations are summarized below:

	<b>December 31, 2017</b>	<b>September 30, 2017</b>	
Cash and cash equivalents	\$ —	\$ 1,617,000	(1)
Restricted cash	—	499,000	
Structured settlements	—	86,971,000	
Furniture and equipment, net	—	34,000	
Other assets	—	3,114,000	
Total assets related to discontinued operations	\$ —	\$ 92,235,000	
Other debt - CBC	—	78,935,000	
Other liabilities	—	2,816,000	
Total liabilities related to discontinued operations	\$ —	\$ 81,751,000	

(1) Cash balance with one bank at September 30, 2017 that exceeded the balance insured by the FDIC by approximately \$0.5 million.

The following table presents the operating results, for the three months ended December 31, 2017 and 2016, for the components of the Company designated as discontinued operations:

	<b>Three months ended December 31, 2017</b>	<b>December 31, 2016</b>
Revenues:		
Unrealized gain (loss) on structured settlements	\$244,000	\$(1,682,000)
Interest income on structured settlements	2,005,000	1,901,000
Total revenues	2,249,000	219,000
Other income	11,000	15,000
	2,260,000	234,000
Expenses:		
General and administrative expenses	1,560,000	1,488,000
Interest expense	824,000	932,000
	2,384,000	2,420,000
Loss from discontinued operations before income tax	(124,000 )	(2,186,000)
Income tax benefit from discontinuing operations	(44,000 )	(928,000 )
Loss from discontinued operations, net of income tax	\$(80,000 )	\$(1,258,000)



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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 7—Discontinued Operations** *(Continued)*

Prior to its sale, we, through CBC purchased periodic payments under structured settlements and annuity policies from individuals in exchange for a lump sum payment. The Company elected to carry the structured settlements at fair value. Unearned income on structured settlements is recognized as interest income using the effective interest method over the life of the related structured settlement. Changes in fair value are recorded in unrealized gain (loss) on structured settlements in the Company's statements of operations. Unrealized gains on structured settlements is comprised of both unrealized gains resulting from fair market valuation at the date of acquisition of the structured settlements and the subsequent fair value adjustments resulting from the change in the discount rate. Of the \$0.2 million of unrealized gains recognized for the three months ended December 31, 2017, approximately \$0.2 million is due to day one gains on new structured settlements financed during the period. There were no other changes in assumptions during the period. Of the \$1.7 million of unrealized losses recognized in the three months ended December 31, 2016 approximately \$2.1 million was due to day one gains on new structured settlements financed during the period, offset by a decrease of \$0.5 million in realized gains recognized as realized interest income on structured settlements, and a reduction in fair value of \$3.3 million during the period.

We elected the fair value treatment under ASC 825-10-50-28 through 50-32 to be transparent to the user regarding the underlying fair value of the structured settlement which collateralizes the debt of CBC. The Company believes any change in fair value is driven by market risk as opposed to credit risk associated with the underlying structured settlement annuity issuer.

The purchased personal injury structured settlements result in payments over time through an annuity policy. Most of the annuities acquired involve guaranteed payments with specific defined ending dates. CBC also purchases a small number of life contingent annuity payments with specific ending dates but the actual payments to be received could be less due to the mortality risk associated with the measuring life. CBC records a provision for loss each period. The life contingent annuities were not a material portion of assets at September 30, 2017.

CBC purchased structured settlement and annuity policies through privately negotiated direct consumer purchases and brokered transactions across the United States. CBC funds the purchases primarily from cash, its revolving line of credit, and its securitized debt, issued through its Blue Bell Receivables ("BBR") subsidiaries.

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On April 7, 2017, CBC, through its subsidiary BBRVII, LLC, issued approximately \$18.3 million of fixed rate asset backed notes with a yield of 5.0% and a stated maturity date of January 15, 2069.

On April 28, 2017, CBC entered into an Assignment Agreement (the “Assignment Agreement”) by and among CBC and an unrelated third party (“Assignee”). The Assignment Agreement provided for the sale of a portion of the Company’s life contingent asset portfolio included in the Company’s structured settlements to the Assignee for a purchase price of \$7.7 million. The Company realized a loss from the sale of \$5.4 million during the year ended September 30, 2017.

On April 28, 2017, CBC entered into the Tenth Amendment, extending the line of credit to June 30, 2017. Other terms and conditions of the Ninth Amendment, in effect as of March 31, 2017, remains unchanged.

Structured settlements consist of the following as of December 31, 2017 and September 30, 2017:

	<b>December 31 , 2017</b>	<b>September 30, 2017</b>
Maturity (1) (2)	\$	— \$ 139,107,000
Unearned income		— (52,136,000 )
Structured settlements, net	\$	— \$ 86,971,000

(1) The maturity value represents the aggregate unpaid principal balance September 30, 2017.

(2) There is approximately \$0.3 million of structured settlements that are past due, or in non-accrual status at September 30, 2017.

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 7—Discontinued Operations** *(Continued)*

Encumbrances on structured settlements as of December 31, 2017 and September 30, 2017 are as follows:

	<b>Interest Rate</b>	<b>December 31 , 2017</b>	<b>September 30, 2017</b>
Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025	8.75 %	\$ —	\$ 1,607,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026	7.25 %	—	3,612,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032	7.125 %	—	3,891,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2037	5.39 %	—	17,390,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until March 2034	5.07 %	—	13,389,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2043	4.85 %	—	13,001,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until January 2069	5.00 %	—	17,456,000
\$25,000,000 revolving line of credit	4.25 %	—	8,589,000
Encumbered structured settlements			— 78,935,000
Structured settlements not encumbered			— 8,036,000
Total structured settlements		\$ —	\$ 86,971,000

The Company assumed \$25.9 million of debt related to the CBC acquisition on December 31, 2013, including a \$12.5 million line of credit with an interest rate floor of 5.5%. Between March 27, 2014 and September 29, 2014, CBC entered into three amendments (Sixth Amendment through Eighth Amendment), resulting in the line of credit increasing to \$22.0 million and the interest rate floor reduced to 4.75%. On March 11, 2015, CBC entered into the Ninth Amendment. This amendment, effective March 1, 2015, extended the maturity date on its credit line from February 28, 2015 to March 1, 2017. Additionally, the credit line was increased from \$22.0 million to \$25.0 million and the interest rate floor was decreased from 4.75% to 4.1%. Other terms and conditions were materially unchanged. In March 2017, the credit line was extended to April 28, 2017. On April 28, 2017, CBC entered into the Tenth Amendment, extending the credit line maturity date to June 30, 2017. On July 27, 2017 CBC entered into the Eleventh

Amendment, extending the credit line maturity date to June 30, 2019.

On November 26, 2014, CBC completed its fourth private placement, backed by structured settlement and fixed annuity payments. CBC issued, through its subsidiary, BBR IV, LLC, approximately \$21.8 million of fixed rate asset-backed notes with a yield of 5.4%. On September 25, 2015, CBC completed its fifth private placement, backed by structured settlement and fixed annuity payments. CBC issued, through its subsidiary, BBR V, LLC, approximately \$16.6 million of fixed rate asset-backed notes with a yield of 5.1%. On July 8, 2016, CBC issued, through its subsidiary, BBR VI, approximately \$14.8 million of fixed rate asset-backed notes with a yield of 4.85%. On April 7, 2017, CBC completed its seventh private placement, through its subsidiary, BBR VII, and issued approximately \$18.3 million of fixed rate asset-backed notes with a yield of 5.0%.

As of September 30, 2017, the remaining debt amounted to \$78.9 million, which consisted of \$8.6 million drawdown from a line of credit from an institutional source and \$70.3 million notes issued by entities 100%-owned and consolidated by CBC. These entities are bankruptcy-remote entities created to issue notes secured by structured settlements. During December 2017, the other debt associated with CBC was sold along with CBC's other assets and liabilities.



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 8 —Note Receivable**

Pursuant to Purchase Agreement, dated as of December 13, 2017, between the Purchaser and CBC, CBC sold to the Purchaser all of the issued and outstanding equity capital of CBC for \$10.3 million. In conjunction with this sale the Company received \$4.5 million in cash, and a Promissory Note (the “Note”) for \$5.8 million from the Purchaser. The Note bears interest at 7% per annum, payable in quarterly installments of principle and interest through December 13, 2020, and is secured pursuant to a Service Agreement (the “Service Agreement”) with an affiliate of the Purchaser. Under the Service Agreement the Company has a first priority security interest and lien on all servicing fees received by the affiliate. As of December 31, 2017 the Purchaser is current on all its obligations under the Note, and the principle amount outstanding on this Note is \$5.3 million. As of December 31, 2017, the Company had received the payment due on this note prior to its due date of March 13, 2018. Accordingly, the Company recorded a liability of \$80,000 in its consolidated balance sheet as of December 31, 2017, which represented prepaid interest on this Note. See Note 7 - Discontinued Operations.

**Note 9 — Other Liabilities**

Other liabilities as of December 31, 2017 and September 30, 2017 are as follows:

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Accounts payable and accrued expenses	\$1,146,000	\$1,835,000
Lawsuit reserve (see Note 10 – Commitments and Contingencies – <i>Legal Matters</i> )	2,345,000	3,145,000
Total other liabilities	\$3,491,000	\$4,980,000

**Note 10—Commitments and Contingencies**

### ***Employment Agreements***

The employment contracts of the original two CBC principals expired at the end of December 2016. The Company did not renew those contracts. Ryan Silverman was appointed CEO/General Counsel, effective January 1, 2017. The Company is no longer contractually obligated on any CBC employment agreements, as they were sold with the entity.

Effective November 11, 2016, the Company entered into a five year employment agreement with Mr. Preece that could be terminated with or without “cause” (as defined in the Employment Agreement) and could resign with or without “good reason” (as defined in the Employment Agreement). If Mr. Preece was terminated without “cause” or resigned for “good reason” he would have received severance equal to two years of his base salary.

As of July 17, 2017, Mr. Preece was no longer employed as Chief Executive Officer of Simia. On an interim basis Gary Stern, Chairman, Chief Executive Officer and President of the Company, assumed the responsibilities of Simia’s Chief Executive Officer. No amounts were paid for any severance or bonus under his contract.

### ***Leases***

The Company leases its facilities in Englewood Cliffs, NJ, Houston, TX, and Louisville, KY. The Conshohocken, PA leased facility was transferred to the buyer of CBC in December 2017, and the Company was released of all future obligations under the lease.

### ***Legal Matters***

In June 2015, a putative class action complaint was filed against the Company, and one of its third-party law firm servicers, alleging violation of the federal Fair Debt Collection Practices Act and Racketeer Influenced and Corrupt Organizations Act (“RICO”) and state law arising from debt collection activities and default judgments obtained against certain debtors.

The Company filed a motion to strike the class action allegations and compel arbitration or, to the extent the court declines to order arbitration, to dismiss the RICO claims. On or about March 31, 2015, the court denied the Company’s motion. The Company filed an appeal with the United States Court of Appeals for the Second Circuit. A mediation session was held in July 2015, at which the Company agreed to settle the action on an individual basis for a payment of \$13,000 to each named plaintiff, for a total payment of \$39,000. Payment was made on or about July 24, 2015. The

third-party law firm servicer has not yet settled and remains a defendant in the case.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 10—Commitments and Contingencies** *(continued)*

The plaintiffs' attorneys advised that they were contemplating the filing of another putative class action complaint against the Company alleging substantially the same claims as those that were asserted in this matter. In anticipation of such an eventuality, the Company agreed to non-binding mediation in order to reach a global settlement with other putative class members, which would avert the possibility of further individual or class actions with respect to the affected accounts. To date, the parties have attended two mediation sessions and are continuing to discuss a global settlement. In connection with such discussions, the parties agreed in principle to settle the action for a payment of \$3.9 million (which would be split equally between the Company and the law firm servicer). The Company and law firm servicer have also agreed to cease collection activity on the affected accounts. Accordingly, the Company set up a reserve for settlement costs of \$2.0 million during the three months ended March 31, 2016, which was included in general and administrative expenses in the Company's consolidated statement of operations.

The Company reassessed the situation at September 30, 2016 and deemed that an additional \$0.3 million was necessary to account for legal expenses, which was made during the year ended September 30, 2016. The Company reviewed the case as of December 31, 2017 and deemed that the \$2.3 million reserve remained sufficient. See Note 19 - Subsequent Events.

The Company is a defendant in a lawsuit filed in Montana state court alleging fraud and abuse of process arising from the Company's business relationship with an entity that finances divorce litigation proceedings. On November 24, 2017, the Company paid \$0.8 million as a settlement in conjunction with the lawsuit filed against the Company in Montana state court alleging, fraud and abuse of process arising from the Company's business relationship with an entity that finances divorce proceedings.

The Company filed a lawsuit in Delaware state court against a third party servicer arising from the third party servicer's failure to pay the Company certain amounts that are due the Company under a servicing agreement. The third party servicer filed a counterclaim in the Delaware action alleging that the Company owes certain amounts to the third party servicer for court costs pursuant to an alleged arrangement between the companies. The Company believes that it has meritorious defenses against this counterclaim and will continue to vigorously defend itself against any such action. See Note 19 - Subsequent Events.

In the ordinary course of our business, we are involved in numerous legal proceedings. We regularly initiate collection lawsuits, using our network of third party law firms, against consumers. Also, consumers occasionally initiate litigation against us, in which they allege that we have violated a federal or state law in the process of collecting their account. We do not believe that these ordinary course matters are material to our business and financial condition. We are not involved in any other material litigation in which we are a defendant.

#### **Note 11—Income Taxes**

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. The estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The Company's effective tax rate from operations for the three months ended December 31, 2017 was 35.4%, compared to 70.3% in the same period of the prior year. The effective rate for fiscal 2017 was comparable to the U.S. federal statutory rate of 35%. The effective rate for fiscal 2017 differed from the U.S. federal statutory rate of 35% primarily due to state income taxes and other permanent differences.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. Among other provisions, the Act reduces the Federal statutory corporate income tax rate from 35% to 21%. Given the tax rate reduction, the Company remeasured its U.S. federal and state deferred tax assets and liabilities which resulted in decreasing the Company's net deferred tax assets by approximately \$3.5 million. This adjustment is recorded as a one-time charge to income taxes for the three months ended December 31, 2017.

The Company files income tax returns in the U.S federal jurisdiction, various state jurisdictions, and various foreign countries. The Company does not have any uncertain tax positions. The Company's federal returns for the year September 30, 2014 and 2015 are currently being audited by the Internal Revenue Service. The tax returns for fiscal year 2016 are subject to examination. The Company does not have any uncertain tax positions.

#### **Note 12—Net Loss per Share**

Basic per share data is calculated by dividing net (loss) income by the weighted average shares outstanding during the period. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed exercise of securities, including the effect of shares issuable under the Company's stock based compensation plans. With respect to the assumed proceeds from the exercise of dilutive options, the treasury stock method is calculated using the average market price for the period.



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 12—Net (loss) Income per Share (Continued)**

The following table presents the computation of basic and diluted per share data for the three months ended December 31, 2017 and 2016:

	<b>For the Three Months Ended December 31, 2017</b>	<b>For the Three Months Ended December 31, 2016</b>
Loss from continuing operations	\$ (2,589,000)	\$ (1,688,000 )
Loss from discontinued operations	(80,000 )	(1,258,000 )
Net loss	\$ (2,669,000)	\$ (2,946,000 )
Basic loss per common share from continuing operations	\$ (0.39 )	\$ (0.14 )
Basic loss per common share from discontinued operations	(0.01 )	(0.11 )
Basic loss per share	\$ (0.40 )	\$ (0.25 )
Diluted loss per common share from continuing operations	\$ (0.39 )	\$ (0.14 )
Diluted loss per common share from discontinuing operations	(0.01 )	(0.11 )
Diluted loss per share	\$ (0.40 )	\$ (0.25 )
Weighted average number of common shares outstanding:		
Basic	6,623,815	11,876,224
Dilutive effect of stock options	—	—
Diluted	6,623,815	11,876,224

**Note 13—Stock Option Plans**

***2012 Stock Option and Performance Award Plan***

On February 7, 2012, the Board adopted the Company's 2012 Stock Option and Performance Award Plan (the "2012 Plan"), which was approved by the stockholders of the Company on March 21, 2012. The 2012 Plan replaced the Equity Compensation Plan (as defined below).

The 2012 Plan provides the Company with flexibility with respect to equity awards by providing for grants of stock awards (i.e. restricted or unrestricted), stock purchase rights and stock appreciation rights, in addition to the granting of stock options.

The Company authorized 2,000,000 shares of Common Stock for issuance under the 2012 Plan. Under the 2012 Plan, the Company has granted options to purchase an aggregate of 540,800 shares, an award of 245,625 shares of restricted stock, and has cancelled 80,268 options, leaving 1,293,843 shares available as of December 31, 2017. At December 31, 2017, 87 of the Company's employees were able to participate in the 2012 Plan.



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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 13—Stock Option Plans** *(Continued)*

***Equity Compensation Plan***

On December 1, 2005, the Board adopted the Company's Equity Compensation Plan (the "Equity Compensation Plan"), which was approved by the stockholders of the Company on March 1, 2006. The Equity Compensation Plan was adopted to supplement the Company's 2002 Stock Option Plan (as defined below).

In addition to permitting the grant of stock options as are permitted under the 2002 Stock Option Plan, the Equity Compensation Plan allowed the Company flexibility with respect to equity awards by also providing for grants of stock awards (i.e. restricted or unrestricted), stock purchase rights and stock appreciation rights.

The Company authorized 1,000,000 shares of Common Stock for issuance under the Equity Compensation Plan. As of March 21, 2012, no more awards could be issued under this plan.

***2002 Stock Option Plan***

On March 5, 2002, the Board adopted the Company's 2002 Stock Option Plan (the "2002 Plan"), which was approved by the stockholders of the Company on May 1, 2002. The 2002 Plan was adopted in order to attract and retain qualified directors, officers and employees of, and consultants to, the Company.

The 2002 Plan authorized the granting of incentive stock options (as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")) and non-qualified stock options to eligible employees of the Company, including officers and directors of the Company (whether or not employees) and consultants of the Company.

The Company authorized 1,000,000 shares of Common Stock authorized for issuance under the 2002 Plan. As of March 5, 2012, no more awards could be issued under this plan.

### ***Stock Based Compensation***

The Company accounts for stock-based employee compensation under ASC 718, Compensation — Stock Compensation (“ASC 718”). ASC 718 requires that compensation expense associated with stock options and other stock based awards be recognized in the consolidated statement of operations, rather than a disclosure in the notes to the Company’s consolidated financial statements.

On June 8, 2017, the Compensation Committee granted 56,600 stock options, with a grant date fair value of \$6.55 to an officer and employees of the Company, of which 10,000 options vested immediately, 10,000 options vest on January 1, 2018, 10,000 options vest on January 1, 2019 and the remaining 26,600 stock options vest in three equal annual installments and accounted for as one graded vesting award. The exercise price of these options was at the market price on that date. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	1.86 %
Expected term (years)	5.97
Expected volatility	26.27 %
Forfeiture rate	3.49 %
Dividend yield	0.00 %

### **Summary of the Plans**

Compensation expense for stock options and restricted stock is recognized over the vesting period. Compensation expense for restricted stock is based upon the market price of the shares underlying the awards on the grant date.

The following table summarizes stock option transactions under the 2012 Plan, the 2002 Plan, and the Equity Compensation Plan (the “Plans”):

<b>Three Months Ended December 31 ,</b>			
<b>2017</b>		<b>2016</b>	
<b>Number Of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>

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Outstanding options at the beginning of period	880,567	\$ 8.05	949,667	\$ 8.47
Options forfeited/cancelled	(500 )	8.02	(52,500 )	14.16
Outstanding options at the end of period	880,067	\$ 8.05	897,167	\$ 8.14
Exercisable options at the end of period	861,560	\$ 8.05	844,829	\$ 8.15

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The following table summarizes information about the Plans outstanding options as of December 31, 2017:

<b>Range of Exercise Price</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number of Shares Outstanding</b>	<b>Weighted Remaining Contractual Life (in Years)</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Shares Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$2.8751-\$5.7500	3,800	1.3	\$ 2.95	3,800	\$ 2.95
\$5.7501-\$8.6250	759,267	4.7	7.87	740,760	7.86
\$8.6251-\$11.5000	117,000	5.1	9.39	117,000	9.39
	880,067	4.8	\$ 8.05	861,560	\$ 8.05

The Company recognized \$79,000 and (\$6,000) of compensation (benefit) expense related to the stock option grants during the three month periods ended December 31, 2017 and 2016, respectively. As of December 31, 2017, there was \$33,000 of unrecognized compensation cost related to stock option awards. The weighted average period over which such costs are expected to be recognized is 1.0 years.

The intrinsic value of the outstanding and exercisable options as of December 31, 2017 was approximately \$75,000 and \$75,000, respectively. The weighted average remaining contractual life of exercisable options is 4.7 years. There were no options exercised during the three month periods ended December 31, 2017 and 2016. The fair value of the stock options that vested during the three month periods ended December 31, 2017 and 2016 was approximately \$488,000 and \$657,000, respectively. There were no options granted during the three months ended December 31, 2017 and 2016.

**Note 14—Stockholders' Equity**

Dividends are declared at the discretion of the Board and depend upon the Company's financial condition, operating results, capital requirements and other factors that the Board deems relevant. In addition, agreements with the Company's lenders may, from time to time, restrict the ability to pay dividends. As of December 31, 2017, there were no such restrictions. No dividends were declared during the three months ended December 31, 2017 and 2016. See Note 19 - Subsequent Events.

#### *Stockholder Rights Agreement*

On May 5, 2017, the Board of the Company adopted a stockholder rights plan (the "Rights Agreement"), pursuant to which the Company declared a dividend of one right (a "Right") for each of the Company's issued and outstanding shares of common stock. The dividend was declared to the stockholders of record at the close of business on May 15, 2017. Each Right entitles the holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-thousandth of a share of the Company's Series A Junior Participating Preferred Stock (the "Preferred Stock") at a price of \$28.60, subject to certain adjustments.

The Rights generally become exercisable on the earlier of (i) ten business days after any person or group obtains beneficial ownership of 10% or more of the Company's outstanding common stock (an "Acquiring Person"), or (ii) ten business days after commencement of a tender or exchange offer resulting in any person or group becoming an Acquiring Person.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

The exercise price payable and the number of shares of Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution. In the event that, after a person or a group has become an Acquiring Person, the Company is acquired in a merger or other business combination transaction (or 50% or more of the Company's assets or earning power are sold), proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon the exercise thereof at the then-current exercise price of the Right, that number of shares of common stock of the acquiring company having a market value at the time of that transaction equal to two times the exercise price. The Company may redeem the Rights at any time before a person or group becomes an Acquiring Person at a price of \$0.01 per Right, subject to adjustment. At any time after any person or group becomes an Acquiring Person, the Company may generally exchange each Right in whole or in part at an exchange ratio of one shares of common stock per outstanding Right, subject to adjustment.

Unless terminated on an earlier date pursuant to the terms of the Rights Agreement, the Rights will expire on June 1, 2018, or such later date as may be established by the Board as long as any such extension is approved by a vote of the stockholders of the Company by June 1, 2018. The Company concluded any value associated with the Right given to shareholders as a dividend is deemed de minimus.

The Rights and Rights Agreement expired on June 1, 2018.

**Note 15—Fair Value of Financial Measurements and Disclosures**

***Fair Value of Financial Instruments***

The estimated fair value of the Company's financial instruments is summarized as follows:

December 31, 2017		September 30, 2017	
Carrying	Fair	Carrying	Fair
Amount	Value	Amount	Value

Financial assets

Cash equivalents (Level 1)	\$1,000	\$1,000	\$68,000	\$68,000
Available-for-sale investments (Level 1)	5,577,000	5,577,000	5,511,000	5,511,000
Consumer receivables acquired for liquidation (Level 3)	6,010,000	29,694,000	6,841,000	32,603,000

The following assets were reclassified to discontinued operations as of September 30, 2017.

**September 30, 2017**

**Carrying      Fair  
Amount      Value**

Financial asset

Structured settlements (Level 3)	\$86,971,000	\$86,971,000
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Disclosure of the estimated fair values of financial instruments often requires the use of estimates. The Company uses the following methods and assumptions to estimate the fair value of financial instruments:

Cash equivalents – The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value.

Available-for-sale investments – The available-for-sale securities consist of mutual funds that are valued based on quoted prices in active markets.

The Company's available-for-sale investments are classified as Level 1 financial instruments based on the classifications described above. The Company did not have any transfers into (out of) Level 1 investments during the three months ended December 31, 2017. The Company had no Level 2 or Level 3 available-for-sale investments during the three months ended December 31, 2017.

Consumer receivables acquired for liquidation – The Company computed the fair value of the consumer receivables acquired for liquidation using its proprietary forecasting model. The Company's forecasting model utilizes a discounted cash flow analysis. The Company's cash flows are an estimate of collections for consumer receivables based on variables fully described in Note 3 - Consumer Receivables Acquired for Liquidation. These cash flows are discounted to determine the fair value.

Structured settlements – The Company determined the fair value based on the discounted forecasted future collections of the structured settlements. Unrealized gains on structured settlements is comprised of both unrealized gains resulting from fair market valuation at the date of acquisition of the structured settlements and the subsequent fair value adjustments resulting from the change in the discount rate. Of the \$0.2 million of unrealized losses recognized

in the three month period ended December 31, 2017, approximately \$0.2 million is due to day one gains on new structured settlements financed during the period.



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 15—Fair Value of Financial Measurements and Disclosures** *(continued)*

A significant unobservable input used in the fair value measurement of structured settlements is the discount rate. Significant increases and decreases in the discount rate used to estimate the fair value of structured settlements could decrease or increase the fair value measurement of the structured settlements. The discount rate could be affected by factors, which include, but are not limited to, creditworthiness of insurance companies, market conditions, specifically competitive factors, credit quality of receivables purchased, the diversity of the payers of the receivables purchased, the weighted average life of receivables, current benchmark rates (i.e. 10 year treasury or swap rate) and the historical portfolio performance of the originator and/or servicer.

The changes in financial instruments at fair value using significant unobservable inputs (Level 3) during the three months ended 2017 were as follows:

	<b>Carrying Amount</b>
Balance at September 30, 2017	\$86,971,000
Structured settlements sold in conjunction with sale of CBC on December 13, 2017	(86,971,000)
Structured Settlements as of December 31, 2017	\$—

Realized and unrealized gains and losses in structured settlements included in earnings from discontinued operations in the accompanying consolidated statements of operations for the three months ended December 31, 2017 are reported in the following revenue categories:

Total gains included in the three months ended December 31, 2017	\$244,000
Change in unrealized gains relating to assets still held at December 31, 2017	\$—

**Note 16—Segment Reporting**

The Company operates through strategic business units that are aggregated into three reportable segments: consumer receivables, personal injury claims, and GAR Disability Advocates. The three reportable segments consist of the following:

*Consumer receivables* - This segment is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including judgment receivables, charged off receivables and semi-performing receivables. Judgment receivables are accounts where outside attorneys have secured judgments directly against the consumer. Primary charged-off receivables are accounts that have been written-off by the originators and may have been previously serviced by collection agencies. Semi-performing receivables are accounts where the debtor is currently making partial or irregular monthly payments, but the accounts may have been written-off by the originators. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. A large portion of our distressed consumer receivables are MasterCard ® , Visa ® and other credit card accounts which were charged-off by the issuers or providers for non-payment. We acquire these and other consumer receivable portfolios at substantial discounts to their face values. The discounts are based on the characteristics (issuer, account size, debtor location and age of debt) of the underlying accounts of each portfolio. The business conducts its activities primarily under the name Palisades Collection, LLC.

*Personal injury claims (Equity Method of Accounting)* – Pegasus Funding, LLC, purchases interests in personal injury claims from claimants who are a party to personal injury litigation. Pegasus advances to each claimant funds on a non-recourse basis at an agreed upon interest rate, in anticipation of a future settlement. The interest in each claim purchased by Pegasus consists of the right to receive, from such claimant, part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant's claim. Effective January 2017, Simia commenced funding personal injury settlement claims while Pegasus will not fund any new advances, and will remain in operation to collect on its current portfolio of advances. Simia's activity for the year ended September 30, 2017 are included in this segment, along with that of the Company's equity investment in Pegasus. The Company is continuing its personal injury claims business in a new entity which is in the process of being formalized. See Note 19- Subsequent Events.

*Social Security benefit advocacy* – GAR Disability and Five Star are advocacy groups representing individuals nationwide in their claims for social security disability and supplemental security income benefits from the Social Security and Veterans Administration.

Certain non-allocated administrative costs, interest income, interest expense and various other non-operating income and expenses are reflected in Corporate. Corporate assets include cash and cash equivalents, available-for-sale securities, property and equipment, goodwill, deferred taxes and other assets.

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 16—Segment Reporting** *(continued)*

The following table shows results by reporting segment for the three month periods ended December 31, 2017 and 2016.

(Dollars in millions)	<b>Consumer Receivables</b>	<b>Social Security Benefit Advocacy</b>	<b>Personal Injury Claims (2)</b>	<b>Corporate (3)</b>	<b>Total</b>
Three Months Ended December 31, 2017:					
Revenues	\$ 4.2	\$ 0.9	\$ 0.1	\$ —	\$5.2
Other income	—	—	—	0.1	0.1
Segment profit (loss)	3.7	—	(0.1 )	(2.2 )	1.4
Segment Assets(1)	19.7	1.1	55.6	39.3	115.7
2016:					
Revenues	4.1	\$ 1.4	\$ —	\$ —	\$5.5
Other income	—	—	—	0.4	0.4
Segment profit (loss)	3.2	(0.9 )	0.4	(3.7 )	(1.0 )
Segment Assets(1) (4)	17.6	1.4	49.2	188.3	256.5

The Company does not have any intersegment revenue transactions.

(1) Includes other amounts in other line items on the consolidated balance sheet.

The Company records Pegasus as an equity investment in its consolidated financial statements. For segment (2) reporting the Company has included its pro-rated share of the earnings and losses from its investment under the Personal Injury Claims segment.

(3) Corporate is not part of the three reportable segments, as certain expenses and assets are not earmarked to any specific operating segment.

(4) Included in Corporate are approximately \$94.5 million of assets related to discontinued operations as of December 31, 2016.

**Note 17 - Accumulated Other Comprehensive (Loss) Income**

Accumulated other comprehensive (loss) income consists of:

	<b>Three Months Ended December 31, 2017</b>			<b>Year Ended September 30, 2017</b>		
	Unrealized gain (loss) on marketable securities	Foreign currency translation, net	Total	Unrealized gain (loss) on marketable securities	Foreign currency translation, net	Total
Beginning Balance	\$7,000	\$ 11,000	\$ 18,000	\$624,000	\$ 179,000	\$ 803,000
Change in unrealized (losses) gains on foreign currency translation, net of tax benefit/(expense) of (\$14,000) and \$112,000 at December 31 2017, and September 30, 2017, respectively.	-	29,000	29,000	-	(168,000 )	(168,000 )
Change in unrealized (losses) gains on marketable securities, net of tax benefit/ (expense) of \$0 and \$8,000 at December 31, 2017, and September 30, 2017, respectively.	(7,000)	-	(7,000 )	(10,000 )	-	(10,000 )
Amount reclassified from accumulated other comprehensive loss, net of tax benefit of \$0 and \$404,000 at December 31, 2017, and September 30, 2017, respectively.	-	-	-	(607,000)	-	(607,000)
Net current-period other comprehensive income (loss)	(7,000)	29,000	22,000	(617,000)	(168,000 )	\$(785,000)
Ending balance	\$-	\$ 40,000	\$40,000	\$7,000	\$ 11,000	\$ 18,000

**Three Months ended December 31,  
2016**

Unrealized gain (loss) on marketable securities	(Restated) Foreign currency translation, net	Total
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Beginning Balance	securities \$624,000	\$ 179,000	\$ 803,000
Change in unrealized (losses) gains on foreign currency translation, net of tax benefit/(expense) of (\$12,000) and \$25,000 at December 31 2016, and September 30, 2016, respectively.	-	18,000	18,000
Change in unrealized (losses) gains on marketable securities, net of tax benefit/ (expense) of \$826,000 and (\$529,000) at December 31 2016, and September 30, 2016, respectively.	(1,239,000)	-	(1,239,000)
Amount reclassified from accumulated other comprehensive loss, net of tax benefit of \$18,000 and \$24,000 at December 31 2016, and September 30, 2016, respectively.	(27,000 )	-	(27,000 )
Net current-period other comprehensive (loss) income	(1,266,000)	18,000	(1,248,000)
Ending balance	\$(642,000 )	\$ 197,000	\$(445,000 )

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 18—Related Party Transactions**

On September 17, 2015, the Company and Piccolo agreed to terms to a new two-year, \$80,000 contract, pursuant to which Piccolo will provide consulting services, as described above. The compensation is to be paid quarterly. For the three months ended December 31, 2017 and 2016, the Company paid Piccolo \$0 and \$20,000 for such services, respectively. The consulting agreement with Piccolo terminated on September 30, 2017, and was not renewed.

In addition, A. L. Piccolo & Co., Inc. (“ALP”), which is also owned by Louis Piccolo, receives a fee from Pegasus which is calculated based on amounts loaned to Pegasus by Fund Pegasus up to maximum of \$700,000. The fee is payable over six years including interest at 4% per annum from Pegasus during the term of the Pegasus Operating Agreement that expired December 28, 2016, and, thereafter, by PLF and its affiliates. For three months ended December 31, 2016, Pegasus paid ALP \$33,000, which includes fees and interest paid during the period. As of December 31, 2017 and September 30, 2017, the Company owed Piccolo \$0 and \$66,000, respectively, which was recorded in other liabilities on the Company’s consolidated balance sheet at September 30, 2017.

In June 2015, CBC entered into an asset purchase agreement with Fortress Funding, LLC (“Fortress”) to acquire an interest in certain tangible and intangible assets of Fortress, which included customer lists, equipment and other intellectual property. In consideration for these assets CBC agreed to pay Fortress \$0.5 million, as well as up to an additional \$1.2 million based on conversion of customers from the acquired lists obtained in the transaction. Fortress is owned by Michelle Silverman, the wife of Ryan Silverman, who in connection with the agreement was offered employment as General Counsel of CBC. For the three months ended December 31, 2017 and 2016, the Company paid Fortress \$0 and \$0.1 million, respectively. As of December 31, 2017 and September 30, 2017, the Company did not have a liability due to Fortress. As of December 13, 2017, the date CBC was sold, Fortress was no longer deemed to be a related party.

**Note 19—Subsequent Events**

*Legal Matters*

On January 23, 2018, the Company paid \$2.3 million as a global settlement in conjunction with the punitive class action complaint filed against the Company, and one of its third-party law firm servicers. This payment represented the Company's portion of the total settlement of \$4.6 million, which was split with the third-party law firm. See Note 10 - Commitments and Contingencies.

The Company filed a lawsuit in Delaware state court against a third party servicer arising from the third party servicer's failure to pay the Company certain amounts that are due the Company under a servicing agreement. The third party servicer filed a counterclaim in the Delaware action alleging that the Company owes certain amounts to the third party servicer for court costs pursuant to an alleged arrangement between the companies. On or about July 12, 2018, the parties agreed to settle the action pursuant to a settlement agreement and release, which provides for, among other things, the payment by the third party servicer of \$4.4 million to the Company pursuant to an agreed upon schedule.

#### *Special Dividend*

On February 5, 2018, the Board of Directors of the Company declared a special cash dividend in the amount of \$5.30 per share with respect to its Common Stock, payable on February 28, 2018 to holders of record of the Company's Common Stock at the close of business on February 16, 2018, with an ex-dividend date of March 1, 2018. The aggregate payment to shareholders was approximately \$35 million.

#### *Personal Injury Claims Funding*

On March 16, 2018, the Company formed Practical Funding, LLC ("Practical Funding"), a wholly owned subsidiary, to continue its personal injury claim funding business.

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

**Caution Regarding Forward Looking Statements**

*This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21 E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included or incorporated by reference in this report, including without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objective of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expects," "intends," "plans," "projects," "estimates," "anticipates," or "believes" or the negative thereof or any variation there on or similar terminology or expressions.*

*We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors which could materially affect our results and our future performance include, without limitation, the restatement of previously issued financial statements, the identified material weaknesses in our internal control over financial reporting and our ability remediate those material weaknesses, our ability to purchase defaulted consumer receivables at appropriate prices, changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables, our ability to employ and retain qualified employees, changes in the credit or capital markets, changes in interest rates, deterioration in economic conditions, negative press regarding the debt collection industry which may have a negative impact on a debtor's willingness to pay the debt we acquire, and statements of assumption underlying any of the foregoing, as well as other factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.*

*All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Except as required by law, we assume no duty to update or revise any forward-looking statements.*

**Overview**

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection, LLC, Palisades Acquisition XVI, LLC ("Palisades XVI"), Palisades Acquisition XIX, LLC ("Palisades XIX"), Palisades Acquisition XXIII, LLC ("Palisades XXIII"), VATIV Recovery Solutions LLC ("VATIV"), ASFI Pegasus Holdings, LLC



(“APH”), EMIRIC, LLC (“EMIRIC”), Fund Pegasus, LLC (“Fund Pegasus”), GAR Disability Advocates, LLC (“GAR Disability Advocates”), Five Star Veterans Disability, LLC (“Five Star”), Simia Capital, LLC (“Simia”) and other subsidiaries, which are not all wholly owned (the “Company,” “we” or “us”), is engaged in several business segments in the financial services industry including funding of personal injury claims, through our 80% owned, 50% controlled equity investment in Pegasus Funding, LLC (“Pegasus”) and our wholly owned subsidiary Simia, social security and disability advocacy through our wholly owned subsidiaries GAR Disability Advocates and Five Star and the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged off receivables, and semi-performing receivables.

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GAR Disability Advocates and Five Star are disability advocacy groups, which for a fee obtains and represents individuals in their claims for social security disability, supplemental security income benefits from the Social Security Administration and veterans benefits with the Veteran's Administration.

Pegasus provided funding for individuals in need of short term funds pending insurance settlements of their personal injury claims. The funds are recouped when the underlying insurance settlements are paid. The long periods of time taken by insurance companies to settle and pay such claims resulting from lengthy litigation and the court process is fueling the demand for such funding. For the periods covered by this report, the Company and PLF each maintained 50% voting rights in this entity. For the periods covered by this report, we accounted for our investment in Pegasus under the equity method of accounting.

In November 2016, the Company formed Simia, a 100% owned subsidiary. Simia commenced funding personal injury settlement claims in January 2017. Simia was formed in response to the Company's decision not to renew its joint venture with Pegasus Legal Funding, LLC ("PLF"), which by its terms was set to expire at the end of December 2016. Pegasus continues to remain in operation to only collect its current portfolio of advances, but has not funded any new advances after December 28, 2016.

On December 13, 2017, the Company sold all of the issued and outstanding equity capital of CBC, its wholly owned subsidiary engaging in structured settlements. As a result of this sale all prior periods presented in the Company's consolidated financial statements will account for CBC as a discontinued operation. This determination resulted in the reclassification of the assets and liabilities comprising the structured settlement business to assets and liabilities related to discontinued operations in the consolidated balance sheets, and a corresponding adjustment to our consolidated statements of operations to reflect discontinued operations for all periods presented. See Note 7 - Discontinued Operations in the Company's notes to the consolidated financial statements.

The Company operates principally in the United States in three reportable business segments: consumer receivables, personal injury claims and social security benefit advocacy. The Company previously operated a fourth segment when it engaged in the structured settlements business through CBC, prior to its sale on December 13, 2017.

## **Financial Information About Operating Segments**

The Company operates through strategic business units that are aggregated into three reportable segments: consumer receivables, personal injury claims, and GAR. The three reportable segments consist of the following:

*Consumer receivables* - This segment is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including judgment receivables, charged off receivables and semi-performing receivables. Judgment receivables are accounts where outside attorneys have secured judgments directly against the consumer. Primary charged-off receivables are accounts that have been written-off by the originators and may have been previously serviced by collection agencies. Semi-performing receivables are accounts where the debtor is currently making partial or irregular monthly payments, but the accounts may have been written-off by the originators. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. A large portion of our distressed consumer receivables are MasterCard ® , Visa ® and other credit card accounts which were charged-off by the issuers or providers for non-payment. We acquire these and other consumer receivable portfolios at substantial discounts to their face values. The discounts are based on the characteristics (issuer, account size, debtor location and age of debt) of the underlying accounts of each portfolio. The business conducts its activities primarily under the name Palisades Collection, LLC.

*Personal injury claims (Equity Method of Accounting)* – Pegasus Funding, LLC, purchases interests in personal injury claims from claimants who are a party to personal injury litigation. Pegasus advances to each claimant funds on a non-recourse basis at an agreed upon interest rate, in anticipation of a future settlement. The interest in each claim purchased by Pegasus consists of the right to receive, from such claimant, part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant's claim. Effective January 2017, Simia commenced funding personal injury settlement claims while Pegasus will not fund any new advances, and will remain in operation to continue to collect on its current portfolio of advances. Simia's activity for the three months ended December 31, 2017 are included in this segment, along with that of the Company's equity investment in Pegasus. The Company is continuing its personal injury claims business in a new entity that is in the process of being formed. See Note 19 - Subsequent Events in the Company's consolidated notes to financial statements.

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*Social Security benefit advocacy* – GAR Disability Advocates and Five Star are advocacy groups which represents individuals nationwide in their claims for social security disability and supplemental security income benefits from the Social Security and Veterans Administration.

The consumer receivables segment and the social security benefit advocacy segment each accounted for 10% or more of consolidated net revenue for the three month periods ended December 31, 2017 and 2016. The personal injury claims segment accounts for Pegasus under the equity method, while Simia is a consolidated entity. The following table summarizes total revenues by percentage from the three lines of business for the three month periods ended December 31, 2017 and 2016:

	<b>Three Month Periods Ended December 31, 2017      2016</b>			
Finance income (consumer receivables)	79.9	%	75.2	%
Personal injury claims	2.7	%	—	%
Social Security benefit advocacy	17.4	%	24.8	%
Total revenues	100.0	%	100.0	%

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Information about the results of each of the Company's reportable segments for the three month periods ended December 31, 2017 and 2016, reconciled to the consolidated results, are set forth below. Separate segment MD&A is not provided, as segment revenue corresponds to the revenue presented in the Company's consolidated statement of operations, and material expense items are not allocable to any specific segment.

(Dollars in millions)	<b>Consumer Receivables</b>	<b>Social Security Benefit Advocacy</b>	<b>Personal Injury Claims (2)</b>	<b>Corporate(3)</b>	<b>Total</b>
Three Months Ended December 31, 2017:					
Revenues	\$ 4.2	\$ 0.9	\$ 0.1	\$ —	\$5.2
Other income	—	—	—	0.1	0.1
Segment profit (loss)	3.7	—	(0.1 )	(2.2 )	1.4
Segment Assets(1)	19.7	1.1	55.6	39.3	115.7
2016:					
Revenues	4.1	\$ 1.4	\$ —	\$ —	\$5.5
Other income	—	—	—	0.4	0.4
Segment profit (loss)	3.2	(0.9 )	0.4	(3.7 )	(1.0 )
Segment Assets(1) (4)	17.6	1.4	49.2	188.3	256.5

The Company does not have any intersegment revenue transactions.

(1) Includes other amounts in other line items on the consolidated balance sheet.

The Company records Pegasus as an equity investment in its consolidated financial statements. For segment (2) reporting the Company has included its pro-rated share of the earnings and losses from its investment under the Personal Injury Claims segment.

(3) Corporate is not part of the three reportable segments, as certain expenses and assets are not earmarked to any specific operating segment

(4) Included in Corporate are approximately \$94.5 million of assets related to discontinued operations as of December 31, 2016.

**Consumer Receivables**

The consumer receivable portfolios generally consist of one or more of the following types of consumer receivables:

• *charged-off receivables* — accounts that have been written-off by the originators and may have been previously serviced by collection agencies; and

- *semi-performing receivables* — accounts where the debtor is making partial or irregular monthly payments, but the accounts may have been written-off by the originators.

We acquire these consumer receivable portfolios at a significant discount to the amount actually owed by the borrowers. We acquire these portfolios after a qualitative and quantitative analysis of the underlying receivables and calculate the purchase price so that our estimated cash flow offers us an adequate return on our investment after servicing expenses. After purchasing a portfolio, we actively monitor its performance and review and adjust our collection and servicing strategies accordingly.

We purchase receivables from credit grantors and others through privately negotiated direct sales, brokered transactions and auctions in which sellers of receivables seek bids from several pre-qualified debt purchasers. We pursue new acquisitions of consumer receivable portfolios on an ongoing basis through:

• our relationships with industry participants, financial institutions, collection agencies, investors and our financing sources;

• brokers who specialize in the sale of consumer receivable portfolios; and

• other sources.

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***Litigation Funding***

In 2011, the Company purchased an 80% interest in Pegasus. “PLF”, an unrelated third party, holds the other 20% interest. The Company accounts for this investment under the equity method of accounting. See Note 4 - Litigation Funding. The Company is committed to loan up to \$22.4 million per year to Pegasus for a term of five years, all of which is secured by the assets of Pegasus. These loans will provide financing for the personal injury litigation claims and operating expenses of Pegasus.

The Pegasus business model entails the outlay of non-recourse advances to a plaintiff with an agreed-upon fee structure to be repaid from the plaintiff’s recovery. Typically, such advances to a plaintiff approximate 10-20% of the anticipated recovery. These funds are generally used by the plaintiff for a variety of urgent necessities, ranging from surgical procedures to everyday living expenses.

Pegasus’s profits and losses are distributed at 80% to the Company and 20% to PLF. These distributions are made only after the repayment of Fund Pegasus’ principal amount loaned, plus an amount equal to advances for overhead expenses.

On November 8, 2016, the Company entered into a binding Term Sheet (the “Term Sheet”) with ASFI Pegasus Holdings, LLC, Fund Pegasus, LLC, Pegasus Funding, LLC, Pegasus Legal Funding, LLC, Max Alperovich and Alexander Khanas. The Company and PLF have decided not to renew the Pegasus joint venture that, by its terms, terminates on December 28, 2016. The Term Sheet amends certain provisions to Pegasus’ Operating Agreement dated as of December 28, 2011 and governs the terms relating to the liquidation of the existing Pegasus portfolio.

Pursuant to the Term Sheet, the parties thereto have agreed that Pegasus would continue in existence in order to collect advances on its existing Portfolio. The Company would fund overhead expenses relating to the collection of its Portfolio based on a budget agreed upon by the Company and PLF. Any cash received by Pegasus would be distributed to its members in the order provided for in the Operating Agreement. The Company will be repaid an amount equal to 20% of all principal collected on each investment paid back beginning October 1, 2016 and continuing through the collection of the Portfolio, which would be applied against the outstanding balance of overhead expenses previously advanced by the Company to Pegasus. After January 2, 2017, additional overhead expenses advanced would be paid back monthly as incurred by the Company prior to the calculation and distribution of any profits.

In connection with the Term Sheet, the parties thereto have also entered into a customary mutual release and non-disparagement agreement as well as a release from the non-competition obligations under the operating agreement.

The Company filed for arbitration with the American Arbitration Association ("AAA") against Pegasus in April 2017 for breaches in the Operating and Term Sheet. On April 18, 2017, the Company was granted an Emergent Award restraining the cash in Pegasus, until a formal arbitration panel is confirmed and can review the case. As of December 31, 2017 there was approximately \$37.8 million in cash that was restrained under the Emergent Award. The Company has as equity method investment in Pegasus. See Note 5 - Litigation Funding.

On July 17, 2017, an arbitration panel was confirmed, and a hearing date has been scheduled for August 25, 2017 on the Company's motion to have PLF removed from managing Pegasus and replacing them with Company designated representatives, and to permit disbursements to the Company in accordance with the Operating and Liquidation Agreements.

On January 12, 2018, the Company, ASFI and Fund Pegasus entered into a Settlement Agreement and Release (the "Settlement Agreement") by and among the Company, ASFI, Fund Pegasus, Pegasus, the Seller, Max Alperovich, Alexander Khanas, Larry Stoddard, III, Louis Piccolo and A.L. Piccolo & Co., Inc., a New York corporation. The Settlement Agreement releases certain claims in exchange for, among other things, the parties' entry into the Purchase Agreement.

Additionally, on January 12, 2018, ASFI Pegasus Holdings, LLC ("ASFI"), a Delaware limited liability company and a subsidiary of Asta Funding, Inc. (the "Company" or "Asta"), a Delaware corporation, entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Pegasus Legal Funding, LLC, a Delaware limited liability company (the "Seller"). Under the Purchase Agreement, ASFI bought the Seller's ownership interests of Pegasus Funding, LLC ("Pegasus"), which was 20% of the issued and outstanding limited liability company interests of Pegasus, for an aggregate purchase price of \$1.8 million. As a result of the execution of the Purchase Agreement, ASFI became the owner of 100% of the limited liability company interests of Pegasus.

As of January 12, 2018, the Company owns 100% of Pegasus, and commencing in the quarter ending March 31, 2018, the financial activity of Pegasus will be consolidated into the financial statements of the Company. As of January 12, 2018, the Company is entitled to 100% of all distributions made from Pegasus.

On November 11, 2016, the Company formed Simia, a wholly owned subsidiary. Simia commenced funding personal injury settlement claims in January 2017. Simia was formed in response to the Company's decision not to renew its joint venture with PLF. As of December 31, 2017, the Company's net investment in personal injury cases under the equity method was approximately \$51.4 million, and Simia's personal injury claim advances were approximately \$3.2 million.

On March 16, 2018, the Company formed Practical Funding, a wholly owned subsidiary, to continue its personal injury claim funding business.





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On May 8, 2012, EMIRIC entered into a joint venture (the “Venture”) with California-based Balance Point Divorce Funding, LLC (“BP Divorce Funding”) to create the operating subsidiary BP Case Management, LLC (“BPCM”). BPCM is 60% owned by the Company and 40% owned by BP Divorce Funding. The Venture provides non-recourse funding to a spouse in a matrimonial action where the marital assets exceed \$2,000,000. Such funds can be used for legal fees, expert costs and necessary living expenses. The Venture receives an agreed percentage of the proceeds received by such spouse upon final resolution of the case. BP Divorce Funding's profits and losses will be distributed 60% to BPCM and 40% to BP Divorce Funding, after the return of the Company's investment on a case by case basis and after a 15% preferred return to the Company. BPCM's initial investment in the Venture consisted of up to \$15 million to fund divorce claims to be fulfilled in three tranches of \$5 million each. Each investment tranche is contingent upon a minimum 15% cash-on-cash return to us. At the Company's option, there could be an additional \$35 million investment in divorce claims in tranches of \$10 million, \$10 million, and \$15 million, also with a 15% preferred return and such investments may even exceed a total of \$50 million, at BPCM's sole option. Should the preferred return be less than 15% on any \$5 million tranche, the 60%/40% profit and loss split would be adjusted to reflect BPCM's priority to a 15% preferred return. As of December 31, 2017, BPCM had fully reserved against its invested amount of approximately \$2.5 million. There was no income recognized in the three month periods ended December 31, 2017 and 2016.

In 2012, the Company provided a \$1.0 million revolving line of credit to partially fund BP Divorce Funding's operations with such loan bearing interest at the prevailing prime rate with an initial term of twenty four months. In September 2014, the agreement was revised to extend the term of the loan to August 2017, increase the credit line to \$1.5 million and include a personal guarantee of the principal of BP Divorce Funding. The revolving line of credit is collateralized by BP Divorce Funding's profits share in the venture and other assets. Effective August 14, 2017, the Company extended its revolving line of credit with BP Divorce Funding until March 31, 2017, at substantially the same terms as the September 2014 amendment. On April 1, 2017, BP Divorce Funding defaulted on this agreement, and as such, the loan balance of approximately \$1.5 million was deemed uncollectible and was written off to general and administrative expenses on the consolidated statement of operations during the year ended September 30, 2017.

## ***Disability Advocacy Business***

GAR Disability Advocates and Five Star are disability advocacy groups, which for a fee obtain and represent individuals in their claims for social security disability, supplemental security income benefits from the Social Security Administration and veterans benefits with the Veteran's Administration.

## **Critical Accounting Policies**

We may account for our investments in consumer receivable portfolios, using either:

•The interest method; or

•The cost recovery method.

Our extensive liquidating experience in certain asset classes such as distressed credit card receivables, consumer loan receivables and mixed consumer receivables has matured, we use the interest method when we believe we can reasonably estimate the timing of the cash flows. In those situations where we diversify our acquisitions into other asset classes in which we do not possess the same expertise or history, or we cannot reasonably estimate the timing of the cash flows, we utilize the cost recovery method of accounting for those portfolios of receivables.

The Company accounts for certain of its investments in finance receivables using the interest method under the guidance of FASB Accounting Standards Codification (“ASC”) Topic 310, Receivables — Loans and Debt Securities Acquired with Deteriorated Credit Quality, (“ASC 310”). Under the guidance of ASC 310, static pools of accounts are established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost and is accounted for as a single unit for the recognition of income, principal payments and loss provision. Due to the substantial reduction of portfolios reported under the interest method, and the inability to reasonably estimate cash collections required to account for those portfolios under the interest method, the Company concluded the cost recovery method is the appropriate accounting method under the circumstances.

Under the guidance of ASC 310, the Company must analyze a portfolio upon acquisition to ensure which method is appropriate, and once a static pool is established for a quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller).

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The Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. Under the cost recovery method, no income is recognized until the cost of the portfolio has been fully recovered. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received.

The Company accounts for its investments in personal injury claims at an agreed upon interest rate, in anticipation of a future settlement. The interest purchased by Pegasus in each claim will consist of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant's claim. Open case revenue is estimated, recognized and accrued at a rate based on the expected realization and underwriting guidelines and facts and circumstances for each individual case. These personal injury claims are non-recourse. When a case is closed and the cash is received for the advance provided to a claimant, revenue is recognized based upon the contractually agreed upon interest rate, and, if applicable, adjusted for any changes due to a settled amount and fees charged to the claimant.

Management assesses the quality of the personal injury claims portfolio through an analysis of the underlying personal injury fundings on a case by case basis. Cases are reviewed through periodic updates with attorneys handling the cases, as well as with third party research tools which monitor public filings, such as motions or judgments rendered on specific cases. The Company specifically reserves for those fundings where the underlying cases are identified as uncollectible, due to anticipated non-favorable verdicts and/or settlements at levels where recovery of the advance outstanding is unlikely. For cases that have not exhibited any specific negative collection indicators, the Company establishes reserves based on the historical collection rates of the Company's fundings. Fee income on advances is reserved for on all cases where a specific reserve is established on the initially funded amount. In addition, management also monitors its historical collection rates on fee income and establishes reserves on fee income consistent with the historically experienced collection rates. Management regularly analyzes and updates the historical collection rates of its initially funded cases as well as its fee income.

Prior to its sale, CBC purchased periodic payments under structured settlements and annuity policies from individuals in exchange for a lump sum payment. The Company elected to carry structured settlements at fair value. Unearned income on structured settlements is recognized as interest income using the effective interest method over the life of the related settlement. Changes in fair value are recorded in unrealized gain (loss) in structured settlements in our statements of income.

The Company recognizes revenue for GAR Disability Advocates when cases close and fees are collected.

The Company accounts for its impairments in accordance with ASC 310, which provides guidance on how to account for differences between contractual and expected cash flows from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. The recognition of income under ASC 310 is dependent on the Company having the ability to develop reasonable expectations of both

the timing and amount of cash flows to be collected. In the event the Company cannot develop a reasonable expectation as to both the timing and amount of cash flows expected to be collected, ASC 310 permits the change to the cost recovery method. The Company will recognize income only after it has recovered its carrying value. If collection projections indicate the carrying value will not be recovered, an impairment is required. The impairment will be equal to the difference between the carrying value at the time of the forecast and the corresponding estimated remaining future collections.

In the following discussions, most percentages and dollar amounts have been rounded to aid in the presentation. As a result, all figures are approximations.

## Results of Operations

### **Three Months Ended December 31, 2017, Compared to the Three Months Ended December 31, 2016**

*Finance income.* For the three months ended December 31, 2017, finance income increased \$0.1 million, or 3%, to \$4.2 million from \$4.1 million for the three months ended December 31, 2016. The increase in finance income is due to collections on portfolios that had been previously in the cost recovery stage, but recently have become zero basis portfolios where collections are recorded as revenue rather than a return of the cost of acquiring the portfolios. During the three months ended December 31, 2017, the Company did not purchase any consumer portfolios. Net collections for the three months ended December 31, 2017 decreased 21.0% to \$4.9 million from \$6.2 million for the three months ended December 31, 2016. For the three months ended December 31, 2017 gross collections decreased 21.1% or \$2.4 million to \$9 million from \$11.4 million for the three months ended December 31, 2016. For the three months ended December 31, 2017 commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased 14.9% or \$0.7 million to \$4 million from \$5.2 million for the three months ended December 31, 2016. Commissions and fees amounted to 45% of gross collections for the three months ended December 31, 2017, compared to 45.6% for the three months ended December 31, 2016 resulting from higher percentage of commissionable collections in the current year.

*Social security benefit advocacy fee income.* Disability fee income decreased \$0.5 million, or 35.7%, to \$0.9 million for the three months ended December 31, 2017 from \$1.4 million for the three months ended December 31, 2016, due to a decrease in disability claimants cases closed with the Social Security Administration during the current year period.

*Earnings (loss) from equity method investee.* Earnings from equity method investee remained consistent period over period, as the Company continues to liquidate its existing portfolio.



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*Other income, net.* The following table summarizes other income for the three months ended December 31, 2017 and 2016:

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Interest and dividend income	\$31,000	\$296,000
Realized gain	—	133,000
Other	3,000	22,000
	<b>\$34,000</b>	<b>\$451,000</b>

During the three months ended December 31, 2017, interest income was primarily earned on the Company's note receivable from its sale of CBC.

*General and administrative expenses.* For the three months ended December 31, 2017, general and administrative expense decreased \$3.1 million, or 42.5%, to \$4.2 million from \$7.3 million for the three months ended December 31, 2016, primarily due to a decrease in professional fees of \$1.5 million primarily related to the Mangrove matter, personnel related of \$0.7 million, GAR advertising of \$0.3 million, collection expenses of \$0.3 million and favorable foreign exchange of \$0.2 million.

*Segment profit – Consumer Receivables.* Segment profit increased \$0.5 million to \$3.7 million for the three months ended December 31, 2017 from \$3.2 million for the three months ended December 31, 2016. This increase in profitability is a result of increased revenue of \$0.1 million, and a reduction in collection expenses and administrative salaries of \$0.2 million and \$0.1 million, respectively.

*Segment loss – Personal Injury Claims.* Segment loss was \$0.1 million for the three months ended December 31, 2017, which was a decrease from the prior three months ended December 31, 2016 of \$0.5 million. Simia had a loss of \$0.4 million for the current period, comprised of \$0.1 million in revenue, offset by \$0.5 million in bad debt write offs of personal claim advances. The loss of \$0.4 million from Simia, was substantially offset by the \$0.4 million in earnings from the Company's equity investment.

*Segment loss – Social Security benefit advocacy.* The Segment loss was \$18,000 for the three months ended December 31, 2017 as compared to a \$0.9 million segment loss for the three months ended December 31, 2016. This reduced loss of \$0.9 million in the current fiscal year is primarily the result of reduction in expenses associated with advertising of \$0.3 million, personnel related of \$0.6 million and office and outside services of \$0.5 million, partially offset by reduced revenue of \$0.5 million .

*Discontinued Operations.* Structured settlement income of \$2.2 million includes \$0.2 million of unrealized gains and \$2.0 million of interest income for the three months ended December 31, 2017. Structured settlement income of \$0.2 million included \$1.7 million of unrealized losses and \$1.9 million of interest income for the three months ended December 31, 2016. This increase in income is the result of a reduction in unrealized losses during the current period. Unrealized gains on structured settlements is comprised of both unrealized gains resulting from fair market valuation at the date of acquisition of the structured settlements. Of the \$0.2 million of unrealized gains recognized for the three months ended December 31, 2017, approximately \$0.2 million is due to day one gains on new structured settlements financed during the period.

Loss from discontinued operations was \$0.1 million for the three months ended December 31, 2017 compared to loss from discontinued operations of \$1.3 million for the three months ended December 31, 2016. The \$0.5 million decrease is a result of the sale of CBC on December 13, 2017, which limited the amount activity in the current quarter leading up to the sale.

*Income tax (benefit) expense .* Income tax expense, consisting of federal and state components, for three months ended December 31, 2017, was \$3.6 million. In response to the Tax Cuts and Jobs Act signed in December 2017, the Company remeasured its U.S. federal and state deferred tax assets and liabilities which resulted in decreasing the Company's net deferred tax assets by approximately \$3.5 million. This adjustment is recorded as a one-time charge to income taxes for the three months ended December 31, 2017. For the three months ended December 31, 2017 and 2016, the Company recorded \$0.5 million and \$0.7 million, respectively, in income tax expense.

*Net loss.* As a result of the above, the Company had a net loss for the three months ended December 31, 2017 of \$2.7 million compared to \$2.9 million for the three months ended December 31, 2016.

### **Liquidity and Capital Resources**

Our primary source of cash from operations is collections on the receivable portfolios we have acquired and the funds generated from the liquidation of our personal injury claim portfolios. Our primary uses of cash include costs involved in the collection of consumer receivables, and to support day-to-day operations of the Company.



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### Receivables Financing Agreement

In March 2007, Palisades XVI borrowed approximately \$227 million under the Receivables Financing Agreement, as amended in July 2007, December 2007, May 2008, February 2009, October 2010 and August 2013 from BMO, in order to finance the Portfolio Purchase which had a purchase price of \$300 million. The original term of the agreement was three years. This term was extended by each of the Second, Third, Fourth, Fifth Amendments and the most recent agreement signed in August 2013, discussed below.

*Financing Agreement*. The Settlement Agreement and Omnibus Amendment (“Settlement Agreement”) was in effect on August 7, 2013, Palisades XVI, a 100% owned bankruptcy remote subsidiary, entered into a Settlement Agreement with BMO as an amendment to the Receivables Financing Agreement. In consideration for a \$15 million prepayment funded by the Company, BMO has agreed to significantly reduce minimum monthly collection requirements and the interest rate. If and when BMO were to receive the next \$15 million of collections from the Portfolio Purchase, (the “Remaining Amount”) less certain credits for payments made prior to the consummation of the Settlement Agreement, the Company would be entitled to recover from future net collections the \$15 million prepayment that it funded. Thereafter, BMO would have the right to receive 30% of future net collections. Upon repayment of the Remaining Amount to BMO, the Company would be released from the remaining contractual obligation of the Receivables Financing Agreement (“RFA”) and the Settlement Agreement.

On June 3, 2014, Palisades XVI finished paying the Remaining Amount. The final principal payment of \$2.9 million included a voluntary prepayment of \$1.9 million provided from funds of the Company. Accordingly, Palisades XVI was entitled to receive \$16.9 million of future collections from the Portfolio Purchase before BMO is entitled to receive any payments with respect to its Income Interest. During the month of June 2016, the Company received the balance of the \$16.9 million, and, as of December 31, 2017, the Company recorded a liability to BMO of approximately \$0.2 million. The funds were subsequently remitted to BMO on January 10, 2018. The liability to BMO is recorded when actual collections are received.

### Personal Injury Claims

On December 28, 2011, we formed a joint venture Pegasus Funding, LLC (“Pegasus”) with Pegasus Legal Funding, LLC (“PLF”). Pegasus purchases interests in personal injury claims from claimants who are a party to personal injury litigation with the expectation of a settlement in the future. Pegasus advances to each claimant funds on a non-recourse basis at an agreed upon interest rate in anticipation of a future settlement. The interest purchased by Pegasus in each claim will consist of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant’s claim. The profits from the joint venture are distributed based on the ownership percentage of the parties — Asta Funding, Inc. 80% and PLF, 20%. The Company accounts for this investment under the equity method of accounting.

On November 8, 2016, the Company entered into a binding Term Sheet (the “Term Sheet”) with Pegasus and PLF. The Company and PLF have decided not to renew the Pegasus joint venture that by its terms was scheduled to terminate on December 28, 2016. The Term Sheet amends certain provisions to Pegasus’ operating agreement dated as of December 28, 2011 (as amended, the “Operating Agreement”) and governs the terms relating to the collection of its existing Pegasus portfolio (the “Portfolio”).

Pursuant to the Term Sheet, the parties thereto have agreed that Pegasus would continue in existence in order to collect advances on its existing Portfolio. The Company would fund overhead expenses relating to the collection of its Portfolio based on a budget agreed upon by the Company and PLF. Any cash received by Pegasus would be distributed to its members in the order provided for in the Operating Agreement. The Company will be repaid an amount equal to 20% of all principal collected on each investment paid back beginning October 1, 2016 and continuing through the collection of the Portfolio, which would be applied against the outstanding balance of overhead expenses previously advanced by the Company to Pegasus. After January 2, 2017, additional overhead expenses advanced would be paid back monthly as incurred by the Company prior to the calculation and distribution of any profits.

In connection with the Term Sheet, the parties also entered into a customary mutual release and non-disparagement agreement as well as a release from the non-competition obligations under the Operating Agreement.

The Company filed for arbitration with the American Arbitration Association (“AAA”) against Pegasus in April 2017 for breaches in the Operating and Term Sheet. On April 18, 2017, the Company was granted an Emergent Award restraining the cash in Pegasus, until a formal arbitration panel is confirmed and can review the case. As of December 31, 2017 there was approximately \$37.8 million in cash that was restrained under the Emergent Award.

On July 17, 2017, an arbitration panel was confirmed, and a hearing date has been scheduled for August 25, 2017 on the Company's motion to have PLF removed from managing Pegasus and replacing them with Company designated representatives, and to permit disbursements to the Company in accordance with the Operating and Liquidation Agreements.

On January 12, 2018, the Company, ASFI and Fund Pegasus entered into a Settlement Agreement and Release (the “Settlement Agreement”) by and among the Company, ASFI, Fund Pegasus, Pegasus, the Seller, Max Alperovich, Alexander Khanas, Larry Stoddard, III, Louis Piccolo and A.L. Piccolo & Co., Inc., a New York corporation. The Settlement Agreement released certain claims in exchange for, among other things, the parties' entry into the Purchase Agreement.

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Additionally, on January 12, 2018, ASFI Pegasus Holdings, LLC (“ASFI”), a Delaware limited liability company and a subsidiary of Asta Funding, Inc. (the “Company” or “Asta”), a Delaware corporation, entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with Pegasus Legal Funding, LLC, a Delaware limited liability company (the “Seller”). Under the Purchase Agreement, ASFI bought the Seller’s ownership interests of Pegasus, which was 20% of the issued and outstanding limited liability company interests of Pegasus, for an aggregate purchase price of \$1.8 million. After the additional purchase of the minority member’s 20% share, the Company became the 100% owner of Pegasus.

## Divorce Funding

On May 8, 2012, the Company formed EMIRIC, LLC, a wholly owned subsidiary of the Company. EMIRIC, LLC entered into a joint venture with California-based Balance Point Divorce Funding, LLC (“BP Divorce Funding”) to create the operating subsidiary BP Case Management, LLC (“BPCM”). BPCM is 60% owned by the Company and 40% owned by BP Divorce Funding. BPCM provides non-recourse funding to a spouse in a matrimonial action. The Company provided a \$1.0 million revolving line of credit to partially fund BPCM’s operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. In September 2014, the agreement was revised to extend the term of the loan to August 2017, increase the credit line to \$1.5 million and include a personal guarantee of the principal of BP Divorce Funding. Effective August 14, 2016, the Company extended its revolving line of credit with BP Divorce Funding until March 31, 2017, at substantially the same terms as the September 2014 amendment. On April 1, 2017, BP Divorce Funding defaulted on this agreement, and as such, the loan balance of approximately \$1.5 million was deemed uncollectible and was written off to general and administrative expenses on the consolidated statement of operations during the year ended September 30, 2017.

As of December 31, 2017, BPCM had fully reserved against its invested amount of approximately \$2.5 million.

## Discontinued Operations – Structured Settlements

On December 13, 2017, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with CBC Holdings LLC, a Delaware limited liability company (the “Buyer”). Under the Purchase Agreement, the Company sold all of the issued and outstanding equity capital of CBC, its wholly owned subsidiary engaging in structured settlements, for an aggregate purchase price of approximately \$10.5 million. Of the aggregate purchase price, approximately \$4.49 million was paid in cash, and \$5.75 million was paid under a promissory note at an annual interest rate of 7% to be paid quarterly to the Company and secured by a first priority security interest in and lien on such Buyer’s affiliates’ rights to certain servicing fees. The remaining amount of the aggregate purchase price was paid as reimbursement of certain invoices of CBC. The Company recognized a loss of approximately \$2.4 million on the above sale of CBC for the year ended September 30, 2017.

Cash Flow

At December 31, 2017, our cash increased \$5.6 million to \$23.2 million from \$17.6 million at September 30, 2017.

Net cash provided by operating activities was \$0.9 million during the three month period ended December 31, 2017, as compared to \$5.3 million used in operating activities for the three month period ended December 31, 2016, primarily resulting from decrease in deferred tax assets, and decrease in prepaid and income tax receivable in the current period. Net cash provided by investing activities was \$3.6 million during the three month period ended December 31, 2017, as compared to \$3.3 million used in investing activities during the three month period ended December 31, 2016. The change in cash provided by investing activities is primarily due to the proceeds from the sale of CBC, and the cash used in the Company's equity investment. Cash provided by financing activities during the three months ended December 31, 2017 was \$1.4 million, as compared to \$4.1 million provided by financing activities in the same 2016 period. The change reflects the lesser amount of cash provided by discontinued operations.

Our cash requirements have been and will continue to be significant and include external financing to operate various lines of business. Significant requirements include investment in personal injury claims, costs involved in the collections of consumer receivables, and investment in consumer receivable portfolios. Acquisitions recently have been financed through cash flows from operating activities. We believe we may secure credit facilities with financial institutions as we look to grow the Company, support current operations, and execute on our short and long term business initiatives. In the short term, our cash balances will be sufficient to invest in personal injury claims, purchase portfolios and finance the disability advocacy business.

We believe our available cash resources and expected cash flows from operations will be sufficient to fund operations for the next twelve months. We do not expect to incur any material capital expenditures during the next twelve months.

We are cognizant of the current market fundamentals in the debt purchase and company acquisition markets which, because of significant supply and tight capital availability, could result in increased buying opportunities. The outcome of any future transaction(s) is subject to market conditions. In addition, due to these opportunities, we continue to seek opportunities with banking organizations and others on a possible financing loan facility.

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**Off Balance Sheet Arrangements**

The Company does not have any off balance sheet arrangements.

**Additional Supplementary Information:**

We do not anticipate collecting the majority of the purchased principal amounts of our various portfolios. Accordingly, the difference between the carrying value of the portfolios and the gross receivables is not indicative of future revenues from these accounts acquired for liquidation. Since we purchased these accounts at significant discounts, we anticipate collecting only a portion of the face amounts.

For additional information regarding our methods of accounting for our investment in finance receivables, the qualitative and quantitative factors we use to determine estimated cash flows, and our performance expectations of our portfolios, see “ **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies** ” above.

**Recent Accounting Pronouncements**

In May 2014, the FASB issued an update to ASC 606, “Revenue from Contracts with Customers,” that will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the entitled consideration received in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the customer contracts. This update is effective for annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period. Early application is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period.

The Company has completed its initial assessment of the new standard, including a detailed review of the Company’s revenue streams to identify potential differences in accounting as a result of the new standard, and selected the modified retrospective method. Based on the Company’s initial assessment, we do not believe that the adoption of the standard and related amendments will have a significant impact on our revenue recognition patterns, assuming that our revenue streams will be similar to those currently in place are in effect at the time of our adoption. Through the date of adoption, we will continue to evaluate the impacts of the standard to ensure that our preliminary conclusions continue to remain accurate. Additionally, we will continue our assessment of the impact of the standard on our financial

statement disclosures which are expected to be more extensive based on the requirements of the new standard.

In January 2016, the FASB issued Update No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective in developing this update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date for this update is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Upon adoption of this ASU, the Company's investments will no longer be classified as available for sale, and changes to fair value will be reflected in the Company's consolidated statements of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) which requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. For a lease with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize a right-of-use asset and lease liability. Additionally, when measuring assets and liabilities arising from a lease, optional payments should be included only if the lessee is reasonably certain to exercise an option to extend the lease, exercise a purchase option or not exercise an option to terminate the lease. In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. ASU 2018-01 was issued to address concerns about the cost and complexity of complying with the transition provisions of ASU 2018-01. The standard becomes effective in for fiscal years beginning after December 15, 2019 and interim periods within those years and early adoption is permitted. The Company is in the process of reviewing its existing leases, including service contracts for embedded leases to evaluate the impact of this standard on its consolidated financial statements and the impact on regulatory capital.

In March 2016, the FASB issued ASU No. 2016-07, *Simplifying the Transition to the Equity Method of Accounting*, which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. The amendments in ASU 2016-07 are effective for public companies for fiscal years beginning after December 15, 2016 including interim periods therein. Early adoption is permitted. The new standard should be applied prospectively for investments that qualify for the equity method of accounting after the effective date. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued Update No. 2016-09, Improvements to Employee Share Based Payment Accounting, to simplify and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The effective date for this update is for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

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In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For the Company, this update will be effective for interim periods and annual periods beginning after December 15, 2019. Upon adoption, the Company expects that it will accelerate the recording of its credit losses in its financial statements.

In August 2016 the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This ASU will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case the Company would be required to apply the amendments prospectively as of the earliest date practicable. The Company is in the process of evaluating the provisions of the ASU, but does not expect it to have a material effect on the Company's consolidated statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective in developing this update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date for this update is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the impact this update will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The objective of this update is to simplify the subsequent measurement of goodwill, by eliminating step 2 from the goodwill impairment test. The amendments in this update are effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. The impact of this update will not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share Based Payment Accounting, to simplify and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The effective date for this update is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The adoption of this update will not have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017, and requires certain disclosures about stranded tax effects. ASU 2018-02 will be effective for the Company's fiscal year beginning October 1, 2019, with early adoption permitted, and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The adoption of this ASU is not expected to have a material impact on the Company's its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements on fair value measurements. The ASU removes the requirement to disclose: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The ASU requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign exchange rates and changes in corporate tax rates. We do not currently invest in derivative financial or commodity instruments.

### **Item 4. Controls and Procedures**

#### *a. Disclosure Controls and Procedures*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including its principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of its internal control over financial reporting. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO 2013”) in Internal Control — Integrated Framework, issued in 2013. Based on management’s assessment, and based on the criteria in COSO 2013, we concluded that our disclosure controls and procedures were not effective on December 31, 2017 due to the material weaknesses described below:





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1. The Company did not maintain effective internal controls over financial reporting disclosures specifically associated with concentrations, foreign transactions, significant entities and related party transactions. The material weaknesses related to financial reporting disclosures associated with significant and related party transactions at the subsidiary level, were first reported by the Company in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, which was filed with the SEC on August 9, 2017, and was also identified as a material weakness in connection with the preparation of this Report.

*Planned Remedial Actions:*

The Company has retained and intends to continue to retain the services of outside consultants, with relevant accounting experience, skills and knowledge, working under the supervision and direction of the Company's management, to supplement the Company's existing accounting personnel.

The Company plans to develop policies, procedures, and controls for the specific areas identified in this material weakness. The Company will also hire additional accounting and finance personnel with significant accounting and SEC reporting experience to join its finance team to ensure consistent application of these accounting principles and adherence to the Company's newly adopted policies, procedures, and controls. The Company plans to review the current financial controls to assess if additional management review controls are necessary and work with all finance personnel to establish the appropriate documentation criteria for the existing controls including evidence of review, timeliness and variance thresholds.

The Company plans to have the Disclosure Committee, which now meets on a quarterly basis, meet more frequently throughout the year to assure that our SEC filings and other public disclosures are complete, accurate, and otherwise comply with applicable accounting principles and regulations. The Company's Disclosure Committee reports to our Chief Executive Officer with oversight provided by our Audit Committee, and includes individuals knowledgeable about, among other things, SEC rules and regulations, financial reporting, and internal control matters. The Company will also document a formal disclosure policy and procedures to govern the work of the Disclosure Committee.

Since the original determination regarding the material weakness associated with significant and related party transactions at the subsidiary level, the Company has installed contract management software to manage all of its contracts and associated obligations under those contracts. Management from each department has been trained on the software, and all contracts require approvals of designated managers and the accounting department prior to execution. All contracts are reviewed by accounting personnel with requisite experience in identifying complex accounting transactional and disclosure issues,

2. The Company did not maintain effective internal controls over regulatory compliance; specifically the Company did not have an effective whistleblower hotline or a formalized Foreign Corrupt Practices Act Policy.

*Planned Remedial Actions:*

While the Company has implemented a whistleblower hotline it believes will be effective, management will develop a formalized plan to test the independent system on a regular basis to ensure regulatory compliance.

The Company will formalize its Foreign Corrupt Practices Act Policy, and will ensure all employees are trained on, and adhere to the policy.

3. The Company lacks a formal policy to assess the adequacy of the design and operating effectiveness of controls related to certain of the Company's subsidiaries, third party service providers and third party advocates.

*Planned Remedial Actions:*

The Company will increase the frequency of onsite inspections of third party servicers and advocates throughout the year, utilizing existing accounting/finance personnel familiar with the specific accounting processes involved at each location. The Company will provide training to accounting personnel at subsidiary locations, and will develop detailed checklist and processes that can be used, and reviewed by management during period ends. Additionally, management will routinely visit subsidiary locations to ensure that the processes and guidelines developed are being strictly adhered to.

4. The Company did not maintain effective internal controls over accounting for complex transactions specifically associated with equity method investments.

*Planned Remedial Actions:*

The Company plans to develop policies, procedures, and controls to ensure the proper accounting for complex technical issues are identified, researched and brought to management's attention. The Company will also ensure that the appropriate personnel are appropriately trained on new and existing accounting pronouncements, Company policies, procedures, and controls.

5. The Company did not maintain effective internal controls over accounting for foreign transactions specifically associated with accounting for transaction and translation adjustments, unallocated payments and cutoff.

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*Planned Remedial Actions:*

The Company plans to develop and implement improved policies, procedures, processes and controls, as well as, conduct trainings to ensure the proper accounting for foreign currency matters in accordance with ASC 830, *Foreign Currency Matters*

The Company plans to utilize an accounting system to ensure that all transactions are systematically re-measured and translated at the applicable foreign currency exchange rate and the associated gain or loss is appropriately recognized in earnings.

The Company plans to appropriately reconcile the AOCI account, in a timely manner. To ensure that the proper amounts are being recorded in the Company's financial statements.

*b. Changes in Internal Controls over Financial Reporting.*

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated our internal control over financial reporting to determine whether any changes occurring during the first quarter of fiscal year 2018 have materially affected, or are reasonably likely to affect, our internal control over financial reporting. During the first quarter of 2018, and prior to the sale of CBC, the Company put a process in place to ensure that the Company retain third-party specialists to perform independent valuations of its structured settlements. Management has concluded that there have been no other changes that occurred during such quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II . OTHER INFORMATION**

**Item 1. Legal Proceedings**

In the ordinary course of our business, we are involved in numerous legal proceedings. We regularly initiate collection lawsuits, using third party law firms, against consumers. Also, consumers occasionally initiate litigation against us, in which they allege that we have violated a federal or state law in the process of collecting on their account. We do not believe that these ordinary course matters are material to our business and financial condition. As of the date of this report, we were not involved in any material litigation in which we were a defendant.

Originators, debt purchasers and third party collection agencies and attorneys in the consumer credit industry are frequently subject to putative class action lawsuits and other litigation. Claims include failure to comply with applicable laws and regulations and improper or deceptive origination and servicing practices. Being a defendant in such class action lawsuits or other litigation could materially adversely affect our results of operations and financial condition. Currently , the Company has set up a reserve for settlement costs of \$2.3 million to cover a class action

lawsuit.

Legal proceedings are subject to substantial uncertainties concerning the outcome of material factual and legal issues relating to the litigation. Accordingly, we cannot currently predict the manner and timing of the resolution of some of these matters and may be unable to estimate a range of possible losses or any minimum loss from such matters.

**Item 1A. Risk factors**

For a discussion of our potential risks and uncertainties, see the information previously disclosed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K, for the year ended September 30, 2017 filed with the SEC on October 12, 2018. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K.

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

None

**Item 3. Default Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

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**Item 6. Exhibits**

(a) Exhibits.

- 2.1# Membership Interest Purchase Agreement, dated December 31, 2013, by and among CBC Settlement Funding, LLC, CBC Management Services Group, LLC, Asta Funding, Inc. and the other parties thereto (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 7, 2014).
- 2.2 Term Sheet, dated November 8, 2016, by and among Asta Funding, Inc., ASFI Pegasus Holdings, LLC, Fund Pegasus, LLC, Pegasus Funding, LLC, Pegasus Legal Funding, LLC, Max Alperovich and Alexander Khanas (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed November 15, 2016).
- 2.3# Securities Purchase Agreement, dated December 13, 2017, by and between Asta Funding, Inc., and CBC Holdings LLC (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed December 19, 2017).
- 2.4# Membership Interest Purchase Agreement, dated January 12, 2018, by and between ASFI Pegasus Holdings, LLC and Pegasus Legal Funding, LLC (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 18, 2018).
- 3.1 Certificate of Incorporation of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Quarterly Report on Form 10-Q filed August 9, 2016).
- 3.2 Certificate of Amendment to Certificate of Incorporation of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1(a) to Asta Funding, Inc.'s Quarterly Report on Form 10-QSB filed May 15, 2002).
- 3.3 Amended and Restated By-laws of Asta Funding, Inc. (incorporated by reference to Exhibit 3.3 to Asta Funding, Inc.'s Quarterly Report on Form 10-Q filed August 9, 2016).
- 3.4 Amendment to Amended and Restated By-laws of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed on January 9, 2017).
- 4.1 Certificate of Designation of Series A Junior Participating Preferred Stock of Asta Funding, Inc. (incorporated by reference to Exhibit 3.2 to Asta Funding, Inc.'s Current Report on Form 8-K filed May 5, 2017).
- 4.2 Rights Agreement, dated May 5, 2017, by and between Asta Funding, Inc. and American Stock Transfer & Trust Co., LLC (incorporated by reference to Exhibit 4.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed May 5, 2017).
- 10.1 Secured Promissory Note, dated as of December 13, 2017, by and between CBC Holdings LLC and Asta Funding, Inc. (incorporated by reference to Exhibit 10.2 to Asta Funding, Inc.'s Current Report on Form 8-K filed December 19, 2017).

- 10.2 Guarantee, dated as of December 13, 2017, by and among 777 Partners, LLC and SuttonPark Capital LLC, for and on behalf of Asta Funding, Inc. (incorporated by reference to Exhibit 10.3 to Asta Funding, Inc.'s Current Report on Form 8-K filed December 19, 2017).
- 10.3 Security Agreement, dated as of December 13, 2017, by and between SuttonPark Servicing LLC and Asta Funding, Inc. (incorporated by reference to Exhibit 10.4 to Asta Funding, Inc.'s Current Report on Form 8-K filed December 19, 2017)
- 31.1\* Certification of Gary Stern, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of Bruce R. Foster, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certification of Gary Stern, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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- 101.SCH XBRL Taxonomy Extension Schema.
- 101.CAL XBRL Taxonomy Extension Calculation.
- 101.DEF XBRL Taxonomy Extension Definition.
- 101.LAB XBRL Taxonomy Extension Labels.
- 101.PRE XBRL Taxonomy Extension Presentation.

\* Filed herewith.

This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act

# Indicates schedules or exhibits have been omitted pursuant to Item 6.01(b)(2) of Regulation S-K. Asta Funding, Inc. agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

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**SIGNATURES**

Pursuant to the requirements 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.

**ASTA FUNDING, INC.**

(Registrant)

Date: November 15, 2018 By: /s/ Gary Stern

Gary Stern, President, Chief Executive Officer  
(Principal Executive Officer)

Date: November 15, 2018 By: /s/ Bruce R. Foster

Bruce R. Foster, Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)



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