

ASTA FUNDING INC  
Form 10-Q/A  
September 18, 2018

Table of Contents

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

---

**FORM 10-Q/A**

---

**Amendment # 1**

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

**For the quarterly period ended March 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)**

---

<b>Delaware</b> <b>(State or other jurisdiction</b> <b>of incorporation or organization)</b>	<b>22-3388607</b> <b>(IRS Employer</b> <b>Identification</b> <b>No.)</b>
<b>210 Sylvan Ave., Englewood Cliffs, New Jersey</b> <b>(Address of principal executive offices)</b>	<b>07632</b> <b>(Zip Code)</b>

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

---

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) 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 September 14, 2018, the registrant had 6,685,415 common shares outstanding.

---

---

Table of Contents

**EXPLANATORY NOTE**

As previously disclosed in the Current Report on Form 8-K filed by Asta Funding, Inc. (“Asta” or the “Company”) with the Securities and Exchange Commission (the “SEC”) on January 18, 2018, the Board of Directors (the “Board”) of the Company, upon the recommendation of the Audit Committee of the Board (the “Audit Committee”), determined that the Company’s previously issued financial statements for each of the years ended September 30, 2016, 2015 and 2014, and the interim periods contained therein, as well as the Company’s unaudited consolidated financial statements for the quarters ended December 31, 2016, March 31, 2017 and June 30, 2017, could no longer be relied upon.

On September 17, 2018, the Company filed an Annual Report on Form 10-K/A to amend and restate the Company’s previously issued financial statements for each of the years ended September 30, 2016, 2015 and 2014, as well as the interim periods contained therein (the “Form 10-K/A”), and a Quarterly Report on Form 10-Q/A to amend and restate the Company’s previously issued financial statements for the quarter ended December 31, 2016. The Company is filing this Amendment No. 1 on Form 10-Q/A (this “Amendment”) to amend and restate the Company’s previously issued financial statements contained in its Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the “Non-Reliance Period”), which was originally filed with the SEC on May 26, 2017 (the “Original Form 10-Q”). The Company expects to file, at a later time, an amendment to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.

Prior period amounts have already been restated in the Company’s Form 10-K/A and, accordingly have not been restated in this Amendment.

**Restatement Background**

On January 11, 2018, after discussions with the Audit Committee, management re-evaluated the Company’s historical conclusion to consolidate Pegasus Funding, LLC (“Pegasus”). Management has determined that the Company lacked the requisite control to consolidate Pegasus in its historical periods in accordance with Accounting Standards Codification (“ASC”) 810 “*Consolidation*.” Management also determined that the Company’s previous treatment for certain foreign currency matters under ASC 830 “*Foreign Currency Matters*” was not appropriate. As such, the Company has subsequently revised its investment in Pegasus to the equity method, including the underlying reserve methodology; and has adjusted its financial statements to reflect the proper accounting for certain foreign currency transactions. Additionally, the Company corrected the financial statements for additional known errors consisting of (i) the adjustment of various accruals, (ii) the fair value of structured settlements, (iii) accounting for unallocated payments, and (iv) the tax effects of the adjustments mentioned above.

## Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

The following errors were identified as part of the restatement. See Note 1 – Restatement of Financial Statements in the Company’s notes to consolidated financial statements for further details.

1. In connection with the Company determining it lacked the requisite control to consolidate Pegasus during the Non-Reliance Period, the Company has now accounted for its investment in Pegasus under the equity method in accordance with accounting principle generally accepted in the United States (“US GAAP”).
2. The Company determined that it had not previously accounted for certain foreign currency gains/losses on intercompany balances and transactions in accordance with US GAAP. The Company improperly accounted for the foreign currency effect of certain transactions as if they were long-term investments by including the foreign currency effect in accumulated other comprehensive income instead of properly recording the effect as operating expenses as required under ASC 830.
3. Prior to the sale of its structured settlement business, the Company purchased periodic payments under structured settlements and annuity policies from individuals in exchange for a lump sum payment. The Company did not reflect the quarterly increase in certain underlying benchmark interest rates used in determining fair value of the Company's structured settlements. The Company has elected to carry the structured settlements at fair value in accordance with the guidance of FASB ASC, Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 822-10-50-28 through 50-22).
4. The Company determined that it had not accounted for certain unallocated payments reported on its consolidated balance sheet properly.
5. The Company discovered that it did not properly record an amortizable asset and related liability in conjunction with an asset purchase agreement entered into in June 2015 with a related party.
6. The Company identified other transactions that had not been properly accounted for in the correct period and/or for improper amounts and/or improper accounts.
7. The Company identified the personal injury claims asset balance of Pegasus was determined to be overstated.
8. Some of the corrections noted above impacted earnings (loss) before taxes which, in turn, required a calculation of the tax impact.



Table of Contents

**Internal Control and Disclosure Controls Considerations**

In connection with this restatement, our Chief Executive Officer and Chief Financial Officer determined that there were deficiencies in the Company's internal control over financial reporting that constituted material weaknesses at March 31, 2017. Accordingly, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective at March 31, 2017, as discussed in Item 4 of this Amendment.

**Items Amended in This Amendment**

For the convenience of the reader, this Amendment sets forth the Original Form 10-Q in its entirety, as modified and adjusted to reflect the restatement described above. In addition to such changes, this Amendment also includes: (i) revisions in presentation for the discontinued operations of the Company's structured settlement business, which was sold on December 13, 2017; and (ii) updates to the Company's subsequent events disclosure included in Note 20 to the Consolidated Financial Statements. (collectively with (i) above, the "Subsequent Events").

In accordance with applicable SEC rules, this Amendment also includes new certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, from our Chief Executive Officer and Chief Financial Officer, dated as of the filing date of this Amendment. Aside from the foregoing items, this Amendment has not modified the Original Form 10-Q other than to correct immaterial items and certain errors in the exhibit index, and the disclosures contained in this Amendment have not been updated to reflect events occurring subsequent to the date of the Original Form 10-Q, May 26, 2017, except as noted above with respect to the Subsequent Events.

Part I – Item 1. Financial Information.

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

Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk

Part I – Item 4. Controls and Procedures.

Part II – Item 1A. Risk Factors

Part II – Item 6. Exhibits

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**INDEX TO FORM 10-Q/A**

<b><u>Part I-FINANCIAL INFORMATION</u></b>	5
<u>Item 1. Consolidated Financial Statements</u>	5
<u>Consolidated Balance Sheets as of March 31, 2017 (restated) (unaudited) and September 30, 2016</u>	5
<u>Consolidated Statements of Operations for the three and six months ended March 31, 2017(restated)(unaudited) and 2016 (unaudited)</u>	6
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended March 31, 2017 (restated)(unaudited) and 2016 (unaudited)</u>	7
<u>Consolidated Statements of Stockholders' Equity for the six months ending March 31, 2017 (restated)(unaudited) and 2016 (unaudited)</u>	8
<u>Consolidated Statements of Cash Flows for the six months ended March 31, 2017 (restated)(unaudited) and 2016 (unaudited)</u>	9
<u>Notes to Consolidated Financial Statements (restated) (unaudited)</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (restated)</u>	45
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk (restated)</u>	56
<u>Item 4. Controls and Procedures (restated)</u>	56
<b><u>Part II-OTHER INFORMATION</u></b>	59
<u>Item 1. Legal Proceedings</u>	59
<u>Item 1A. Risk Factors (restated)</u>	59
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
<u>Item 3. Defaults Upon Senior Securities</u>	59
<u>Item 4. Mine Safety Disclosures</u>	59
<u>Item 5. Other Information</u>	59
<u>Item 6. Exhibits (restated)</u>	60



Signatures

4

---

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>(Unaudited)</b> <b>March 31,</b> <b>2017</b> <b>(restated)</b>	<b>September</b> <b>30,</b> <b>2016</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$8,545,000	\$6,282,000
Restricted cash	9,565,000	10,000,000
Available for sale investments (at fair value)	5,397,000	56,763,000
Consumer receivables acquired for liquidation (at net realizable value)	11,590,000	13,427,000
Investment in personal injury claims, net	3,178,000	—
Other investments, net	—	3,590,000
Due from third party collection agencies and attorneys	1,096,000	1,050,000
Prepaid and income taxes receivable	7,560,000	714,000
Furniture and equipment, net	158,000	196,000
Equity method investment	45,924,000	48,582,000
Deferred income taxes	13,981,000	14,903,000
Goodwill	1,410,000	1,410,000
Other assets	4,771,000	6,585,000
Assets related to discontinued operations	95,180,000	91,506,000
Total assets	\$208,355,000	\$255,008,000
<b>LIABILITIES</b>		
Line of credit	\$9,600,000	\$—
Other liabilities	6,415,000	3,987,000
Liabilities related to discontinued operations	76,306,000	69,238,000
Total liabilities	92,321,000	73,225,000
Commitments and contingencies		

**STOCKHOLDERS' EQUITY**

Preferred stock, \$.01 par value; authorized 5,000,000 shares; issued and outstanding — none	—	—
Common stock, \$.01 par value, authorized 30,000,000 shares; issued 13,336,508 at March 31, 2017 and at September 30, 2016; and outstanding 6,562,215 at March 31, 2017 and 11,876,224 at September 30, 2016	<i>133,000</i>	<i>133,000</i>
Additional paid-in capital	<i>67,042,000</i>	<i>67,034,000</i>
Retained earnings	<i>115,818,000</i>	<i>126,738,000</i>
Accumulated other comprehensive income (loss)	<i>169,000</i>	<i>803,000</i>
Treasury stock (at cost) 6,774,293 shares at March 31, 2017 and 1,460,284 shares at September 30, 2016	<i>(67,128,000 )</i>	<i>(12,925,000 )</i>
Total stockholders' equity	<i>116,034,000</i>	<i>181,783,000</i>
Total liabilities and stockholders' equity	<i>\$208,355,000</i>	<i>\$255,008,000</i>

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 March 31, 2017 (Restated)</b>	<b>Three Months Ended March 31, 2016</b>	<b>Six Months Ended March 31, 2017 (Restated)</b>	<b>Six Months Ended March 31, 2016</b>
Revenues:				
Finance income, net	\$3,930,000	\$4,879,000	\$8,025,000	\$9,985,000
Personal injury claims income	10,000	—	10,000	—
Disability fee income	1,502,000	872,000	2,856,000	1,531,000
Total revenues	5,442,000	5,751,000	10,891,000	11,516,000
Other income (loss) - includes (\$948,000) and \$0 during the three month periods ended March 31, 2017 and 2016, and (\$993,000) and (\$31,000) during the six month periods ended March 31, 2017 and 2016, respectively, of accumulated other comprehensive loss reclassification for securities sold	(667,000 )	608,000	(216,000 )	1,000,000
	4,775,000	6,359,000	10,675,000	12,516,000
Expenses:				
General and administrative	12,251,000	10,222,000	19,546,000	15,951,000
Interest	32,000	—	32,000	—
Impairment of consumer receivables acquired for liquidation	—	124,000	—	124,000
(Earnings) loss from equity method investment	355,000	(333,000 )	(49,000 )	(1,827,000 )
	12,638,000	10,013,000	19,529,000	14,248,000
Loss from continuing operations before income tax	(7,863,000 )	(3,654,000 )	(8,854,000 )	(1,732,000 )
	(947,000 )	(1,269,000 )	(250,000 )	(638,000 )

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

Income tax (benefit) - includes tax expense of \$379,000 and \$0 during the three month periods ended March 31, 2017 and 2016 and \$397,000 and \$11,000 during the six month periods ended March 31, 2017 and 2016, respectively, of accumulated other comprehensive income reclassifications for unrealized net gains / (losses) on available for sale securities

Net loss from continuing operations	(6,916,000 )	(2,385,000 )	(8,604,000 )	(1,094,000 )
Net (loss) income from discontinued operations, net of income tax	(1,058,000 )	555,000	(2,316,000 )	827,000
Net loss	\$(7,974,000 )	\$(1,830,000 )	\$(10,920,000 )	\$(267,000 )
(Net loss) income per share:				
Basic (loss) earnings per share from continuing operations	\$(0.71 )	\$(0.20 )	\$(0.80 )	\$(0.09 )
Basic (loss) earnings per share from discontinued operations	(0.11 )	0.05	(0.21 )	0.07
Basic (loss) earnings per share	\$(0.82 )	\$(0.15 )	\$(1.01 )	\$(0.02 )
Diluted (loss) earnings per share from continuing operations	\$(0.71 )	\$(0.20 )	\$(0.80 )	\$(0.09 )
Diluted(loss) earnings per share from discontinued operations	(0.11 )	0.05	(0.21 )	0.07
Diluted (loss) earnings per share	\$(0.82 )	\$(0.15 )	\$(1.01 )	\$(0.02 )
Weighted average number of common shares outstanding:				
Basic	9,691,576	12,076,120	10,795,903	12,115,987
Diluted	9,691,576	12,076,120	10,795,903	12,115,987

See accompanying notes to consolidated financial statements

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

(rounded to the nearest thousands)

	<b>Three Months Ended March 31, 2017  (Restated)</b>	<b>Three Months Ended March 31, 2016</b>	<b>Six Months Ended March 31, 2017  (Restated)</b>	<b>Six Months Ended March 31, 2016</b>
Comprehensive income (loss) is as follows:				
Net loss	\$(7,974,000)	\$(1,830,000)	\$(10,920,000)	\$(267,000)
Net unrealized securities gain (loss), net of tax (expense)/benefit of (\$680,000) and (\$94,000) during the three month periods ended March 31, 2017 and 2016, respectively, and \$23,000 and (\$283,000) during the six month periods ended March 31, 2017 and 2016, respectively.	1,204,000	156,000	(35,000 )	486,000
Reclassification adjustments for securities sold, net of tax benefit of \$379,000 and \$0 during the three month periods ended March 31, 2017 and 2016, and \$397,000 and \$11,000 during the six month periods ended March 31, 2017 and 2016, respectively.	(569,000 )	—	(596,000 )	(20,000 )
Foreign currency translation, net of tax (expense)/benefit of \$16,000 and (\$8,000) during the three month periods ended March 31, 2017 and 2016, respectively, and \$1,000 and (\$17,000) during the six month periods ended March 31, 2017 and 2016, respectively.	(21,000 )	12,000	(3,000 )	26,000
Other comprehensive income (loss)	614,000	168,000	(634,000 )	492,000
Total comprehensive (loss) income	\$(7,360,000)	\$(1,662,000)	\$(11,554,000)	\$225,000

See accompanying notes to consolidated financial statements



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

(rounded to the nearest thousands, except share data)

**Six months ended March 31, 2017 (restated):**

	<b>Common Stock</b>		<b>Additional</b>		<b>Accumulated</b>		<b>Non-</b>	<b>Total</b>
	<b>Issued</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Retained</b>	<b>Other</b>	<b>Treasury</b>	<b>Controlling</b>	<b>Stockholders'</b>
	<b>Shares</b>		<b>Capital</b>	<b>Earnings</b>	<b>Comprehensive</b>	<b>Stock</b>	<b>Interest</b>	<b>Equity</b>
					<b>Income</b>			
					<b>(Loss)</b>			
<b>Balance, September 30, 2016</b>	13,336,508	133,000	67,034,000	126,738,000	803,000	(12,925,000)	—	181,783,000
Stock based compensation expense	—	—	8,000	—	—	—	—	8,000
Net loss	—	—	—	(10,920,000)	—	—	—	(10,920,000)
Amount reclassified from other comprehensive (loss) income	—	—	—	—	(596,000)	—	—	(596,000)
Unrealized (loss) gain on marketable securities, net	—	—	—	—	(35,000)	—	—	(35,000)
Purchase of treasury stock	—	—	—	—	—	(54,203,000)	—	(54,203,000)
Foreign currency translation, net	—	—	—	—	(3,000)	—	—	(3,000)
<b>Balance, March 31, 2017, as restated</b>	13,336,508	\$133,000	\$67,042,000	\$115,818,000	\$169,000	\$(67,128,000)	\$—	\$116,034,000



## Six months ended March 31, 2016:

	Common Stock		Additional		Accumulated	Other	Non-	Total
	Issued	Amount	Paid-in	Retained	Comprehensive	Treasury	Controlling	Stockholders'
	Shares		Capital	Earnings	Income	Stock	Interests	Equity
					(Loss)			
<b>Balance, September 30, 2015</b>	13,061,673	\$131,000	\$65,049,000	\$119,165,000	\$20,000	\$(1,751,000 )	\$793,000	\$183,407,000
Exercise of options	7,499	—	47,000	—	—	—	—	47,000
Stock based compensation expense	—	—	428,000	—	—	—	—	428,000
Restricted stock	5,000	—	—	—	—	—	—	—
Net (loss) income	—	—	—	(267,000 )	—	—	—	(267,000)
Amount reclassified from other comprehensive income (loss)	—	—	—	—	(20,000 )	—	—	(20,000)
Unrealized gain on marketable securities, net	—	—	—	—	486,000	—	—	486,000
Purchase of treasury stock	—	—	—	—	—	(8,363,000 )	—	(8,363,000)
Foreign currency translation, net	—	—	—	—	26,000	—	—	26,000
Purchase of subsidiary shares from non-controlling interest	—	—	(903,000 )	—	—	—	(793,000)	(1,696,000)
Issuance of restricted stock to purchase subsidiary shares from non-controlling interest	123,304	1,000	999,000	—	—	—	—	1,000,000

<b>Balance, March 31, 2016</b>	<i>13,197,476</i>	<i>\$132,000</i>	<i>\$65,620,000</i>	<i>\$118,898,000</i>	<i>\$512,000</i>	<i>\$(10,114,000)</i>	<i>\$—</i>	<i>\$175,048,000</i>
--	-------------------	------------------	---------------------	----------------------	------------------	-----------------------	------------	----------------------

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>Six Months Ended March 31, 2017 (restated)</b>	<b>Six Months Ended March 31, 2016</b>
<b>Cash flows from operating activities:</b>		
Net loss from continuing operations	\$(8,604,000 )	\$(1,094,000 )
Net (loss) income from discontinued operations	(2,316,000 )	827,000
Net loss	(10,920,000)	(267,000 )
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	51,000	186,000
Deferred income taxes	1,342,000	444,000
Impairment of consumer receivables acquired for liquidation	—	124,000
Stock based compensation	8,000	428,000
Loss on sale of available-for-sale securities	993,000	31,000
Unrealized gain on other investments	—	(152,000 )
Unrealized foreign exchange loss on other investments	—	(26,000 )
Reserve for loss on other investments	—	1,000,000
Loss on other investments	3,590,000	—
Loss (Earnings) from equity method investment	(49,000 )	(333,000 )
Changes in:		
Prepaid and income taxes receivable	(6,846,000 )	113,000
Due from third party collection agencies and attorneys	(41,000 )	269,000
Other assets	1,821,000	(2,235,000 )
Other liabilities	2,425,000	1,572,000
Net cash used in operating activities of discontinued operations	438,000	(3,951,000 )
Net cash used in operating activities	(7,188,000 )	(2,797,000 )
<b>Cash flows from investing activities:</b>		
Purchase of consumer receivables acquired for liquidation	(2,213,000 )	(6,185,000 )
Principal collected on receivables acquired for liquidation	4,064,000	4,677,000
Principal collected on consumer receivable accounts represented by account sales	190,000	—
Purchase of available-for-sale securities	(7,693,000 )	(7,419,000 )
Proceeds from sale of available-for-sale securities	57,016,000	12,303,000
Purchase of non-controlling interest	—	(800,000 )
Decrease in equity method investment	2,707,000	3,471,000

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

Investments in personal injury claims - advances	(3,178,000 )	—
Capital expenditures	(13,000 )	(65,000 )
Net cash used in investing activities of discontinued operations	(3,790,000 )	(4,921,000 )
Net cash provided by investing activities	47,090,000	1,061,000
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	—	47,000
Purchase of treasury stock	(54,203,000)	(8,363,000 )
Borrowings from line of credit	9,600,000	—
Net cash provided by financing activities of discontinued operations	6,748,000	7,797,000
Net cash used in financing activities	(37,855,000)	(519,000 )
Foreign currency effect on cash	(217,000 )	—
Net increase (decrease) in cash, cash equivalents and restricted cash including cash, cash equivalents classified within assets related to discontinued operations	1,830,000	(2,255,000 )
Less: net decrease in cash, cash equivalents and restricted cash classified within assets related to discontinued operations	(2,000 )	(159,000 )
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,828,000</b>	<b>(2,414,000 )</b>
Cash, cash equivalents and restricted cash at beginning of period	16,282,000	19,947,000
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$18,110,000</b>	<b>\$17,533,000</b>

**Supplemental disclosure of cash flow information :**

Cash paid for:

Interest	\$1,879,000	\$1,538,000
Taxes	6,200,000	—

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

**Continuing Operations:**

Issuance of restricted stock to purchase subsidiary shares from non-controlling interest	\$—	\$1,000,000
--	-----	-------------

See accompanying notes to consolidated financial statements

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 1— Restatement of Financial Statements**

The following tables summarize the effects of the restatements on the specific items presented in the Company's consolidated financial statements previously included in the Original Form 10-Q:

	<b>Consolidated Balance Sheet</b>					
	<b>March 31, 2017</b>					
	<b>As Reported</b>	<b>De-Consolidation of</b>	<b>Adjustments</b>		<b>Restated</b>	
		<b>Pegasus (1)</b>				
<b>ASSETS</b>						
Cash and cash equivalents	\$9,326,000	\$ (732,000	)	\$(49,000 )	\$(2)(6)	\$8,545,000
Restricted cash	9,565,000	—		—		9,565,000
Available for sale investments (at fair value)	5,397,000	—		—		5,397,000
Consumer receivables acquired for liquidation (at net realizable value)	11,651,000	—		(61,000 )	(2)	11,590,000
Investment in personal injury claims, net	47,888,000	(44,710,000	)	—		3,178,000
Due from third party collection agencies and attorneys	1,044,000	—		52,000	(2)	1,096,000
Prepaid and income taxes receivable	7,609,000	—		(49,000 )	(8)	7,560,000
Furniture and equipment, net	158,000	—		—		158,000
Equity method investment	—	45,823,000		101,000	(7)	45,924,000
Deferred income taxes	17,556,000	—		(3,575,000 )	(2)(8)	13,981,000
Goodwill	1,410,000	—		—		1,410,000
Other assets	4,690,000	(109,000	)	190,000	(2)	4,771,000
Assets related to discontinued operations	95,102,000	—		78,000	(5)(6)	95,180,000
Total assets	\$211,396,000	\$ 272,000		\$(3,313,000 )		\$208,355,000

**LIABILITIES**

Line of credit	9,600,000	—	—		9,600,000	
Other liabilities	6,940,000	(727,000)	)	202,000	(2)(6)	6,415,000
Liabilities related to discontinued operations	75,705,000	—		601,000	(5)	76,306,000
Total liabilities	92,245,000	(727,000)	)	803,000		92,321,000

Commitments and contingencies

**STOCKHOLDERS' EQUITY**

Preferred stock	—	—	—		—	
Common stock	133,000	—	—		133,000	
Additional paid-in capital	67,034,000	—		8,000	(6)	67,042,000
Retained earnings	120,837,000	—		(5,019,000)	(2)(3)(4)(5)(6)(7)(8)	115,818,000
Accumulated other comprehensive income (loss)	(726,000)	)	—	895,000	(2)	169,000
Treasury stock (at cost)	(67,128,000)	)	—	—		(67,128,000)
Non-controlling interest	(999,000)	)	999,000	—		—
Total stockholders' equity	119,151,000	999,000		(4,116,000)		116,034,000
Total liabilities and stockholders' equity	\$211,396,000	\$272,000		\$(3,313,000)		\$208,355,000

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 1— Restatement of Financial Statements**

(continued)

**Consolidated Statement of Operations****For the Three Months Ended March 31, 2017****De-Consolidation  
of**

	<b>As Reported</b>	<b>Pegasus (1)</b>	<b>Adjustments</b>	<b>Restated</b>
<b>Revenues:</b>				
Finance income, net	\$4,018,000	\$ —	\$ (88,000 ) (2)	\$3,930,000
Personal injury claims income	2,146,000	(2,136,000 )	—	10,000
Disability fee income	1,502,000	—	—	1,502,000
Total revenues	7,666,000	(2,136,000 )	(88,000 )	5,442,000
Other income	(702,000 )	—	35,000 (2)	(667,000 )
	6,964,000	(2,136,000 )	(53,000 )	4,775,000
<b>Expenses:</b>				
General and administrative	14,546,000	(2,178,000 )	(117,000 ) (2)	12,251,000
Interest	34,000	(2,000 )	—	32,000
Loss from equity method investment	—	35,000	320,000 (7)	355,000
	14,580,000	(2,145,000 )	203,000	12,638,000
(Loss) income from continuing operations before income tax	(7,616,000 )	9,000	(256,000 )	(7,863,000 )
Income tax (benefit)/expense	(2,813,000 )	—	1,866,000 (8)	(947,000 )
Net (loss) income from continuing operations	(4,803,000 )	9,000	(2,122,000 )	(6,916,000 )
Net loss from discontinued operations, net of income tax	(775,000 )	—	(283,000 ) (5)(8)	(1,058,000 )
Less: net income attributable to non-controlling interests	(9,000 )	9,000	—	—
Net loss attributable to Asta Funding, Inc.	\$(5,569,000 )	\$ —	\$(2,405,000 )	\$(7,974,000 )
<b>Basic and diluted loss per share:</b>				
Continuing operations	\$(0.49 )			\$(0.71 )

Discontinued operations	(0.08 )	(0.11 )
	\$(0.57 )	\$(0.82 )



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 1— Restatement of Financial Statements**

(continued)

**Consolidated Statement of Operations****For the Six Months Ended March 31, 2017**

	<b>As Reported</b>	<b>De-Consolidation of Pegasus (1)</b>	<b>Adjustments</b>	<b>Restated</b>
Revenues:				
Finance income, net	\$8,019,000	\$ —	\$6,000 (2)	\$8,025,000
Personal injury claims income	4,448,000	(4,438,000 )	—	10,000
Disability fee income	2,856,000	—	—	2,856,000
Total revenues	15,323,000	(4,438,000 )	6,000	10,891,000
Other income.	(158,000 )	—	(58,000 )(2)	(216,000 )
	15,165,000	(4,438,000 )	(52,000 )	10,675,000
Expenses				
General and administrative	24,102,000	(4,373,000 )	(183,000 )(2)	19,546,000
Interest	36,000	(4,000 )	—	32,000
Earnings from equity method investment	—	(49,000 )	—	(49,000 )
	24,138,000	(4,426,000 )	(183,000 )	19,529,000
(Loss) income from continuing operations before income tax	(8,973,000 )	(12,000 )	131,000	(8,854,000 )
Income tax (benefit)/expense	(3,368,000 )	—	3,118,000 (8)	(250,000 )
Net (loss) income from continuing operations	(5,605,000 )	(12,000 )	(2,987,000 )	(8,604,000 )
Net loss from discontinued operations, net of income tax	(1,609,000 )	—	(707,000 )(3)(5)(8)	(2,316,000 )
Less: net income attributable to non-controlling interests	12,000	(12,000 )	—	—
Net loss attributable to Asta Funding, Inc.	\$(7,226,000 )	\$ —	\$(3,694,000 )	\$(10,920,000)
Basic and diluted loss per share:				

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

Continuing operations	<i>\$(0.52</i>	)	<i>\$(0.80</i>	)
Discontinued operations	<i>(0.15</i>	)	<i>(0.21</i>	)
	<i>\$(0.67</i>	)	<i>\$(1.01</i>	)

12

---

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 1— Restatement of Financial Statements (continued)****Consolidated Statement of Comprehensive Loss  
For the Three Months Ended March 31, 2017**

	<b>De-Consolidation</b>		<b>Adjustments</b>	<b>Restated</b>
	<b>As Reported</b>	<b>of Pegasus (1)</b>		
Comprehensive income (loss) is as follows:				
Net loss	\$ (5,569,000)	\$ —	\$ (2,405,000 )	\$ (7,974,000)
Net unrealized securities (loss) gain, net of tax	1,204,000	—	—	1,204,000
Reclassification adjustments for securities sold, net of tax	(569,000 )	—	—	(569,000 )
Foreign currency translation, net of tax	188,000	—	(209,000 ) (2)(6)	(21,000 )
Other comprehensive income (loss)	823,000	—	(209,000 )	614,000
Total comprehensive loss	\$ (4,746,000)	\$ —	\$ (2,614,000 )	\$ (7,360,000)

**Consolidated Statement of Comprehensive Loss  
For the Six Months Ended March 31, 2017**

	<b>De-Consolidation</b>		<b>Adjustments</b>	<b>Restated</b>
	<b>As Reported</b>	<b>of Pegasus (1)</b>		
Comprehensive income (loss) is as follows:				
Net loss	\$ (7,226,000)	\$ —	\$ (3,694,000 )	\$ (10,920,000)
Net unrealized securities (loss) gain, net of tax	(35,000 )	—	—	(35,000 )
Reclassification adjustments for securities sold, net of tax	(596,000 )	—	—	(596,000 )
Foreign currency translation, net of tax	(181,000 )	—	178,000 (2)(6)	(3,000 )
Other comprehensive (loss) income	(812,000 )	—	178,000	(634,000 )
Total comprehensive loss	\$ (8,038,000)	\$ —	\$ (3,516,000 )	\$ (11,554,000)



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 1— Restatement of Financial Statements (continued)****Consolidated Statement of Cash Flows****For the Six Months Ended *March 31, 2017***

	<b>As Reported</b>	<b>Adjustments</b>	<b>Restated</b>
<b>Cash flows from operating activities:</b>			
Net loss from continuing operations	\$(5,617,000 )	\$(2,987,000 )	\$(8,604,000 )
Net loss from discontinued operations	(1,609,000 )	(707,000 )	(2,316,000 )
Net loss	(7,226,000 )	(3,694,000 )	(10,920,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	130,000	(79,000 )	51,000
Deferred income taxes	(1,606,000 )	2,948,000 (8)(2)	1,342,000
Stock based compensation	8,000	—	8,000
Loss on sale of available-for-sale securities	993,000	—	993,000
Loss on other investments	3,590,000	—	3,590,000
Loss from equity method investment	—	(49,000 )(7)	(49,000 )
Changes in:			
Prepaid and income taxes receivable	(6,729,000 )	(117,000 )(8)	(6,846,000 )
Due from third party collection agencies and attorneys	(39,000 )	(2,000 )(2)	(41,000 )
Other assets	1,985,000 )	(164,000 )(2)	1,821,000
Income tax payable	(252,000 )	252,000 (8)	—
Other liabilities	1,832,000	593,000 (2)(6)	2,425,000
Non-controlling interest	12,000	(12,000 )(1)	—
Net cash (used in) provided by operating activities of discontinued operations	(352,000 )	790,000 (3) (5)	438,000
Net cash (used in) provided by operating activities	(7,654,000 )	466,000	(7,188,000 )
<b>Cash flows from investing activities:</b>			
Purchase of consumer receivables acquired for liquidation	(2,213,000 )	—	(2,213,000 )
Principal collected on receivables acquired for liquidation	4,233,000	(169,000 )(2)(4)(5)(6)	4,064,000
	—	190,000 (2)	190,000

Principal collected on consumer receivable accounts represented by account sales				
Purchase of available-for-sale securities	(7,693,000 )	—		(7,693,000 )
Proceeds from sales of available-for-sale securities	57,016,000	—		57,016,000
Investments in personal injury claims — advances	(9,194,000 )	6,016,000	(1)	(3,178,000 )
Investments in personal injury claims — receipts	9,595,000	(9,595,000 )	(1)	—
Decrease in equity method investment	—	2,707,000	(1)	2,707,000
Capital expenditures	(13,000 )	—		(13,000 )
Net cash used in investing activities related to discontinued operations	(3,792,000 )	2,000	(4)	(3,790,000 )
Net cash provided by investing activities	47,939,000	(849,000 )		47,090,000
<b>Cash flows from financing activities:</b>				
Purchase of treasury stock	(54,203,000)	—		(54,203,000)
Distributions to non-controlling interest	(366,000 )	366,000	(1)	—
Borrowings from line of credit	9,600,000	—		9,600,000
Net cash provided by financing activities related to discontinued operations:	6,748,000	—		6,748,000
Net cash used in financing activities	(38,221,000)	366,000		(37,855,000)
Foreign currency effect on cash	—	(217,000 )	(2)	(217,000 )
Net increase (decrease) in cash, cash equivalents and restricted cash including cash, cash equivalents classified within assets related to discontinued operations	2,064,000	(234,000 )		1,830,000
Less: net decrease in cash, cash equivalents and restricted cash classified within assets related to discontinued operations	(2,000 )	—		(2,000 )
<b>Net increase in cash, cash equivalents and restricted cash</b>	2,062,000	(234,000 )	(1)(2)(3)(4)(5)(6)(7)(8)	1,828,000
Cash, cash equivalents and restricted cash at beginning of period	16,829,000	(547,000 )		16,282,000
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$18,891,000</b>	<b>\$(781,000 )</b>		<b>\$18,110,000</b>

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 1— Restatement of Financial Statements**

As previously disclosed in the Current Report on Form 8-K filed by Asta Funding, Inc. (“Asta” or the “Company”) with the Securities and Exchange Commission (the “SEC”) on *January 18, 2018*, the Board of Directors (the “Board”) of the Company, upon the recommendation of the Audit Committee of the Board (the “Audit Committee”), determined that the Company’s previously issued financial statements for each of the years ended *September 30, 2016, 2015 and 2014*, and the interim periods contained therein, as well as the Company’s unaudited consolidated financial statements for the quarters ended *December 31, 2016, March 31, 2017 and June 30, 2017*, could *no longer* be relied upon.

On *September 17, 2018*, the Company filed an Annual Report on Form *10-K/A* to amend and restate the Company’s previously issued financial statements for each of the years ended *September 30, 2016, 2015 and 2014*, as well as the interim periods contained therein (the “Form *10-K/A*”), and a Quarterly Report on Form *10-Q/A* to amend and restate the Company’s previously issued financial statements for the quarter ended *December 31, 2016*. The Company is filing this Amendment *No. 1* on Form *10-Q/A* (this “Amendment”) to amend and restate the Company’s previously issued financial statements contained in its Quarterly Report on Form *10-Q* for the quarter ended *March 31, 2017* (the “Non-Reliance Period”), which was originally filed with the SEC on *May 26, 2017* (the “Original Form *10-Q*”). The Company expects to file, at a later time, an amendment to its Quarterly Report on Form *10-Q* for the quarter ended *June 30, 2017*.

Prior period amounts have already been restated in the Company’s Form *10-K/A* and, accordingly have not been restated in this Amendment.

**Restatement Background**

On *January 11, 2018*, after discussions with the Audit Committee, management re-evaluated the Company’s historical conclusion to consolidate Pegasus Funding, LLC (“Pegasus”). Management has determined that the Company lacked the requisite control to consolidate Pegasus in its historical periods in accordance with Accounting Standards Codification (“ASC”) *810 “Consolidation.”* Management also determined that the Company’s previous treatment for certain foreign currency matters under ASC *830 “Foreign Currency Matters”* was *not* appropriate. As such, the Company has subsequently revised its investment in Pegasus to the equity method, including the underlying reserve methodology;

and has adjusted its financial statements to reflect the proper accounting for certain foreign currency transactions. Additionally, the Company corrected the financial statements for additional known errors consisting of (i) the adjustment of various accruals, (ii) the fair value of structured settlements, (iii) accounting for unallocated payments, and (iv) the tax effects of the adjustments mentioned above.

The “As Reported” amounts in the tables below represent the amounts reported in the Restated Form 10-Q/A, adjusted in its presentation for the discontinued operations of the Company's wholly-owned subsidiary CBC Settlement Funding, LLC (“CBC”), which was sold on *December 13, 2017* (see Note 8 – Discontinued Operations and Note 20 – Subsequent events).

The following errors were identified as part of the restatement:

In connection with the Company determining it lacked the requisite control to consolidate Pegasus during the Non-Reliance Period, the Company has now accounted for its investment in Pegasus under the equity method in accordance with US GAAP. On the Company's *March 31, 2017* consolidated balance sheet, this resulted in (i) a decrease in cash of *\$732,000*; (ii) a decrease in the investment in personal injury claims of *\$44,710,000*; (iii) a decrease in other assets of *\$109,000*; (iv) a decrease in other liabilities of *\$727,000*; and (v) a decrease in non-controlling interest of *\$999,000*, offset by a corresponding increase in the equity method investment of *\$45,823,000*.

On the Company's consolidated statement of operations, this resulted in (i) a decrease in total revenues of *\$2,136,000*; (ii) a decrease in expenses of *\$2,180,000*; (iii) an increase in the income attributable to the non-controlling interest of *\$9,000*; and (iv) an increase in earnings from equity method investment of *\$35,000* for the *three* months ended *March 31, 2017*. This change to the equity method of accounting had *no* effect on net (loss) income attributable to Asta Funding, Inc. during the Non-Reliance Period.

On the Company's consolidated statement of operations, this resulted in (i) a decrease in total revenues of *\$4,438,000*; (ii) a decrease in expenses of *\$4,377,000*; (iii) a decrease in the income attributable to the non-controlling interest of *\$12,000*; and (iv) a decrease in earnings from equity method investment of *\$49,000* for the *six* months ended *March 31, 2017*. This change to the equity method of accounting had *no* effect on net (loss) income attributable to Asta Funding, Inc. during the Non-Reliance Period.

The Company determined that it had *not* previously accounted for certain foreign currency gains/losses on intercompany balances and transactions in accordance with US GAAP. The Company improperly accounted for the foreign currency effect of certain transactions as if they were long-term investments by including the foreign currency effect in accumulated other comprehensive income instead of properly recording the effect as operating expenses as required under ASC 830.

The correction to properly apply US GAAP to these foreign currency matters resulted in decreased revenue of *\$88,000*, an increase in other income of *\$35,000*, and a decrease in general and administrative expenses of *\$117,000* for the *three* months ended *March 31, 2017*.



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 1— Restatement of Financial Statements (continued)**

The correction to properly apply US GAAP to these foreign currency matters resulted in increased revenue of \$6,000, a decrease in other income of \$58,000, and an increase in general and administrative expenses of \$86,000 for the six months ended *March 31, 2017*.

The correction of foreign currency transaction on the consolidated balance sheet are as follows:

<i>Increase (decrease) in:</i>	<i>Impact from September 30, 2016 10K/A filing</i>	<i>Current period impact</i>	<i>Cumulative net impact</i>
Cash and cash equivalents	\$3,000	\$(63,000)	\$(60,000)
Consumer receivables acquired for liquidation	(245,000)	184,000	(61,000)
Due from third party collection agencies and attorneys	45,000	7,000	52,000
Deferred income taxes	(722,000)	(102,000)	(824,000)
Other assets	(33,000)	223,000	190,000
Other liabilities	(18,000)	208,000	190,000
Accumulated other comprehensive loss	718,000	177,000	895,000
Retained earnings	(1,653,000)	(139,000)	(1,792,000)

3. Prior to the sale of its structured settlement business, the Company purchased periodic payments under structured settlements and annuity policies from individuals in exchange for a lump sum payment. The Company has elected to carry the structured settlements at fair value in accordance with the guidance of FASB ASC, Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 822-10-50-28 through 50-22).

As previously disclosed in the Restated Form 10-Q/A, the Company did *not* reflect the quarterly increase in certain underlying benchmark interest rates used in determining fair value of the Company's structured settlements for the quarter ended *December 31, 2016* which resulted in a decrease in the fair value of the Company's structured settlements of approximately \$2.6 million (reflected in assets related to discontinued operations in this restated consolidated balance sheet) with an associated increase in prepaid income taxes and deferred tax assets of approximately \$1.0 million (reflected in the loss from discontinued operations in this consolidated statement of

operations).

In connection with the Company's filing of the Form 10-K/A, the Company adjusted the fair value of its structured settlements to reflect the appropriate benchmark interest rates at *September 30, 2016*, which resulted in an decrease in net loss attributable to discontinued operations and an increase in assets related to discontinued operations of *\$727,000*. As this increase in fair value was originally recorded during the *three* month period ended *December 31, 2016*, this Amendment includes an increase in both the retained earnings and the net loss attributable to discontinued operations of *\$727,000* as of and for the *six* months ended *March 31, 2017*.

4. The Company determined that it had *not* accounted for certain unallocated payments reported on its consolidated balance sheet properly during the Non-Reliance Period. The correction of this error resulted in a decrease to consumer receivables acquired for liquidation of *\$648,000* and retained earnings of *\$648,000* as of *September 30, 2016* and is therefore included in the net adjustment to retained earnings as of *March 31, 2017*.

5. The Company discovered that it did *not* properly record an amortizable asset and related liability in conjunction with an asset purchase agreement entered into in *June 2015* with a related party. The correction of this error resulted in a decrease in income from discontinued operations of *\$60,000* and *\$118,000* for the *three* and *six* months ended *March 31, 2017*.

The correction of these errors on the consolidated balance sheet are as follows:

<i>Increase (decrease) in:</i>	<i>Impact from September 30, 2016 10K/A filing</i>	<i>Current period impact</i>	<i>Cumulative net impact</i>
Assets related to discontinued operations	\$307,000	\$(274,000)	\$33,000
Liabilities related to discontinued operations	756,000	(155,000)	601,000
Retained earnings	(442,000)	(118,000)	(560,000)

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 1— Restatement of Financial Statements (continued)**

The Company identified other transactions that had *not* been properly accounted for in the correct period and/or for improper amounts and/or improper accounts. The adjustments of these errors were immaterial on an individual basis. The correction of these errors resulted in decreased general and administrative expense of \$0 and \$270,000 for the *three* and *six* months ended *March 31, 2017*.

The correction of these errors on the consolidated balance sheet are as follows:

<i>Increase (decrease) in:</i>	<i>Impact from September</i>		
	<i>30, 2016 10K/A filing</i>	<i>Current period impact</i>	<i>Cumulative net impact</i>
Cash and cash equivalents	\$-	\$11,000	\$11,000
Other liabilities	269,000	(257,000)	12,000
Retained earnings	(137,000)	270,000	133,000
Assets related to discontinued operations	45,000	-	45,000
Additional paid in capital	8,000	-	8,000

The Company identified the personal injury claims asset balance of Pegasus was determined to be overstated at *March 31, 2017* by \$400,000. The correction of this resulted in a decrease in earnings from the equity investment in Pegasus and income from continuing operations of \$320,000 and \$0 for the *three* and *six* months ended *March 31, 2017*, respectively. Additionally, the equity method investment was increased \$101,000 to reflect the impact of related accruals in the Form 10-K/A.

Some of the corrections noted above impacted earnings (loss) before taxes which, in turn, required a calculation of the tax impact. The net impact to the Company's consolidated balance sheet was a (i) decrease to prepaid and income taxes receivable of \$49,000; and (ii) decrease to deferred tax assets of \$2,750,000.

On the Company's consolidated statement of operations, there was (i) a net increase to income tax expense of \$1,866,000; and (ii) a decrease to income tax benefit from discontinued operations of \$223,000 for the *three* months ended *March 31, 2017*.

On the Company's consolidated statement of operations, there was (i) a net increase to income tax expense of \$3,118,000; and (ii) an increase to income tax benefit from discontinued operations of \$138,000 for the *six* months

ended *March 31, 2017*.

All of the following notes to consolidated financial statements have been revised to reflect the effects of the above mentioned restatements.

17

---

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 2 —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 XIX”), 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.

*Consumer receivables*

The Company started out in the consumer receivable business in 1994. 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 and our equity method investment in Pegasus conducts its business solely in the United States. These companies obtain their business from external brokers and internal sales professionals soliciting individuals with personal injury claims. Business is also obtained from their websites and through attorneys.

Social security benefit advocacy

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

Discontinued Operations

US GAAP requires the results of operations of a component of an entity 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.

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 8 - Discontinued Operations in the Company's notes to the consolidated financial statements.

***Basis of Presentation***

The consolidated balance sheet as of *March 31, 2017*, the consolidated statements of operations for the *three* and *six* month periods ended *March 31, 2017* and *2016*, the consolidated statements of comprehensive income (loss) for the *three* and *six* month periods ended *March 31, 2017* and *2016*, the consolidated statements of stockholders’ equity as of and for the *six* months ended *March 31, 2017* and *2016*, and the consolidated statements of cash flows for the *six* month periods ended *March 31, 2017* and *2016*, are unaudited. The *September 30, 2016* financial information included in this Amendment was derived from our audited financial statements included in the Form *10-K/A*. In the opinion of management, all adjustments necessary to present fairly our financial position at *March 31, 2017*, the results of operations for the *three* and *six* month periods ended *March 31, 2017* and *2016* and cash flows for the *six* month periods ended *March 31, 2017* and *2016* have been made. The results of operations for the *three* and *six* month periods ended *March 31, 2017* and *2016* are *not* necessarily indicative of the operating results for any other interim period or the full fiscal year.

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



Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 2—*Business and Basis of Presentation* (continued)**

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/A filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with US 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.

***Principles of Consolidation***

The consolidated financial statements include the accounts of Asta Funding, Inc. and its wholly owned and majority owned subsidiaries. All significant 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 *seven* banks at *March 31, 2017* that exceeded the balance



insured by the FDIC by approximately \$4.0 million. Additionally, *three* foreign banks with an aggregate \$1.6 million balances are *not* FDIC insured. There is a \$9.6 million aggregate balance in a domestic bank that is *not* FDIC insured and has been reclassified to restricted cash in the balance sheet since these assets serve as collateral for the line of credit (see Note 7-Non Recourse Debt ). The Company has an additional \$0.5 million in restricted cash that is included in assets related to discontinued operations. The Company does *not* believe it is exposed to any significant credit risk due to concentration of cash.

### ***Equity method investment***

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.

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 \$148,000 and \$59,000 and \$0.3 million and \$0.1 million in performance fees for the *three* and *six* months ended *March 31, 2017* and *2016*, respectively.



Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 2—*Business and Basis of Presentation* (continued)**

***Equity method investment*(continued)**

The carrying value of the investment in Serlefin Peru was \$0.2 million as of *March 31, 2017* and *September 30, 2016*. 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 *March 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 our equity method investments for the *three* and *six* months ended *March 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.

### ***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination, and is accounted for under ASC 350. Goodwill has an indefinite useful life and is evaluated for impairment at the reporting-unit level on an annual basis during the *fourth* quarter or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates. The Company has the option of performing a qualitative assessment of impairment to determine whether any further quantitative testing for impairment is necessary. The initial qualitative approach assesses whether the existence of events or circumstances lead to a determination that it is more likely than *not* that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, the Company determines it is more likely than *not* that the fair value is less than carrying value, a *two* step quantitative impairment test is performed. A *step 1* analysis involves calculating the fair value of the associated reporting unit and comparing it to the reporting unit's carrying value. If the fair value of the reporting unit exceeds the carrying value of the reporting unit including goodwill and the carrying value of the reporting unit is positive, goodwill is considered *not* to be impaired and *no* further analysis is required. If the fair value of the reporting unit is less than its carrying value, *step 2* of the impairment test must be performed. *Step 2* involves calculating and comparing the implied fair value of the reporting unit's goodwill with its carrying value. Impairment is recognized if the estimated fair value of the reporting unit is less than its net book value. Such loss is calculated as the difference between the estimated impaired fair value of goodwill and its carrying amount. As of *March 31, 2017*, goodwill of the Company consists of *\$1.4* million from the purchase of VATIV. Additionally, the Company has goodwill of *\$1.4* million from the purchase of CBC, which is included under assets related to discontinued operations on the consolidated balance sheet.

### ***Reclassifications***

Certain prior period amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had *no* effect on previously reported net loss or shareholders' equity.

### **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. Given the changes in the Company's business management is continuing to assess this new standard and the impact it will have on accounting for its revenues.



Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 2—*Business and Basis of Presentation* (continued)**

**Recent Accounting Pronouncements (continued)**

In *January 2016*, the FASB issued ASU No. 2016-01, 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 *February 2016*, the FASB issued ASU No. 2016-02 Leases (Topic 842) to amend lease accounting requirements and requires entities to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The new standard will require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. The standard update is effective for fiscal years beginning after *December 15, 2018* and interim periods within those years and early adoption is permitted. The standard is to be applied using a modified retrospective approach and includes a number of optional practical expedients that entities *may* elect to apply. The Company is currently evaluating the impact of adopting this update on its consolidated financial statements and expects that most of its operating leases will be subject to the accounting standard update and will recognize as operating lease liabilities and right-of-use assets upon adoption

In *March 2016*, the FASB issued ASU No. 2016-09, 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, 2016*, including interim periods within that reporting period. The Company is currently evaluating the impact this update will have on its 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 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 *November 2016*, the FASB issued ASU No. 2016-18, Restricted Cash ("ASU 2016-18"), to require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. Consequently, transfers between cash and restricted cash will *not* be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. ASU 2016-18 does *not* provide a definition of restricted cash or restricted cash equivalents. The new guidance will only be applicable to amounts described by the Company as restricted cash. We adopted ASU 2016-18 on *October 1, 2016*, the effect of which was a change in presentation on our consolidated statement of cash flows, but *not* on our consolidated financial results.

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.

### Note 3—Available-for-Sale Investments

Investments classified as available-for-sale at *March 31, 2017* and *September 30, 2016*, consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2017	\$5,408,000	\$4,000	\$(15,000)	\$5,397,000

September 30, 2016 \$55,723,000 \$1,089,000 \$(49,000 ) \$56,763,000

The available-for-sale investments do *not* have any contractual maturities. The Company sold *six* investments during the *six* months ended *March 31, 2017*, with a realized loss of *\$993,000*. The Company received *\$177,000* in capital gains distributions during the *six* months ended *March 31, 2017*. For the *six* months ended *March 31, 2016*, the Company sold *two* investments with a realized loss of *\$31,000* and also received *\$47,000* in capital gains distributions during that period. The Company recorded an aggregate realized loss of *\$816,000* related to its available-for-sale securities for the *first six* months ended *March 31, 2017* compared to an aggregate realized gain of *\$16,000* for the *six* month period ended *March 31, 2016*. The Company sold *six* investments during the *three* months ended *March 31, 2017* with a realized loss of *\$948,000*. There was *no* sale of investments during the *three* months ended *March 31, 2016*.



Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 3—Available-for-Sale Investments** *(continued)*

At *March 31, 2017*, there were *three* investments, *two* of which were in an unrealized loss position that had existed for *12* months or more. All of these securities are considered to be acceptable credit risks. Based on the evaluation of the available evidence, including recent changes in market rates and credit rating information, management believes the aggregate decline in fair value for these instruments is temporary. In addition, management has the ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery or maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

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

**Note 4—Consumer Receivables Acquired for Liquidation**

Accounts acquired for liquidation are stated at their net estimated realizable value and consist primarily of defaulted consumer loans to 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 has extensive liquidating experience in the field of distressed credit card receivables, telecommunication receivables, consumer loan receivables, retail installment contracts, consumer receivables, and auto deficiency receivables.

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.

Table of Contents

## ASTA FUNDING, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) (Restated)

## Note 4—Consumer Receivables Acquired for Liquidation (continued)

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

	For the Three Months Ended March 31,			
	2017		2016	
Balance, beginning of period	\$13,462,000		\$18,809,000	
Acquisitions of receivable portfolio	—		134,000	
Net cash collections from collection of consumer receivables acquired for liquidation	(6,071,000)		(7,397,000)	
Impairment	—		(124,000)	
Effect of foreign currency translation	270,000		140,000	
Finance income recognized	3,929,000		4,878,000	
Balance, end of period	\$11,590,000		\$16,440,000	
Finance income as a percentage of collections	64.72	%	65.95	%

	For the Six Months Ended March 31,			
	2017		2016	
Balance, beginning of period	\$13,427,000		\$15,056,000	
Acquisitions of receivable portfolio	2,213,000		6,185,000	
Net cash collections from collection of consumer receivables acquired for liquidation	(12,086,000)		(14,774,000)	
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(190,000)	)	—	
Impairment	—		(124,000)	
Effect of foreign currency translation	202,000		113,000	
Finance income recognized	8,024,000		9,984,000	
Balance, end of period	\$11,590,000		\$16,440,000	
Finance income as a percentage of collections	65.36	%	67.58	%

During the *three* and *six* month periods ended *March 31, 2017*, the Company purchased \$0 million and \$35.0 million, respectively, of face value portfolios at a cost of \$0.0 million and \$2.2 million, respectively. During the *three* and *six* month periods ended *March 31, 2016*, the Company purchased \$24.8 million and \$121.0 million, respectively, of face value portfolios at a cost of \$1.7 million and \$6.2 million, respectively.

As of *March 31, 2017*, the Company held consumer receivables acquired for liquidation from Peru and Colombia of \$4.8 million and \$4.1 million, respectively. The total amount of foreign consumer receivables acquired for liquidation was \$8.9 million, or 75.9% of the total consumer receivables held of \$11.6 million at *March 31, 2017*.

As of *March 31, 2016*, the Company held consumer receivables acquired for liquidation from Peru and Colombia of \$4.4 million and \$3.9 million, respectively. The total amount of foreign consumer receivables acquired for liquidation was \$8.3 million, or 50.6% of the total consumer receivables held of \$16.4 million at *March 31, 2016*.

The following table summarizes collections received by the Company's *third-party* collection agencies and attorneys, less commissions and direct costs for the *three* and *six* month periods ended *March 31, 2017* and *2016*, respectively.

	<b>For the Three Months</b>		<b>For the Six Months</b>	
	<b>Ended March 31,</b>		<b>Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Gross collections (1)	\$10,657,000	\$12,356,000	21,916,000	24,601,000
Commissions and fees (2)	4,586,000	4,959,000	9,640,000	9,827,000
Net collections	\$6,071,000	\$7,397,000	\$12,276,000	\$14,774,000

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

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 4—Consumer Receivables Acquired for Liquidation** *(continued)*

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 receives 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 5—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 \$2.1 million and \$1.8 million in interest and fees for *three* months ended *March 31, 2017* and *2016*, respectively, and earned \$4.4 million and \$4.9 million in interest and fees for *six* months ended *March 31, 2017* and *2016*, respectively . The Company had a net invested balance in personal injury claims of \$45.9 million and \$48.6 million on *March 31, 2017* and *September 30, 2016*, respectively.

Equity method investments as of *March 31, 2017* and *September 30, 2016* are as follows:

<b>March 31, 2017</b>		<b>September 30, 2016</b>	
Carrying Value	Ownership	Carrying Value	Ownership Percentage

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

	Percentage					
Pegasus Funding, LLC	\$45,924,000	80	%	\$48,582,000	80	%

The carrying value of the Company's equity investment at *March 31, 2017* was *\$45,924,000*, a decrease of *\$2,658,000* over the prior year's carrying value of *\$48,582,000*. The decrease in carrying value was attributed to the Company's equity earnings of *\$49,000* for the *six months ended March 31, 2017*, less loan repayments made to Asta which are classified on its balance sheet as due to Asta of *\$2,707,000* for the *six months ended March 31, 2017*.

The carrying value of the Company's equity investment at *September 30, 2016* was *\$48,582,000*, an increase of *\$7,831,000* over the prior year's carrying value of *\$40,751,000*. The increase in carrying value was attributed to the Company's current year equity earnings of *\$10,551,000*, less repayments made to Asta which are classified on its balance sheet as due to Asta of *\$2,720,000* during fiscal 2016.

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. Pegasus is currently the Company's personal injury claims funding business and is a joint venture that is *80%* owned by the Company and *20%* owned by PLF. 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* (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 will continue in existence in order to collect advances on its existing Portfolio. The Company will 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 will 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 will be applied against the outstanding balance of overhead expenses previously advanced by the Company to Pegasus. After *January 2, 2017*, additional overhead expenses advanced will 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. See Note 20 - Subsequent Events.

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 5—*Litigation Funding*** (continued)***Equity Method Investment*** (continued)

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

**Condensed Statement  
of Operations  
Information**

	<b>Three months ended</b>	
	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Personal injury claims income	\$2,136,000	\$1,846,000
Operating expenses	2,580,000	1,430,000
(Loss) income from operations	\$(444,000 )	\$416,000
(Loss) earnings from equity method investment	\$(355,000 )	\$333,000

	<b>Six months ended</b>	
	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Personal injury claims income	\$4,439,000	\$4,931,000
Operating expenses	4,378,000	2,647,000
Income (loss) from operations	\$61,000	\$2,284,000
Company's equity income from operations	\$49,000	\$1,827,000

**Condensed Balance Sheet  
Information**

	<b>March 31, 2017</b>	<b>September 30, 2016</b>
Cash	\$732,000	\$539,000
Investment in personal injury claims	44,710,000	48,289,000
Other assets	109,000	188,000
Total Assets	\$45,551,000	\$49,016,000
Due to Asta	\$31,698,000	\$34,404,000
Other liabilities	600,000	1,053,000
Equity	13,253,000	13,559,000
Total Liabilities and Equity	\$45,551,000	\$49,016,000

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

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 2016*, 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. The loan balance at *March 31, 2017* was approximately *\$1.5* million. The revolving line of credit is collateralized by BP Divorce Funding’s profits share in BPCM and other assets. As of *March 31, 2017*, the Company’s investment in cases through BPCM was approximately *\$2.5* million. There was *no* income recognized in the *three* and *six* month periods ended *March 31, 2017* and *2016*.



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 6—Furniture & Equipment**

Furniture and equipment consist of the following as of the dates indicated:

	<b>March 31, 2017</b>	<b>September 30, 2016</b>
Furniture	\$273,000	\$273,000
Equipment	236,000	235,000
Software	1,363,000	1,350,000
	<i>1,872,000</i>	<i>1,858,000</i>
Less accumulated depreciation and amortization	<i>1,714,000</i>	<i>1,662,000</i>
Balance, end of period	<i>\$158,000</i>	<i>\$196,000</i>

**Note 7—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*.

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 Palisades 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 \$2,901,199 included a voluntary prepayment of \$1,866,036 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 *March 31, 2017*, the Company recorded a liability to BMO of approximately \$169,000, which has been recorded in other liabilities in the Company’s consolidated balance sheet. The funds were subsequently remitted to BMO on *April 10, 2017*. 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 provided 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 required 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 includes (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 Net Loss requirement from a quarterly to an annual basis. All other terms of the original agreement remain in effect. The Company has borrowed \$9.6 million against the facility, which was outstanding as of *March 31, 2017*. There is a \$9.6 million aggregate balance in Bank Hapoalim which has been reclassified as restricted cash in the consolidated balance sheets since these assets serve as collateral for the line of credit (see Note 1 – Business and Basis of Presentation). On *April 28, 2017*, the Company renewed the line of credit facility with a new maturity date of *August 2, 2017*.

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 8—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. These shares are subject to a *one* year lock-up period in which the holders cannot sell the shares. In addition, the shares are subject to certain sales restrictions following the initial lock-up period, which expired on *December 31, 2016* (see Note 13 – Stock Based Compensation).

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 has been appointed CEO/General Counsel effective *January 1, 2017*.

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 \$10.5 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 subsequently recognized a loss of approximately \$1.9 million on the above sale of CBC as of *September 30, 2017*.

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 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 *March 31, 2017*, the components of the Company designated as discontinued operations had assets and liabilities of \$95.2 million and \$76.3 million, respectively. As of *September 30, 2016*, the components of the Company designated as discontinued operations had assets and liabilities of \$91.5 million and \$69.2 million, respectively. For the *three* months ended *March 31, 2017* and *2016*, the Company designated as discontinued operations reported a (loss) profit, net of income taxes of (\$1.1) million and \$0.6 million, respectively. For the *six* months ended *March 31, 2017* and *2016*, the Company designated as discontinued operations reported a (loss) income, net of income taxes of (\$2.3) million and \$0.8 million, respectively.

Table of Contents

## ASTA FUNDING, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) (Restated)

Note 8—*Discontinued Operations* (continued)

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

	<b>Three months ended</b>	
	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Revenues:		
Unrealized (loss) gain on structured settlements	\$(1,338,000)	\$1,637,000
Interest income on structured settlements	1,941,000	1,481,000
Total revenues	603,000	3,118,000
Other income	15,000	—
	618,000	3,118,000
Expenses:		
General and administrative expenses	1,508,000	1,372,000
Interest expense	948,000	789,000
	2,456,000	2,161,000
(Loss) income from discontinued operations before income taxes	(1,838,000)	957,000
Income tax (benefit) expense from discontinued operations	(780,000 )	402,000
(Loss) income from discontinued operations before non-controlling interest	(1,058,000)	555,000
Non-controlling interest	—	—
(Loss) income from discontinued operations, net of taxes	\$(1,058,000)	\$555,000

	<b>Six months ended</b>	
	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Revenues:		

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

Unrealized (loss) gain on structured settlements	<i>\$(3,020,000)</i>	<i>\$3,164,000</i>
Interest income on structured settlements	<i>3,842,000</i>	<i>2,708,000</i>
Total revenues	<i>822,000</i>	<i>5,872,000</i>
Other income	<i>30,000</i>	<i>—</i>
	<i>852,000</i>	<i>5,872,000</i>
Expenses:		
General and administrative expenses	<i>2,996,000</i>	<i>2,751,000</i>
Interest expense	<i>1,880,000</i>	<i>1,515,000</i>
	<i>4,876,000</i>	<i>4,266,000</i>
(Loss) income from discontinued operations before income taxes	<i>(4,024,000)</i>	<i>1,606,000</i>
Income tax (benefit) expense from discontinued operations	<i>(1,708,000)</i>	<i>675,000</i>
(Loss) income from discontinued operations before non-controlling interest	<i>(2,316,000)</i>	<i>931,000</i>
Non-controlling interest	<i>—</i>	<i>104,000</i>
(Loss) income from discontinued operations, net of taxes	<i>\$(2,316,000)</i>	<i>\$827,000</i>

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

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

	<b>March 31, 2017</b>	<b>September 30, 2016</b>
Cash and cash equivalents	\$1,196,000	(1) \$1,198,000
Restricted cash	499,000	499,000
Structured settlements	89,641,000	86,091,000
Furniture and equipment, net	41,000	47,000
Goodwill	1,405,000	1,405,000
Other assets	2,398,000	2,266,000
Total assets related to discontinued operations	\$95,180,000	\$91,506,000
Other debt - CBC	74,183,000	67,435,000
Other liabilities	2,123,000	1,803,000
Total liabilities related to discontinued operations	\$76,306,000	\$69,238,000

(1) Cash balance with *one* bank at *March 31, 2017* that exceeded the balance insured by the FDIC by approximately \$0.7 million.

**Structured Settlements**

Prior to the sale of CBC, 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 \$3.0 million of unrealized losses recognized in the *six* month period ended *March 31, 2017*, approximately \$4.3 million is due to day *one* gains on new structured settlements financed during the period, offset by a decrease of \$1.0 million in realized gains recognized as realized interest income on structured settlements during the period, and a reduction in fair value of \$6.3 million on CBC's life contingent annuities portfolio as a result of the sale on all of the life contingent assets in *April 2017*. See Note 20 - Subsequent Events. There were *no* other changes in assumptions during the period.

The Company 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 purchased 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 are *not* a material portion of assets at *March 31, 2017*.

Structured settlements consist of the following as of *March 31, 2017* and *September 30, 2016*:

	<b>March 31,</b>	<b>September</b>
	<b>2017</b>	<b>30,</b>
		<b>2016</b>
Maturity (1) (2)	\$152,548,000	\$133,059,000
Unearned income	(62,907,000 )	(46,968,000 )
Structured settlements, net	\$89,641,000	\$86,091,000

(1) The maturity value represents the aggregate unpaid principal balance at *March 31, 2017* and *September 30, 2016*.

(2) There are *no* amounts of structured settlements that are past due, or in nonaccrual status at *March 31, 2017* and *September 30, 2016*.



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 8—Discontinued Operations** (continued)Encumbrances on structured settlements as of *March 31, 2017* and *September 30, 2016* are as follows:

	<b>Interest Rate</b>	<b>March 31, 2017</b>	<b>September 30, 2016</b>
Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025 (3)	8.75 %	\$1,771,000	\$1,862,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026 (3)	7.25 %	4,056,000	4,242,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032 (3)	7.125 %	3,926,000	3,987,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2037 (3)	5.39 %	18,393,000	18,978,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until March 2034 (3)	5.07 %	14,006,000	14,507,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2043 (3)	4.85 %	13,322,000	13,705,000
\$25,000,000 revolving line of credit (3)	4.1 %	18,709,000	10,154,000
Encumbered structured settlements		74,183,000	67,435,000
Structured settlements not encumbered		15,458,000	18,656,000
Total structured settlements		\$89,641,000	\$86,091,000

(3) See the table below – Other Debt – CBC

At *March 31, 2017*, the expected cash flows of structured settlements based on maturity value are as follows:

September 30, 2017 (6 months) \$5,702,000

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

September 30, 2018	8,892,000
September 30, 2019	9,237,000
September 30, 2020	8,713,000
September 30, 2021	9,576,000
Thereafter	110,428,000
<b>Total</b>	<b>\$152,548,000</b>

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* (see Note 20 – Subsequent Events).

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 issued approximately \$18.3 million of fixed rate asset-backed notes with a yield of 5.0%.

As of *March 31, 2017*, the remaining debt amounted to \$74.2 million, which consisted of \$18.7 million drawdown from a line of credit from an institutional source and \$55.5 million of notes payable issued by entities 100%-owned and consolidated by CBC. These entities are bankruptcy-remote entities created to issue notes secured by structured settlements. The fair value of this debt approximated its carrying value.

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 9—Commitments and Contingencies**

***Employment Agreement***

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*.

On *November 11, 2016*, the Company announced that it would continue its personal injury claims funding business through the formation of a wholly owned subsidiary Simia. In connection with its formation, Simia entered into an employment agreement (the “Employment Agreement”) with Patrick F. Preece to serve as its Chief Executive Officer. Under the Employment Agreement, Mr. Preece receives an annual base salary of *\$250,000*, subject to annual increases at the discretion of the compensation committee (the “Compensation Committee”) of the Board of Directors of the Company (the “Board”). Mr. Preece is eligible to receive an annual cash or non-cash bonus in the sole and exclusive discretion of the Compensation Committee. Mr. Preece is also eligible to receive a cash or non-cash profit bonus of an aggregate amount up to *15%* of the profit of the business of Simia (the “Business”) for each fiscal year in which the Business achieves an internal rate of return of at least *18%*. In the event that the Business is sold to a *third* party solely for cash consideration during Mr. Preece’s employment period, he will be eligible to receive a cash or non-cash sale profit bonus of up to *15%* of the closing consideration received by the Company. He is also entitled to participate in any other benefit plans established by the Company for management employees. The Employment Agreement has a *five* year term. Under the Employment Agreement, Mr. Preece *may* be terminated with or without “cause” (as defined in the Employment Agreement) and *may* resign with or without “good reason” (as defined in the Employment Agreement). If Mr. Preece is terminated without “cause” or resigns for “good reason” he will receive severance equal to *two* years of his base salary. He is also entitled to a pro-rata share of the profit bonus and his deferred compensation will vest immediately. Mr. Preece is also subject to a non-compete and non-solicitation provision during the term of his employment and, unless his employment is terminated without “cause” or he resigns for “good reason,” for *two* years thereafter.

***Leases***

The Company leases its facilities in Englewood Cliffs, NJ, Houston, TX, New York, NY and Conshohocken, PA.

### *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.

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 *three* month period ended *September 30, 2016*. The Company reviewed the case as of *March 31, 2017* and deemed that the *\$2.3* million reserve remains sufficient. See Note 20 - 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. As of *March 31, 2017*, and based on its assessments of current facts and circumstances, the Company believes that it has recorded adequate reserves to cover future obligations associated with this lawsuit. See Note 20 - Subsequent Events.

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.

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 9—Commitments and Contingencies** *(continued)*

***Legal Matters*** *(continued)*

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 10—Income Recognition, Impairments, and Commissions and Fees**

***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 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. 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.

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 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.

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.



Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 10—Income Recognition, Impairments, and Commissions and Fees** *(continued)*

***Impairments*** *(continued)*

During the fiscal year 2016, the Company recorded an impairment loss on this investment of \$1.0 million, which was included in general and administrative expenses in the consolidated statements of operations. In fiscal year 2017, the Company received an announcement that the investment was being liquidated. After careful consideration, the \$3.4 million carrying value of this investment was written off as of *March 31, 2017*.

***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.

**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 continuing operations for the *three* months and *six* months ended *March 31, 2017* was 12.0% and 34.7%, respectively, compared to 2.8% and 36.8 in the same periods of the prior year. The effective rate for fiscal 2017 and 2016 differed from the U.S. federal statutory rate of 35% due to state income taxes, and other permanent differences.

The Company files income tax returns in the U.S federal jurisdiction, various state jurisdictions, and various foreign countries. The tax returns for the 2014 and 2015 fiscal years are currently under examination by the Internal Revenue Service. The Company does *not* have any uncertain tax positions.

## Note 12—Net (Loss) Income per Share

Basic per share data is calculated by dividing net income (loss) 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.

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

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Net Loss	Weighted Average Shares	Per Share Amount	Net Loss	Weighted Average Shares	Per Share Amount
Net (loss) income from continuing operations	\$(6,916,000)	9,691,576	\$ (0.71 )	\$(2,385,000)	12,076,120	\$ (0.20 )
Net (loss) income from discontinued operations	(1,058,000)	9,691,576	(0.11 )	555,000	12,076,120	0.05
	\$(7,974,000)		\$ (0.82 )	\$(1,830,000)		\$ (0.15 )
Effect of Dilutive Stock		—	—		—	—
Diluted	\$(7,974,000)	9,691,576	\$ (0.82 )	\$(1,830,000)	12,076,120	\$ (0.15 )

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

	Six Months Ended March 31, 2017			Six Months Ended March 31, 2016		
	Net Loss	Weighted Average Shares	Per Share Amount	Net Loss	Weighted Average Shares	Per Share Amount
Net (loss) income from continuing operations	\$(8,604,000 )	10,795,903	\$ (0.80 )	\$(1,094,000)	12,115,987	\$ (0.09 )

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

Net (loss) income from discontinued operations	(2,316,000 )	10,795,903	(0.21 )	827,000	12,115,987	0.07
	\$(10,920,000)		\$ (1.01 )			\$ (0.02 )
Effect of Dilutive Stock		—	—		—	—
Diluted	\$(10,920,000)	10,795,903	\$ (1.01 )	\$(267,000 )	12,115,987	\$ (0.02 )

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 13—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 *December 16, 2015*, the Compensation Committee of the Board (“Compensation Committee”) granted *67,100* stock options to non-officer employees of the Company, of which *9,100* options vested immediately and the remaining *58,000* 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	<i>0.24%</i>
Expected term (years)	<i>6.25</i>
Expected volatility	<i>23.4%</i>
Dividend yield	<i>0.00%</i>

On *December 16, 2015*, the Compensation Committee granted *5,000* restricted shares to a non-officer employee of the Company. These shares vested fully in *March 2016*. On *December 31, 2015*, the Company issued an aggregate of *123,304* shares to the *two* former CBC principals (see Note 5 – Acquisition of CBC). These shares are subject to a *one* year lock up period in which the holders cannot sell the shares.

In addition, the shares are subject to certain sales restrictions following the initial lock-up period which expired on *December 31, 2016* (see Note 8 – Discontinued Operations).

**Note 14—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 *484,200* shares, an award of *245,625* shares of restricted stock, and has cancelled *66,868* options, leaving *1,337,043* shares available as of *March 31, 2017*. As of *March 31, 2017*, approximately *95* of the Company's employees were able to participate in the *2012 Plan*.

### ***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.

Table of Contents

## ASTA FUNDING, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) (Restated)

## Note 14—Stock Option Plans (Continued)

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:

	Six Months Ended March 31, 2017		2016	
	Number Of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding options at the beginning of period	949,667	\$ 8.47	1,043,566	\$ 8.47
Options granted	—	—	67,100	7.93
Options exercised	—	—	(7,499 )	6.32
Options forfeited/cancelled	(52,800 )	14.13	(8,300 )	8.14
Outstanding options at the end of period	896,867	\$ 8.14	1,094,867	\$ 8.45
Exercisable options at the end of period	858,195	\$ 8.15	963,522	\$ 8.48

	Three Months Ended March 31, 2017		2016	
	Number Of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

		<b>Price</b>		<b>Price</b>
Outstanding options at the beginning of period	897,167	\$ 8.14	1,110,666	\$ 8.43
Options granted	—	—	—	—
Options exercised	—	—	(7,499 )	6.32
Options forfeited/cancelled	(300 )	8.08	(8,300 )	8.14
Outstanding options at the end of period	896,867	\$ 8.14	1,094,867	\$ 8.45
Exercisable options at the end of period	858,195	\$ 8.15	963,522	\$ 8.48

The following table summarizes information about the 2012 Plan, 2002 Plan, and the Equity Compensation Plan outstanding options as of *March 31, 2017*:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
\$2.8751– 5.7500	3,800	2.1	\$ 2.95	3,800	\$ 2.95
\$5.7501– 8.6250	768,567	5.0	7.96	729,895	7.96
\$8.6251– 11.5000	124,500	5.8	9.40	124,500	9.40
	896,867	5.1	\$ 8.14	858,195	\$ 8.15

The Company recognized \$8,000 and \$14,000 of compensation expense related to the stock option grants during the *six* and *three* month periods ended *March 31, 2017*, respectively. The Company recognized \$327,000 and \$131,000 of compensation expense related to the stock option grants during the *six* and *three* month periods ended *March 31, 2016*, respectively. As of *March 31, 2017*, there was \$62,000 of unrecognized compensation cost related to stock option awards. The weighted average period over which such costs are expected to be recognized is *1.7* years.



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 14—Stock Option Plans (Continued)**

The intrinsic value of the outstanding and exercisable options as of *March 31, 2017* was approximately \$228,000 and \$219,000, respectively. The weighted average remaining contractual life of exercisable options is 4.9 years. There were *no* options exercised during the *six* and *three* month periods ended *March 31, 2017*. The fair value of the stock options that vested during the *six* and *three* month periods ended *March 31, 2017* was approximately \$657,000 and \$111,000, respectively. The fair value of the stock options that vested during the *six* and *three* month periods ended *March 31, 2016* was approximately \$1,052,000 and \$122,000, respectively. There were *no* options granted during the *six* and *three* month periods ended *March 31, 2017*. The fair value of the options granted during the *six* and *three* month periods ended *March 31, 2016* was approximately \$532,000 and \$0, respectively.

The following table summarizes information about restricted stock transactions:

	<b>Six Months Ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	
	<b>Weighted Average Number of Date Shares Fair Value</b>	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at the beginning of period	—\$	— 44,107	\$ 9.28
Awards granted	—	— 5,000	7.89
Vested	—	— (34,107)	9.57
Forfeited	—	— —	—
Unvested at the end of period	—\$	— 15,000	\$ 7.92

	<b>Three Months Ended March 31,</b>		
	<b>2017</b>	<b>2016</b>	
	<b>Weighted Average Number of Average</b>	<b>Number of</b>	<b>Weighted Average</b>

	Grant Date Fair Value	Shares	Grant Date Fair Value
Unvested at the beginning of period	—\$	— 15,000	\$ 7.92
Awards granted	—	— —	—
Vested	—	— —	—
Forfeited	—	— —	—
Unvested at the end of period	—\$	— 15,000	\$ 7.92

The Company recognized *no* compensation expense related to the restricted stock awards during both the *six* and *three* month periods ended *March 31, 2017*, respectively. The Company recognized *\$101,000* and *\$14,000* of compensation expense related to the restricted stock awards during the *six* and *three* month periods ended *March 31, 2016*, respectively. As of *March 31, 2017*, there was *no* unrecognized compensation cost related to restricted stock awards. An aggregate of *5,000* shares of restricted stock was granted during the *first six* months of fiscal year *2016*, all of which were granted to a non-officer employee. The fair value of the awards vested during the *six* month periods ended *March 31, 2017* and *2016* was *\$0* and *\$40,000*, respectively.

The Company recognized an aggregate total of *\$8,000* and *\$14,000* in compensation expense for the *six* and *three* month periods ended *March 31, 2017*, respectively, for the stock options and restricted stock grants. The Company recognized an aggregate total of *\$428,000* and *\$145,000* in compensation expense for the *six* and *three* month periods ended *March 31, 2016*, respectively, for the stock options and restricted stock grants. As of *March 31, 2017*, there was a total of *\$62,000* of unrecognized compensation cost related to unvested stock options and restricted stock grants. The method used to calculate stock based compensation is the straight line pro-rated method.

#### Note 15—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 *March 31, 2017*, there were *no* such restrictions. *No* dividends were declared during the *three* and *six* month periods ended *March 31, 2017* and *2016*.

On *August 11, 2015*, the Board approved the repurchase of up to *\$15,000,000* of the Company's common stock and authorized management of the Company to enter into the Shares Repurchase Plan under Sections *10b-18* and *10b5-1* of the Securities Exchange Act (the "Shares Repurchase Plan"). The Shares Repurchase Plan was to have been effective to *December 31, 2015*. On *December 17, 2015* the Board approved the extension of the Plan to *March 31, 2016* and reset the maximum to an additional *\$15* million in repurchases. On *March 17, 2016*, having repurchased approximately *\$9.9* million of the Company's common stock, the Board approved further extension of the Plan to *December 31, 2016* and reset the maximum to *\$15* million in repurchases. On *March 22, 2016*, a Company shareholder commenced a tender offer on the Company's common stock. Per the provisions of the Shares Repurchase

Plan, it terminated immediately, and *no* further purchases were permitted under the Shares Repurchase Plan. Through *September 30, 2016*, the Company purchased approximately *1,186,000* shares at an aggregate cost of approximately *\$10.1* million under the Shares Repurchase Plan.

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 15— Stockholders' Equity** *(continued)*

On *May 25, 2016*, the Company entered into a Mutual Confidentiality Agreement (the "Agreement") with MPF InvestCo 4, LLC, a wholly owned subsidiary of The Mangrove Partners Master Fund, Ltd. ("Mangrove"), pursuant to which Mangrove and the Company agreed to (1) provide certain Confidential Information (as defined below) to the other party to the Agreement and the other party's representatives, (2) the confidentiality of the Confidential Information, and (3) certain restrictions on the activities of the parties to the Agreement.

Pursuant to the Agreement, the Company made available to Mangrove and its representatives certain confidential information relating to the Company or its subsidiaries, and Mangrove agreed to make available to the Company and its representatives certain confidential information relating to Mangrove and its affiliates (collectively, the "Confidential Information"). The Company and Mangrove agreed *not* to disclose the Confidential Information, and to cause each of their representatives, respectively, *not* to disclose the Confidential Information, except as required by law. Pursuant to the Agreement, the Company provided information requested by Mangrove to *one* or more of Mangrove's representatives and such representatives prepared summaries of such information (the "Summaries"). The Company approved the Summaries, and the approved Summaries were provided to Mangrove. The Company agreed to release the approved Summaries publicly on or prior to the end of the Extended Period (as defined in the Agreement), to the extent that the information contained in the Summaries has *not* already been disclosed.

Further, under the terms of the Agreement, Mangrove and the Company have agreed to certain restrictions during the Discussion Period, which began on *May 25, 2016* and the Extended Period, including that, unless consented to by the other party to the Agreement or required by applicable law, neither party will, and shall cause its affiliates and representatives *not* to, (i) commence any litigation against the other party, (ii) make any filing with the Securities and Exchange Commission of proxy solicitation materials, preliminary proxy statement, definitive proxy statement or otherwise or call any annual or special meeting of stockholders of the Company, (iii) publicly refer to: (a) the Confidential Information or Discussion Information (as defined in the Agreement), (b) any annual or special meetings of stockholders of the Company or (c) any prior discussions between the parties, including in any filing with the Securities and Exchange Commission (including any proxy solicitation materials, preliminary proxy statement, definitive proxy statement or otherwise), in any press release or in any other written or oral disclosure to a *third* party, (iv) make any purchases of the Company's securities, including, but *not* limited to, pursuant to any stock buyback plans, tender offers, open-market purchases, privately negotiated transactions or otherwise, (v) make any demand under Section 220 of the Delaware General Corporation Law, (vi) make or propose to make any amendments to the Company's Certificate of Incorporation, as amended, or By-laws, as amended, (vii) adopt, renew, propose or otherwise enter into a Shareholder Rights Plan with respect to the Company's securities, (viii) adopt or propose any changes to

the Company's capital structure or (ix) negotiate, discuss, enter into, propose or otherwise transact in any extraordinary transactions with respect to the Company, outside the ordinary course of business, including, but *not* limited to, any mergers, asset sales or asset purchases.

On *November 21, 2016*, Mangrove notified the Company that Mangrove was terminating the Agreement with the Company. Under the Agreement, the Company and Mangrove agreed to (1) provide certain Confidential Information (as defined below) to the other party to the Agreement and the other party's representatives, (2) maintain the confidentiality of the Confidential Information, and (3) certain restrictions on the activities of the parties to the Agreement. Upon termination of the Discussion Period, the agreement provides for a period of 30 days thereafter (the "Extended Period"). Throughout the Extended Period of the Agreement, the parties are subject to the standstill provisions of the Agreement. Following the Discussion Period and the Extended Period, nothing in the Agreement shall prohibit any party from taking any of the activities referred to as the Restricted Activities, and specifically nothing shall restrict Mangrove or its representatives from calling a special meeting, nominating *one* or more candidates to serve as directors of the Company or commencing, or announcing its intention to commence, a "solicitation" of "proxies" (as such terms are used in Regulation 14A of the Securities Exchange Act of 1934, as amended) to vote with respect to any meeting of stockholders of the Company. The effective termination date of this Agreement was *January 6, 2017*.

On *January 6, 2017*, the Company entered into a settlement agreement (the "Settlement Agreement") with Mangrove and, for limited purposes stated therein, Gary Stern, Ricky Stern, Emily Stern, Arthur Stern, Asta Group, Incorporated and GMS Family Investors LLC (collectively, the "Stern Family").

The Settlement Agreement provided that, within *ten* business days following the date of the Settlement Agreement, the Company will commence a self-tender offer ("Tender Offer") to repurchase for cash *5,314,009* shares of its common stock at a purchase price of *\$10.35* per share. The Tender Offer will expire *no* later than *February 28, 2017*. Pursuant to the Settlement Agreement, Mangrove will tender its *4,005,701* shares for purchase by the Company. The Stern Family has agreed *not* to tender any of their shares in the Tender Offer. In addition, pursuant to a securities purchase agreement dated *January 6, 2017* between Mangrove and Gary Stern (the "Purchase Agreement"), Gary Stern will purchase any remaining shares owned by Mangrove *eleven* business days following the closing of the Tender Offer for *\$10.35* per share.

The Settlement Agreement includes customary standstill and related provisions. Mangrove and the Company also agreed on a mutual release of claims. Additionally, the Company indemnified Mangrove from and against any excise tax imposed as a result of this Settlement Agreement.

The Settlement Agreement was terminable by either the Company or Mangrove by written notice at any time after the close of business on the *second* anniversary of the Settlement Agreement. The Settlement Agreement will also terminate if the Tender Offer does *not* close on or before *February 28, 2017* or the Company amends the terms of the Tender Offer in a manner adverse to Mangrove.



Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 15—Stockholders' Equity (continued)**

In connection with the Settlement Agreement, the Company also entered into a Voting Agreement dated *January 6, 2017* (the "Voting Agreement") with Gary Stern, Ricky Stern, Emily Stern, Asta Group, Incorporated and GMS Family Investors LLC (collectively, the "Stern Stockholders"). The Voting Agreement provides that the Stern Stockholders will *not* have the right to vote more than 49% of the Company's total outstanding shares, and any additional shares held by the Stern Stockholders will be voted in a manner proportionate to the votes of the outstanding shares *not* held by the Stern Stockholders.

On *January 19, 2017*, the Company commenced a self-tender offer to purchase for cash up to 5,314,009 shares of its common stock at a purchase price of \$10.35 per share, less applicable withholding taxes and without interest. The Company made the tender offer pursuant to the Settlement Agreement dated as of *January 6, 2017*, by and among the Company, Mangrove and certain of their respective affiliates, pursuant to which Mangrove and its affiliates would tender their 4,005,701 shares. The tender offer would reduce the number of shares in the public market.

If more than 5,314,009 shares had been tendered, the Company would have purchased all tendered shares on a pro rata basis, subject to the conditional tender provisions described in the Offer to Purchase. Pursuant to the Settlement Agreement, Gary Stern (or his permitted assignees) had unconditionally agreed to purchase from Mangrove and its affiliates any shares owned by Mangrove and its affiliates that the Company did *not* purchase in the tender offer. Effective with the repurchase of the Mangrove shares in this tender offer, Mangrove was *no* longer deemed to be a related party.

The tender offer expired on *February 15, 2017*, at 11:59 p.m., New York City time. Based on the final count by American Stock Transfer & Trust Company, LLC ("AMSTOCK"), the depository for the tender offer, a total of approximately 6,022,253 shares of the Company's common stock were validly tendered and *not* validly withdrawn. Because the tender offer was oversubscribed by 708,244 shares, the Company purchased only a prorated portion of the shares properly tendered by each tendering stockholder. The depository had informed the Company that the final proration factor for the tender offer was approximately 88.24% of the shares validly tendered and *not* validly withdrawn. AMSTOCK promptly issued payment for the 5,314,009 shares accepted pursuant to the tender offer and returned all other shares tendered and *not* purchased. The shares acquired represented approximately 44.7% of the total number of shares of the Company's common stock issued and outstanding as of *February 6, 2017*. As a result of this tender offer, the Company recorded during the *second* quarter an additional \$54.2 million in treasury stock, and

\$797,000 was charged to general and administrative expenses in the consolidated statements of operations which represents the excess of the current market price of the Company's common stock on *January 18, 2017* of \$10.20 per share. Additionally, the Ricky Stern Family 2012 Trust (as Gary Stern's permitted assignee), acquired 471,086 Shares under the Purchase Agreement on *March 10, 2017* for \$4.9 million.

As of *December 31, 2016*, and for the *three* month periods ended *December 31, 2015* and *2016*, through *February 14, 2017*, Mangrove due to their ownership in the Company's common stock, which was acquired in a series of OTC transactions, was deemed to be a related party. Effective on *February 15, 2017*, the date Mangrove tendered its shares, they were *no* longer deemed to be a related party.

## **Note 16—Fair Value of Financial Measurements and Disclosures**

### ***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 *March 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.





Table of Contents

## ASTA FUNDING, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) (Restated)

## Note 16—Fair Value of Financial Measurements and Disclosures (continued)

*Disclosures about Fair Value of Financial Instruments*

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.

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

	March 31, 2017		September 30, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash equivalents (Level 1)	\$2,936,000	\$2,936,000	\$923,000	\$923,000
Available-for-sale investments (Level 1)	5,397,000	5,397,000	56,763,000	56,763,000
Other investments, net (Level 1)	—	—	3,590,000	3,590,000
Consumer receivables acquired for liquidation (Level 3)	11,590,000	44,014,000	13,427,000	47,233,000

The following assets have been reclassified to discontinued operations as of *March 31, 2017* and *September 30, 2016*:

	March 31, 2017		September 30, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial asset				
Structured settlements (Level 3)	89,641,000	89,641,000	86,091,000	86,091,000

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.

Other investments – The Company estimated the fair value using the net asset value per share of the investment. There are *no* unfunded commitments and the investment cannot be redeemed for 5 years from the date of the initial investment ( *October 2014*).

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 4 - 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 (losses) 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 \$3.0 million of unrealized losses recognized in the *six* month period ended *March 31, 2017*, approximately \$4.3 million is due to day *one* gains on new structured settlements financed during the period, offset by a decrease of \$1.0 million in realized gains recognized as realized interest income on structured settlements and a reduction in fair value of \$6.3 million during the period.

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 Company's available-for-sale investments are classified as Level 1 financial instruments based on the classifications described above. The Company did *not* have transfers into or (out of) Level 1 investments during the six month period ended *March 31, 2017*. The Company had *no* Level 2 or Level 3 available-for-sale investments during the *first six* months of fiscal year *2017*.

Table of Contents

## ASTA FUNDING, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) (Restated)

## Note 16—Fair Value of Financial Measurements and Disclosures (continued)

The following table sets forth the Company's quantitative information about its Level 3 fair value measurements as of *March 31, 2017* (which are classified in the consolidated financial statements as assets related to discontinued operations):

	Fair Value	Valuation Technique	Significant Unobservable Input	Weighted Average Rate
Structured settlements at fair value	\$89,641,000	Discounted cash flow	Discount rate	4.80% <del>10.5%</del>

A significant unobservable input used in the fair value measurement of the Company's structured settlements measured at fair value using unobservable inputs (Level 3) is the discount rate. The inputs comprising the discount rate include A-rated U.S. Financial yield curve, plus illiquidity spread, and cash flows of the portfolio are adjusted to take into consideration survival probabilities, if applicable.

The changes in the financial instruments at fair value using significant unobservable inputs (Level 3) during the six months ended *March 31, 2017* were as follows:

Balance at September 30, 2016	\$86,091,000
Total gains and losses included in earnings	(3,020,000 )
Purchases	7,926,000
Interest accreted	3,165,000
Payments received	(4,136,000 )
Fair Value adjustment	(385,000 )
Total	\$89,641,000
The amount of total losses for the three month period included in earnings attributable to the change in unrealized losses relating to structured settlements held at March 31, 2017	\$(3,020,000 )

Realized and unrealized gains and losses included in earnings in the accompanying consolidated statements of operations for the *six* months ended *March 31, 2017* are reported in the following revenue categories:

Total losses included in the six months ended March 31, 2017	\$(3,020,000)
Change in unrealized losses relating to assets still held at March 31, 2017	\$(3,020,000)

**Note 17—Segment Reporting**

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.

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 17—Segment Reporting** *(continued)*

*Personal injury claims (Equity Method Investment)* – 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 liquidate its current portfolio of advances. Simia's activity for the *three* months ended *March 31, 2017* is included in this segment, along with that of the Company's equity investment in Pegasus.

*GAR Disability Advocates* is an advocacy group which represents individuals nationwide in their claims for social security disability and supplemental security income benefits from the Social Security 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, restricted cash, available-for-sale securities, property and equipment, goodwill, deferred taxes, other assets, and assets related to discontinued operations.

The following table shows results by reporting segment for the *three* and *six* month period ended *March 31, 2017* and *2016*.

(Dollars in millions)	<b>Consumer Receivables</b>	<b>GAR Disability Advocates</b>	<b>Personal Injury Claims including (Equity Method Investment) (2)</b>	<b>Corporate (3)</b>	<b>Total</b>
-----------------------	---------------------------------	---	--	--------------------------	--------------

Three Months Ended March 31,

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

2017:						
Revenues	\$ 3.9	\$ 1.5	\$ —	\$ —		\$5.4
Other income	—	—	—	(0.6 )		(0.6 )
Segment profit (loss)	3.6	(0.5 )	(0.7 )	(10.3 )		(7.9 )
2016:						
Revenues	4.9	0.9	—	—		5.8
Other income	—	—	—	0.6		0.6
Segment profit (loss)	1.8	(2.7 )	0.3	(3.1 )		(3.7 )
Six Months Ended March 31,						
2017:						
Revenues	8.0	2.9	—	—		10.9
Other income	—	—	—	(0.2 )		(0.2 )
Segment profit (loss)	6.8	(1.4 )	(0.3 )	(14.0 )		(8.9 )
Segment Assets(1)	18.7	2.3	49.4	138.0	(4)	208.4
2016:						
Revenues	10.0	1.5	—	—		11.5
Other income	—	—	—	1.0		1.0
Segment profit (loss)	6.4	(4.5 )	1.8	(5.4 )		(1.7 )
Segment Assets(1)	21.9	3.7	37.6	177.2	(4)	240.4

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 \$95.2 million and \$80.1 million of assets related to discontinued operations as of *March 31, 2017* and *2016*, respectively.



Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited) (Restated)****Note 18 - Accumulated Other Comprehensive (Loss) Income**

Accumulated other comprehensive (loss) income consists of:

	<b>Six Months Ended March 31, 2017</b>			<b>Year Ended September 30, 2016</b>		
	Unrealized			Unrealized		
	gain (loss)	Foreign		gain (loss)	Foreign	
	on	currency	Total	on	currency	Total
	marketable	translation,		marketable	translation,	
	securities	net		securities	net	
Beginning Balance	\$624,000	\$179,000	\$803,000	\$(205,000)	\$225,000	\$20,000
Change in unrealized (losses) gains on foreign currency translation, net of tax benefit/(expense) of \$1,000 and \$25,000 at March 31 2017, and September 30, 2016, respectively.	-	(3,000 )	(3,000 )	-	(46,000 )	(46,000 )
Change in unrealized (losses) gains on marketable securities, net of tax benefit/(expense) of \$23,000 and (\$529,000) at March 31, 2017, and September 30, 2016, respectively.	(35,000 )	-	(35,000 )	868,000	-	868,000
Amount reclassified from accumulated other comprehensive loss, net of tax benefit of \$397,000 and \$24,000 at March 31, 2017, and September 30, 2016, respectively.	(596,000)	-	(596,000)	(39,000 )	-	(39,000 )
Net current-period other comprehensive income (loss)	(631,000)	(3,000 )	(634,000)	829,000	(46,000 )	\$783,000

Ending balance \$(7,000 ) \$176,000 \$169,000 \$624,000 \$179,000 \$803,000

	<b>Six Months Ended March 31, 2016</b>		
	Unrealized	Foreign	
	Gain	currency	Total
	(loss) on	translation,	
	marketable	net	
	securities	net	
Beginning Balance	\$(205,000)	\$225,000	\$20,000
Change in unrealized (losses) gains on foreign currency translation, net of tax benefit/(expense) of (\$17,000) during the six month period ended March 31, 2016.	-	26,000	26,000
Change in unrealized (losses) gains on marketable securities, net of tax benefit/(expense) of (\$283,000) during the six month period ended March 31, 2016.	486,000	-	486,000
Amount reclassified from accumulated other comprehensive loss, net of tax benefit of \$11,000 during the six month period ended March 31, 2016.	(20,000 )	-	(20,000 )
Net current-period other comprehensive (loss) income	466,000	26,000	492,000
Ending balance	\$261,000	\$251,000	\$512,000

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 19—Related Party Transactions**

On *September 17, 2015*, the Company and Piccolo Business Advisory (“Piccolo”), which is owned by Louis Piccolo, a director of the Company, entered into a Consulting Agreement, pursuant to which Piccolo provides consulting services which included, but is *not* limited to, analysis of proposed debt and equity transactions, due diligence and financial analysis and management consulting services (“services”). The Consulting Agreement is for a period of *two* years, which ends on *September 17, 2017*. For the *six* months ended *March 31, 2017*, the Company paid *\$40,000* to Piccolo for such services. There were *no* amounts due to Piccolo at *March 31, 2017* and *September 30, 2016*.

In addition, A. L. Piccolo & Co., Inc. (“ALP”), which is also owned by Louis Piccolo, received a fee from Pegasus which was 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 on *December 28, 2016*. Thereafter, it is payable by PLF and its affiliates. Pegasus paid ALP *\$67,000* for the *six* months ended *March 31, 2017* and *2016*.

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* and *six* months ended *March 31, 2017*, the Company paid Fortress *\$54,000* and *\$154,000*, respectively. For the *three* and *six* months ended *March 31, 2016*, the Company paid Fortress *\$118,000* and *\$161,000*, respectively. As of *March 31, 2017* and *September 30, 2016*, the Company had a liability due to Fortress of *\$0.6* million and *\$0.8* million, respectively.

**Note 20—Subsequent Events**

*Discontinued Operations*

On *April 7, 2017*, CBC, through its subsidiary BBRVII, LLC, issued approximately *\$18,340,000* of fixed rate asset backed notes with a yield of *5.0%* and a stated maturity date of *January 15, 2069* (see Note 10 – Other Debt – CBC).

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 the Company’s entire life contingent asset portfolio included in the Company’s structured settlements to the Assignee for a purchase price of *\$7.7* million. The Company will realize a loss from the sale of approximately *\$5.4* million. Accordingly, the Company reflected a *\$5.4* million reduction in the fair market value of these assets, resulting in a corresponding revenue loss for the *three* months ended *March 31, 2017* in the consolidated statements of operations (see Note 8 – Discontinued Operations).

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*, remained unchanged (see Note 8 – Discontinued Operations).

*Other Debt*

On *April 28, 2017*, the Company renewed the line of credit facility from Bank Hapoalim with the new maturity date of *August 2, 2017*(see Note 7 – Non Recourse Debt). Other terms and conditions remained unchanged

*Simia*

Effective November 11, 2016, the Company entered into a five year employment agreement with Mr. Preece that may be terminated with or without “cause” (as defined in the Employment Agreement) and may resign with or without “good reason” (as defined in the Employment Agreement). If Mr. Preece is terminated without “cause” or resigns for “good reason” he will receive severance equal to two years of his base salary. See Note 5 - Litigation Funding.

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, will undertake the responsibilities of Simia’s Chief Executive Officer. No amounts were paid to Mr. Preece under the severance or bonus provisions of his contract.

*Pegasus*

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 *June 30, 2017* there was approximately \$24.7 million in cash that was restrained under the Emergent Award, and is classified as restricted on the Company's consolidated balance sheet. 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.

Table of Contents

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited) (Restated)**

**Note 20—Subsequent Events** (Continued)

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 \$1,800,000. 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. See Note 5 - Litigation Funding.

*Legal Matters*

A competitor of the Company's former subsidiary 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 by the Company of \$0.5 million on or about November 22, 2017, in exchange for a complete release.

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.

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 9 - Commitments and Contingencies.

### *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.

### *IRS Examination*

The Company's amended federal tax return for the years ended *September 30, 2014* and *2015* is currently being audited by the Internal Revenue Service.

### *US Tax Reform*

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%. This rate reduction is expected to have a significant impact on our provisions for income taxes for periods beginning after *September 30, 2017*, including a one-time impact resulting from the revaluation of our deferred tax assets and liabilities to reflect the new lower rate. While we have *not* yet determined the net amount of the revaluation, we expect that it will be a significant component of our income tax provision for the *first* quarter of fiscal 2018.

### *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 paid 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.

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*



Table of Contents

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

**Caution Regarding Forward Looking Statements**

*This Amendment 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 Amendment, 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 to 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/A for the fiscal year ended September 30, 2016.*

*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**

All management’s discussion and analysis has been revised to reflect the restatements discussed in Note 1 – Restatement of Financial Statements in the Company’s notes to consolidated financial statements.

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC (“Palisades XVI”), 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”), Simia Capital, LLC (“Simia”) and other subsidiaries, not all wholly owned (the “Company”, “we” or “us”), is engaged in several business segments in the financial services industry including structured funding of personal injury claims, through our 50% controlled, 80% owned, equity investment in Pegasus Funding, LLC (“Pegasus”), social security and disability advocates through our wholly owned subsidiary GAR Disability Advocates and the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged off receivables, and semi-performing receivables. The Company started out in the consumer receivable business in 1995 as a subprime auto lender. The 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. Our efforts in this area have been in the international arena as we have discontinued our active purchasing of consumer receivables in the United States since 2010. 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.

GAR Disability Advocates is a social security disability advocacy firm. GAR Disability Advocates assists claimants in obtaining long term disability and supplemental security benefits from the Social Security Administration.

Pegasus provides 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.

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 expires at the end of December 2016. Pegasus continues to remain in operation to collect its current portfolio of advances, but will not fund any new advances after December 28, 2016. Simia is operated by a new management team, with significant experience in the personal injury funding business.

On December 13, 2017, we sold all of our issued and outstanding equity capital in CBC, our wholly owned subsidiary engaging in structured settlements. As a result of this sale, all prior periods presented in our consolidated financial statements will account for CBC as a discontinued operation. This determination resulted in the reclassification of the assets and liabilities comprising our 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 8 - Discontinued Operations in the notes to our consolidated financial statements.



Table of Contents

The Company operates principally in the United States in three reportable business segments: consumer receivables (domestic and foreign), 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 consisting 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 charged off and semi-performing receivables, primarily in the international marketplace. The 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. These receivables were acquired 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. Litigation related receivables are semi-performing investments whereby the Company is assigned the revenue stream from the proceeds received. 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 liquidate its current portfolio of advances.

*Social Security benefit advocacy* – GAR Disability Advocates is a social security disability advocacy group, which obtains and represents individuals in their claims for social security disability and supplemental security income benefits from the Social Security 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 and six month periods ended March 31, 2017 and 2016. Pegasus is accounted for under the equity method within the personal injury claims segment. The following table summarizes total revenues by percentage from the three lines of business for the three and six month periods ended March 31, 2017 and 2016:

	Three Month Ended March 31, <b>2017</b>		Six Month Ended March 31, <b>2016</b>	
Finance income (consumer receivables)	72.2 %	84.8 %	73.7 %	86.7 %
Personal injury claims	0.2 %	— %	0.1 %	— %
GAR Disability Advocates	27.6 %	15.2 %	26.2 %	13.3 %
 Total revenues	 100.0%	 100.0%	 100.0%	 100.0%

International operations are included in the consumer receivables segment and are not significant to the overall operations of that segment.

Table of Contents

Information about the results of each of the Company's reportable segments for the three and six month periods ended March 31, 2017 and 2016, reconciled to the Company's 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. 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, other assets and assets related to discontinued operations.

(Dollars in millions)	Consumer Receivables	GAR Disability Advocates	Personal Injury Claims and (Equity Investment) (2)		Corporate (3)	Total
Three Months Ended March 31, 2017:						
Revenues	\$ 3.9	\$ 1.5			\$ —	\$5.4
Other income	—	—	—	—	(0.6 )	(0.6 )
Segment profit (loss)	3.6	(0.5 )	(0.73 )	(10.3 )		(7.9 )
2016:						
Revenues	4.9	0.9	—	—		5.8
Other income	—	—	—	0.6		0.6
Segment profit (loss)	1.8	(2.7 )	0.3	(3.1 )		(3.7 )
Six Months Ended March 31, 2017:						
Revenues	8.0	2.9	—	—		10.9
Other income	—	—	—	(0.2 )		(0.2 )
Segment profit (loss)	6.8	(1.4 )	(0.3 )	(14.0 )		(8.9 )
Segment Assets(1)	18.7	2.3	49.4	138.0	(4)	208.4
2016:						
Revenues	10.0	1.5	—	—		11.5
Other income	—	—	—	1.0		1.0
Segment profit (loss)	6.4	(4.5 )	1.8	(5.4 )		(1.7 )
Segment Assets(1)	21.9	3.7	37.6	177.2	(4)	240.4

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 \$95.2 million and \$80.1 million of assets related to discontinued operations as of March 31, 2017 and 2016, respectively.

### ***Consumer Receivables***

The consumer receivable portfolios generally consist of one or more of the following types of consumer receivables (domestic and foreign):

- *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.

Table of Contents

Currently, we have been purchasing receivables in the international market 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.

***Litigation Funding Business***

In 2011, the Company purchased an 80% interest, 50% controlled 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 5 - Equity Method Investment. 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 agreed that Pegasus will continue in existence to collect advances on its Portfolio. The Company will fund overhead expenses relating to its Portfolio based on a budget agreed upon by the Company and PLF. Any cash received by Pegasus will be distributed to its members in the order provided for in the Operating Agreement. The Company will be allocated 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 will be applied against the outstanding balance of overhead expenses previously advanced by the Company to Pegasus. After January 2, 2017, additional overhead expenses advanced will 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.

On November 11, 2016, the Company formed Simia, a wholly owned subsidiary. Simia will commence 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 March 31, 2017, the carrying value of its equity investment in Pegasus was approximately \$45.9 million.

On May 8, 2012, the Company announced the formation of EMIRIC, LLC, a wholly owned subsidiary of the Company. EMIRIC, LLC 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 March 31, 2017, BPCM has invested \$2.5 million, net of reserve charges, in cases managed by this Venture.

Table of Contents

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 2016, 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. At December 31, 2016, the balance in the revolving line of credit was approximately \$1.5 million. Effective August 14, 2016, BPCM extended its revolving line of credit with BP Divorce Funding until March 31, 2017, at substantially the same terms as the September 2014 amendment.

***Social Security Benefit Advocacy Business***

GAR Disability Advocates is a social security disability advocacy group, which represents individuals in their claims for social security disability and supplemental security income benefits from the Social Security 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).

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 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. 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 our sale of CBC, 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.

Table of Contents

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

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**

**Six Months Ended March 31, 2017, Compared to the Six Months Ended March 31, 2016**

*Finance income.* For the six months ended March 31, 2017, finance income decreased \$2.0 million or 19.6% to \$8.0 million from \$10 million for the six months ended March 31, 2016. During the six months ended March 31, 2017, the Company purchased \$35.0 million of face value portfolios at a cost of \$2.2 million. During the first six months of fiscal year 2016, the Company purchased \$121.0 million of face value portfolios at a cost of \$6.2 million. Net collections for the six months ended March 31, 2017 decreased 16.9% to \$12.3 million from \$14.8 million for the same prior year period. During the first six months of fiscal year 2017, gross collections decreased 10.9% or \$2.7 million to \$21.9 million from \$24.6 million for the six months ended March 31, 2016. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased \$0.2 million, or 1.9%, to \$9.6 million for the current fiscal six month period from \$9.8 million for the six months ended March 31, 2016. Commissions and fees amounted to 44.0% of gross collections for the six month period ended March 31, 2017, compared to 39.9% in the same period of the prior year, resulting from higher percentage of commissionable collections in the current year period.

*Social security benefit advocacy fee income.* For the six months ended March 31, 2017, disability fee income increased \$1.4 million, or 86.5%, to \$2.9 million as compared to \$1.5 million for the six months ended March 31, 2016, due to the increase in the number of disability claimant cases closed with the Social Security Administration during the current period.

*Earnings (loss) from equity method investee.* Earnings from equity method investee decreased \$1.8 million, or 97.3%, to earnings of \$49,000 for the six months ended March 31, 2017 from earnings of \$1.8 million for the six months ended March 31, 2016, due to reduced interest income and bad debt write downs on personal injury claimant advances.

*Other income (loss).* The following table summarizes other income (loss) for the six months ended March 31, 2017 and 2016:

	March 31,	
	2017	2016
Interest and dividend income	\$595,000	\$622,000
Realized (loss)/gain	(815,000)	16,000
Other	4,000	362,000
	\$(216,000)	\$1,000,000

*General and administrative expenses.* For the six months ended March 31, 2017, general and administrative expense increased \$3.5 million, or 22.5%, to \$19.5 million from \$16.0 million for the six months ended March 31, 2016, primarily due to an increase in professional fees of \$2.3million, primarily related to the Mangrove matter, and a loss on investment of \$3.4 million, partially offset by the reduction in litigation settlement costs of \$2.0 million.

*Interest expense.* For the six months ended March 31, 2017, interest expense increased \$33,000 to \$33,000 as compared to \$0 million for the six months ended March 31, 2016. The increased interest expense is a result of the Company's current advance on its line of credit.

*Segment profit – Consumer Receivables.* For the six months ended March 31, 2017, segment profit increased \$0.4 million to \$6.8 million from \$6.4 million for the six months ended March 31, 2016, primarily due the reduction in litigation settlement costs of \$2.0 million, and other overhead expenses of \$0.4 million, partially offset by decreased revenue of \$2.0 million.

*Segment loss – Personal Injury Claims.* For the six months ended March 31, 2017, segment loss was \$0.3 million as compared to segment profit of \$1.8 million for the six months ended March 31, 2016. The decrease is attributable to the Company's loss from its equity investment in the current period.

*Discontinued Operations.* Structured settlement income of \$0.8 million includes \$3.0 million of unrealized losses and \$3.8 million of interest income for the six months ended March 31, 2017. Structured settlement income of \$5.9 million included \$3.2 million of unrealized gains and \$2.7 million of interest income for the six months ended March 31, 2016. This decrease in income is primarily the result of a reduction in fair value of \$5.6 million in CBC's life contingent annuities portfolio during the current year. Unrealized losses on structured settlements is comprised of both unrealized losses 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 \$3.0 million of unrealized losses recognized for the six months ended March 31, 2017, approximately \$4.3 million is due to day one gains on new structured settlements financed during the period, offset by a decrease of \$1.0 million in realized gains

recognized as interest income on structured settlements and a reduction in fair value of \$6.3 million during the period. There were no other changes in assumptions during the period. All of the revenue associated with CBC is recorded in income (loss) from discontinued operations in the Company's consolidated statements of operations.

Table of Contents

*Segment loss – GAR Disability Advocates.* For the six months ended March 31, 2017, segment loss was \$1.4 million as compared to a \$4.5 million loss for the same period in the prior year. This reduced loss in the current period is primarily the result of increased revenues of \$1.4 million and the reduction in overhead expenses.

*Income tax (benefit) expense.* For the six months ended March 31, 2017, income tax benefit for continuing and discontinued operations, consisting of federal and state income taxes, was \$0.3 million, as compared to an income tax benefit for continuing and discontinued operations, consisting of federal and state income taxes, of \$0.6 million for the six months ended March 31, 2016, resulting from a decrease in the taxable loss in the current period.

*Loss from continuing operations.* As a result of the above, the Company had a net loss from continuing operations for the six months ended March 31, 2017 of \$8.6 million compared to a \$1.1 million net loss from continuing operations for the six months ended March 31, 2016.

*Loss from discontinued operations.* As a result of the above, the Company had a net loss from discontinued operations for the six months ended March 31, 2017 of \$2.3 million compared to \$0.8 million of net income from discontinued operations for the six months ended March 31, 2016.

*Net loss.* As a result of the above, the Company had a net loss for the six months ended March 31, 2017 of \$10.9 million compared to \$0.3 million net loss for the six months ended March 31, 2016.

**Three Months Ended March 31, 2017, Compared to the Three Months Ended March 31, 2016**

*Finance income.* For the three months ended March 31, 2017, finance income decreased \$1.0 million or 19.5% to \$3.9 million from \$4.9 million for the three months ended March 31, 2016. During the three months ended March 31, 2017, the Company did not purchase any portfolios. During the three months ended March 31, 2016, the Company purchased \$24.8 million in face value of new foreign portfolios purchased in Peru and Colombia at a cost of \$1.7 million. Net collections for the three months ended March 31, 2017, decreased 17.9% to \$6.1 million from \$7.4 million for the three months ended March 31, 2016. During the second quarter of fiscal year 2017, gross collections decreased 3.8% or \$1.7 million to \$10.7 million from \$12.4 million for the three months ended March 31, 2016. Commissions and fees associated with gross collections from third party collection agencies and attorneys decreased to \$4.6 million for the three months ended March 31, 2017 from \$5.0 million for the three months ended March 31, 2016. Commissions and fees amounted to 43.0% of gross collections for the three months ended March 31, 2017, compared to 40.1% for the three months ended March 31, 2016, resulting from higher percentage of commissionable collections in the prior period.

*Social security benefit advocacy fee income.* For the three months ended March 31, 2017, disability fee income increased \$0.6 million to \$1.5 million as compared to \$0.9 million for the three months ended March 31, 2016, due to an increase in disability claimant cases closed with the Social Security Administration during the current period.

*Earnings (loss) from equity method investee.* Earnings from equity method investee decreased \$0.7 million, or 206.6%, to a loss of \$355,000 for the three months ended March 31, 2017 from earnings of \$0.3 million for the three months ended March 31, 2016, due to reduced interest income and bad debt write downs on personal injury claimant advances.

*Other income (loss).* The following table summarizes other income (loss) for the three months ended March 31, 2017 and 2016:

	March 31,	
	2017	2016
Interest and dividend income	\$ 299,000	\$ 313,000
Realized loss	(948,000)	—
Other	(18,000 )	295,000
	\$(667,000)	\$ 608,000

*General and administrative expenses.* For the three months ended March 31, 2017, general and administrative expense increased \$2.1 million, or 19.8 %, to \$12.3 million from \$10.2 million for the three months ended March 31, 2016, primarily attributable to loss on investments of \$3.4 million, increase in professional fees of \$1.7 million related to the Mangrove matter, increased bad debt expense of \$0.5 million, partially offset by the reduction in litigation settlement costs of \$2.0 million, and \$1.5 million reduction in GAR Disability overhead costs .

*Interest expense.* For the three months ended March 31, 2017, interest expense increased \$33,000 to \$33,000 as compared to \$0 million for the three months ended March 31, 2016. The increased interest expense in the current period is the result of the Company's current advance on its line of credit.

*Segment profit – Consumer Receivables.* For the three months ended March 31, 2017, segment profit increased \$1.8 million to \$3.6 million as compared to \$1.8 million for the three months ended March 31, 2016, primarily due to the reduction in litigation settlement costs of \$2.0 million.



Table of Contents

*Segment loss – Personal Injury Claims.* For the three months ended March 31, 2017, segment loss was \$0.7 million as compared to segment profit of \$0.3 million for the three months ended March 31, 2016. The decrease is attributable to the Company's loss from its equity investment in the current period.

*Segment loss – GAR Disability Advocates.* For the three months ended March 31, 2017, segment loss was \$0.5 million as compared to a \$2.7 million loss for the same period in the prior year. This reduced loss in the current fiscal year is primarily the result of increased revenues of \$0.6 million and the reduction in overhead costs.

*Discontinued Operations.* Structured settlement income of \$0.6 million includes \$1.3 million of unrealized gains and \$1.9 million of interest income offset by a reduction in fair value of \$3.0 million on CBC's life contingent annuities portfolio for the three months ended March 31, 2017. Structured settlement income of \$3.1 million included \$1.6 million of unrealized gains and \$1.5 million of interest income for the three months ended March 31, 2016. This decrease in income is the result of a reduction in fair value of \$3.0 million during this period. Unrealized losses on structured settlements is comprised of both unrealized losses 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 \$1.3 million of unrealized losses recognized for the three months ended March 31, 2017, approximately \$2.2 million is 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 interest income on structured settlements and a reduction in fair value of \$3.0 million during the period. There were no other changes in assumptions during the period. All of the revenue associated with CBC is recorded in income (loss) from discontinued operations in the Company's consolidated statements of operations.

*Income tax (benefit) expense.* For the three months ended March 31, 2017, income tax benefit for continuing and discontinued operations, consisting of federal and state income taxes, was \$1.7 million, as compared to an income tax expense for continuing and discontinued operations, consisting of federal and state income taxes, of \$1.2 million for the three months ended March 31, 2016, resulting from a decrease in the taxable loss in the current period.

*Loss from continuing operations.* As a result of the above, the Company had a net loss from continuing operations for the three months ended March 31, 2017 of \$6.9 million compared to a \$2.4 million net loss from continuing operations for the three months ended March 31, 2016.

*Loss from discontinued operations.* As a result of the above, the Company had a net loss from discontinued operations for the three months ended March 31, 2017 of \$1.1 million compared to \$0.6 million of net income from discontinued operations for the three months ended March 31, 2016.

*Net loss.* As a result of the above, the Company had a net loss for the three months ended March 31, 2017 of \$8.0 million compared to \$1.8 million net loss for the three months ended March 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 personal injury claims business segments. Our primary uses of cash include repayments of debt and associated interest payment, and advances of personal injury claims, costs involved in the collection of consumer receivables, taxes and to support the day-to-day operations of the Company.

### Receivables Financing Agreement (“RFA”)

In March 2007, Palisades XVI borrowed approximately \$227 million under the RFA, 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, and 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 RFA. 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 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 March 31, 2017, the Company recorded a liability to BMO of approximately \$0.2 million. The liability to BMO is recorded when actual collections are received.

Table of Contents

*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, 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 is 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 includes covenants that require the Company to maintain a minimum net worth of \$150 million and pay an unused line fee. The facility is secured pursuant to a Security Agreement among the parties to the Loan Agreement. 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 includes (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 has \$9.6 million as outstanding balance against the facility as of March 31, 2017. There is a \$10.1 million aggregate balance on deposit at Bank Hapoalim which has been reclassified to restricted cash in the consolidated balance sheet since these assets serve 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 as of March 31, 2017

*Tender Offer of Company Common Shares*

On March 22, 2016, MPF InvestCo 4, LLC, a wholly owned subsidiary of The Mangrove Partners Master Fund, Ltd. (“Mangrove”), filed a Tender Offer Statement with the SEC, announcing the commencement of an unsolicited tender offer to acquire up to 3,000,000 shares of Asta common stock at price of \$9.00 per share (“the Mangrove Offer”). The Mangrove Offer was sent to the holders of common stock of the Issuer. If the Offer is fully subscribed, the Mangrove Offer would represent approximately 25.0% of the issued and outstanding Shares and would result in Mangrove owning an aggregate of approximately 5,102,427 Shares, which would represent approximately 42.5% of issued and outstanding Shares, based on the 12,011,476 Shares, issued and outstanding as of March 31, 2016.

On March 31, 2016, the Company announced that its Board of Directors, after careful consideration and in consultation with a special committee of the Board and its financial and legal advisors, has unanimously determined to recommend that shareholders reject the Mangrove Offer. Furthermore, the Company has announced its intention to commence an issuer tender offer for 3,000,000 shares of Asta common stock pursuant to a "Dutch Auction" format at a price range of \$9.50 to \$10.25 per share.

On April 15, 2016, Mangrove amended its previously announced unsolicited tender offer to acquire up to 3,000,000 shares of Asta’s common stock, increasing the price per share from \$9.00 to \$9.50, and extending the expiration date to May 9, 2016. In addition, the amendment added certain additional conditions to Mangrove’s obligation to consummate

its offer. On April 21, 2016, The Company's Board of Directors unanimously reaffirmed its recommendation to shareholders that they reject the unsolicited offer, citing the fact that the increased offer is still at the bottom of the range in the Company's self-tender, as described above.

On April 15, 2016, MPF InvestCo 4, LLC and Mangrove Master Fund ("Mangrove") amended its previously announced unsolicited tender offer to acquire up to 3,000,000 shares of Asta's common stock, increasing the price per share from \$9.00 to \$9.50, and extending the expiration date to May 9, 2016. In addition, the amendment added certain additional conditions to Mangrove's obligation to consummate its offer. On April 21, 2016, The Company's Board of Directors unanimously reaffirmed its recommendation to shareholders that they reject the unsolicited offer, citing the fact that the increased offer is still at the bottom of the range in the Company's self-tender, as described above. On April 26, 2016, Mangrove announced the termination of its Tender Offer, previously due to expire on May 9, 2016. Mangrove terminated its offer because it determined that a condition of the offer would not be satisfied. None of the shares of the Company's common stock were purchased under the Mangrove offer.

The Company's Tender offer expired on May 12, 2016.

On January 19, 2017, the Company commenced a self-tender offer to purchase for cash up to 5,314,009 shares of its common stock at a purchase price of \$10.35 per share, less applicable withholding taxes and without interest. The Company made the tender offer pursuant to the Settlement Agreement dated as of January 6, 2017, by and among the Company, Mangrove and certain of their respective affiliates, pursuant to which Mangrove and its affiliates will tender their 4,005,701 shares. The tender offer will reduce the number of shares in the public market.

If more than 5,314,009 shares had been tendered, the Company would have purchased all tendered shares on a pro rata basis, subject to the conditional tender provisions described in the Offer to Purchase. Pursuant to the Settlement Agreement, Gary Stern (or his permitted assignees) had unconditionally agreed to purchase from Mangrove and its affiliates any shares owned by Mangrove and its affiliates that the Company did not purchase in the tender offer.

The tender offer expired on February 15, 2017, at 11:59 p.m., New York City time. Based on the final count by American Stock Transfer & Trust Company, LLC ("AMSTOCK"), the depository for the tender offer, a total of approximately 6,022,253 shares of the Company's common stock were validly tendered and not validly withdrawn. Because the tender offer was oversubscribed by 708,244 shares, the Company purchased only a prorated portion of the shares properly tendered by each tendering stockholder. The depository had informed the Company that the final proration factor for the tender offer is approximately 88.24% of the shares validly tendered and not validly withdrawn. AMSTOCK promptly issued payment for the 5,314,009 shares accepted pursuant to the tender offer and returned all other shares tendered and not purchased. The shares acquired represented approximately 44.7% of the total number of shares of the Company's common stock issued and outstanding as of February 6, 2017. As a result of this tender offer the Company recorded an additional \$54.2 million in treasury stock and an \$0.8 million charge to general and administrative expense for the three months ended March 31, 2017. Additionally, the Ricky Stern Family 2012 Trust (Gary Stern's permitted assignee) acquired 471,086 Shares under the Purchase Agreement with Mangrove and its affiliates on March 10, 2017 for \$4.9 million.



Table of Contents

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%.

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 terminates 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 will continue in existence in order to collect advances on its existing Portfolio. The Company will fund overhead expenses relating to the collection of the Portfolio based on a budget agreed upon by the Company and PLF. Any cash received by Pegasus will be distributed to its members in the order provided for in the Operating Agreement. The Company will be allocated 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 will be applied against the outstanding balance of overhead expenses previously advanced by the Company to Pegasus. After January 2, 2017, additional overhead expenses advanced will 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.

On May 9, 2017, Pegasus collected approximately \$18 million from a group of claimants on a class action lawsuit that recently settled.

On November 11, 2016, the Company announced that it will continue its personal injury claims funding business through the formation of a wholly owned subsidiary, Simia. In connection with its formation, Simia entered into an employment agreement with Patrick F. Preece to serve as its Chief Executive Officer.

On March 24, 2017, Simia purchases a portfolio of personal injury claims from a third party for approximately \$3.0 million. The Company plans to grow the business organically, but may from time to time purchase portfolios of personal injury claims from third parties if the opportunity presented aligns with the Company's strategic growth plans.

### Divorce Funding

On May 8, 2012, the Company formed EMIRIC, a wholly owned subsidiary of the Company. EMIRIC entered into a joint venture with California-based Balance Point Divorce Funding, LLC ("BP Divorce Funding") to create 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 provides a \$1.5 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. The term of the loan was to end in May 2014, but had been extended to August 2016. Effective August 14, 2016, the Company extended its revolving line of credit with Balance Point until March 31, 2017, at substantially the same terms as the September 14, 2014 amendment. The revolving line of credit is collateralized by BP Divorce Funding's profit share in BPCM and other assets. On April 1, 2017, this loan was in default as BPCM failed to make the required payments due under the loan agreement. Accordingly, the loan balance of \$1.5 million was deemed uncollectible and written off during the second quarter with a charge to general and administrative expenses for the three months ended March 31, 2017.

### Structured Settlements

On December 31, 2013, the Company acquired 80% ownership of CBC and its affiliate, CBC Management Services, LLC for approximately \$5.9 million. At the closing, the operating principals of CBC, namely William J. Skyrms, Esq. and James Goodman, were each issued a 10% interest in CBC. In addition, the Company agreed to provide financing to CBC of up to \$5 million, amended to \$7.5 million in March 2015. Through the transaction we acquired structured settlements valued at \$30.4 million and debt that totaled \$23.4 million, consisting of \$9.6 million of a revolving line of credit with a financial institution and \$13.8 million of non-recourse notes issued by CBC's subsidiaries. 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 fair market value of \$7.95 per share and \$400,000 in cash. An aggregate of 123,304 shares of restricted stock was issued. As of March 31, 2017, CBC had structured settlements valued at \$90.1 million and debt of \$74.2 million, consisting of an \$18.7 million line of credit and an aggregate of \$55.5 million of non-recourse notes.

In April 2017, CBC sold off substantially all of its life contingent assets to a third party for \$5.0 million, resulting in a realized loss of approximately \$5.6 million. The life contingent assets sold in April 2017 have been adjusted in the Company's consolidated balance sheet to their net realized value of this transaction as of March 31, 2017.

Cash Flow

As of March 31, 2017, our cash and cash equivalents, including restricted cash increased \$1.8 million to \$18.1 million from \$16.3 million at September 30, 2016.



Table of Contents

Net cash used in operating activities was \$7.2 million during the six months ended March 31, 2017 compared to \$2.8 million used in operating activities during the six months ended March 31, 2016. Net cash provided by investing activities was \$47.1 million during the six month period ended March 31, 2017 compared to \$1.1 million provided by investing activities during the six months ended March 31, 2016, primarily from the proceeds from the sale of available for sale securities, \$44.7 million, and a decrease in the purchase of assets acquired for liquidation, \$4.0 million, in the current year. Net cash used in financing activities was \$37.9 million in the six month period ended March 31, 2017, as compared to cash used in financing activities of \$0.5 million in the six months ended March 31, 2016. The increase of financing activities in the current period is primarily the result of the purchase of treasury stock in conjunction with the Company's self-tender, \$45.8 million, offset by the \$9.6 million borrowed from a financial institution, and a decrease of \$1.8 million from financing activities of the 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, investment in structured settlements, costs involved in the collections of consumer receivables, repayment of CBC debt and investment in consumer receivable portfolios. 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, as our cash balances will be sufficient to invest in personal injury claims, purchase portfolios and finance the disability advocacy business. Structured settlements are financed through the use of a credit line, warehouse facility, and private placement financing.

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. The Company used a portion of its cash and cash equivalents on hand to fund the purchase of shares in the tender offer. Further, the Company has an available line of credit from Bank of Hapoalim of up to \$30 million that can be used for working capital purposes, if needed. Currently, the Company has \$9.6 million outstanding on this line of credit.

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.

Off Balance Sheet Arrangements

As of March 31, 2017, we did not have any relationships with unconsolidated entities or financial partners, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

### **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. Based on the Company’s evaluation, the Company does not believe this new standard will impact the accounting for its revenues. Given the changes in the Company's business management is continuing to assess this new standard and the impact it will have on accounting for its revenues.

In January 2016, the FASB issued ASU No. 2016-01, 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 February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) to amend lease accounting requirements and requires entities to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets. The new standard will require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. The standard update is effective for fiscal years beginning after

December 15, 2018 and interim periods within those years and early adoption is permitted. The standard is to be applied using a modified retrospective approach and includes a number of optional practical expedients that entities may elect to apply. The Company is currently evaluating the impact of adopting this update on its consolidated financial statements and expects that most of its operating leases will be recognized as operating lease liabilities and right-of-use assets upon adoption.

In March 2016, the FASB issued ASU No. 2016-09, 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, 2016, including interim periods within that reporting period. The Company is currently evaluating the impact this update will have on its consolidated financial statements.

Table of Contents

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 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 November 2016, the FASB issued ASU No. 2016-18, Restricted Cash ("ASU 2016-18"), to require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. ASU 2016-18 does not provide a definition of restricted cash or restricted cash equivalents. The new guidance will only be applicable to amounts described by the Company as restricted cash. We adopted ASU 2016-18 on October 1, 2016, the effect of which was a change in presentation on our consolidated statement of cash flows, but not on our consolidated financial results.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk (restated)**

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. At March 31, 2017, the debt associated with our acquisition of CBC, had a balance of approximately \$74.2 million, consisting of \$18.7 million through a line of credit, at a rate of LIBOR plus 3%, with a floor of 4.1%, from a financial institution, and \$55.5 million of notes at varying rates, from 4.85% to 8.75%, issued by CBC's subsidiaries. At March 31, 2017, the LIBOR rate was 0.98278%. A 25 basis point change in the LIBOR rate would have had an immaterial impact on the CBC line of credit interest expense, while above the floor rate (4.23278 %) would have an effect less than a month. The same 25 basis point change in the LIBOR rate would have had approximately \$2,000 impact on the Bank Hapoalim line of credit interest expense. The Company sold CBC on December 13, 2017, and presents the entity as a discontinued operation in its consolidated financial statements. We do not currently invest in derivative financial or commodity instruments.

**Item 4. Controls and Procedures (restated)**

*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 March 31, 2017 due to the material weaknesses described below:

1. The Company lacked a process to review key inputs into the period end valuation using underlying benchmark interest rates in determining fair value of the Company’s structured settlements. The material weakness was first reported by the Company in its Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarter ended December 31, 2016, which was filed with the SEC on May 26, 2017, and was also identified as a material weakness in connection with the preparation of this Amendment.

*Planned Remedial Actions:*

Since the original determination regarding this material weakness, the Company retained and intends to continue to retain third-party specialists to perform independent valuations of its assets and liabilities, when warranted, particularly with respect to, those assets and liabilities which involve specific complex or intricate valuation techniques, and/or are outside the Company's traditional business model.

The Company plans on hiring additional personnel with financial reporting experience to supplement its existing accounting/finance department. Additionally, management will develop and train accounting/finance personnel in the use of formalized checklists, to identify key inputs associated with period end valuations.

Table of Contents

2. 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 May 26, 2017, and was also identified as a material weakness in connection with the preparation of this Amendment.

*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,

3. 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.

4. 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.

5. 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.

6. 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.

*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.



Table of Contents

As a result of these misstatements and omitted disclosures, the Company concluded there were material weaknesses in the Company's internal control over financial reporting. Management, under the supervision of the Audit Committee, will develop a comprehensive remediation plan, including a detailed plan and timetable for implementation, and will report regularly to the Audit Committee regarding the status of the implementation activities.

*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, re-evaluated our internal control over financial reporting to determine whether any changes occurring during the second quarter of fiscal year 2017 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting, and have concluded that there have been no changes that occurred during such quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**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 (restated)**

For a discussion of our potential risks and uncertainties, see the information previously disclosed in Part I, Item 1A. "Risk Factors" in our Form 10-K/A. There have been no material changes to the risk factors disclosed in our Form 10-K/A.

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

None

**Item 3. Default Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

None

**Item 5. Other Information**

None

59

---

Table of Contents

**Item 6. Exhibits**

(a) Exhibits.

- 2.1 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).
- 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 on 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 on May 15, 2002).
- 3.3 Certificate of Designation of Series A Junior Preferred Stock of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed on August 24, 2012).
- 3.4 Certificate of Elimination of the Series A Junior Preferred Stock of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed on May 5, 2017).
- 3.5 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 on May 5, 2017).
- 3.6 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 on August 9, 2016).
- 3.7 Amendment to Amended and Restated By-laws of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding's Current Report on Form 8-K filed on January 9, 2017).
- 4.1 Rights Agreement, dated May 5, 2017, by and between Asta Funding, Inc. and American Stock Transfer & Trust Company, LLC. (incorporated by reference to Exhibit 4.1 to Asta Funding Inc.'s Current Report on Form 8-K filed on May 5, 2017).
- 10.1 Settlement Agreement, dated January 6, 2017, by and among Asta Funding, Inc., The Mangrove Partners Master Fund Ltd., The Mangrove Partners Fund, L.P., Mangrove Partners Fund (Cayman), Ltd., Mangrove Partners, Mangrove Capital and Nathaniel August and, solely for purposes of Section 1(c), 1(d), 2 and 8 thereof, Gary Stern, Ricky Stern, Emily Stern, Arthur Stern, Asta Group, incorporated and GMS Family Investors LLC (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed on January 9, 2017).
- 10.2 Voting Agreement, dated January 6, 2017, by and among Asta Funding, Inc., Gary Stern, Ricky Stern, Emily Stern, Asta Group, incorporated and GMS Family Investors LLC (incorporated by reference to Exhibit 10.2 to Asta Funding, Inc.'s Current Report on Form 8-K filed on January 9, 2017).
- 10.3

Settlement Agreement, dated January 6, 2017, by and among Asta Funding, Inc., The Mangrove Partners Master Fund, Ltd. and, for limited purposes therein, Gary Stern, Emily Stern, Arthur Stern, Asta Group, Incorporated and GMS Family Investors LLC (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 9, 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 the 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.
- 32.2\*\* Certification of Bruce R. Foster, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance.

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.

Table of Contents

**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: September 17, 2018    By: /s/ Gary Stern  
Gary Stern, President, Chief Executive Officer  
(Principal Executive Officer)

Date: September 17, 2018    By: /s/ Bruce R. Foster  
Bruce R. Foster , Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

Table of Contents

**EXHIBIT INDEX**

**Exhibit**

**Description**

**Number**

- 2.1 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).
- 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 on 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 on May 15, 2002).
- 3.3 Certificate of Designation of Series A Junior Preferred Stock of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed on August 24, 2012).
- 3.4 Certificate of Elimination of the Series A Junior Preferred Stock of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed on May 5, 2017).
- 3.5 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 on May 5, 2017).
- 3.6 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 on August 9, 2016).
- 3.7 Amendment to Amended and Restated By-laws of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding's Current Report on Form 8-K filed on January 9, 2017).
- 4.1 Rights Agreement, dated May 5, 2017, by and between Asta Funding, Inc. and American Stock Transfer & Trust Company, LLC. (incorporated by reference to Exhibit 4.1 to Asta Funding Inc.'s Current Report on Form 8-K filed on May 5, 2017).
- 10.1 Settlement Agreement, dated January 6, 2017, by and among Asta Funding, Inc., The Mangrove Partners Master Fund Ltd., The Mangrove Partners Fund, L.P., Mangrove Partners Fund (Cayman), Ltd., Mangrove Partners, Mangrove Capital and Nathaniel August and, solely for purposes of Section 1(c), 1(d), 2 and 8 thereof, Gary Stern, Ricky Stern, Emily Stern, Arthur Stern, Asta Group, incorporated and GMS Family Investors LLC (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed on January 9, 2017).
- 10.2

Edgar Filing: ASTA FUNDING INC - Form 10-Q/A

Voting Agreement, dated January 6, 2017, by and among Asta Funding, Inc., Gary Stern, Ricky Stern, Emily Stern, Asta Group, incorporated and GMS Family Investors LLC (incorporated by reference to Exhibit 10.2 to Asta Funding, Inc.'s Current Report on Form 8-K filed on January 9, 2017).

- 10.3 Settlement Agreement, dated January 6, 2017, by and among Asta Funding, Inc., The Mangrove Partners Master Fund, Ltd. and, for limited purposes therein, Gary Stern, Emily Stern, Arthur Stern, Asta Group, Incorporated and GMS Family Investors LLC (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 9, 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 the 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.
- 32.2\*\* Certification of Bruce R. Foster, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance.

101.SCHXBRL Taxonomy Extension Schema.

101.CALXBRL Taxonomy Extension Calculation.

101.DEF XBRL Taxonomy Extension Definition.

101.LABXBRL 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.