

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

**Form 10-K**

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

For the fiscal year ended September 30, 2018

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)*

**Delaware**  
*(State or Other Jurisdiction of Incorporation or Organization)*

**22-3388607**  
*(I.R.S. Employer Identification No.)*

**210 Sylvan Avenue, Englewood  
Cliffs, NJ**  
*(Address of Principal Executive Offices)*

**07632**  
*(Zip Code)*

**Registrant's telephone number, including area code: (201) 567-5648**

***Securities registered pursuant to Section 12(b) of the Exchange Act:***

**Title of each class**  
Common Stock, par value \$.01 per share

**Name of each exchange on which registered**  
NASDAQ Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act  
Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

Emerging growth company

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

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

The aggregate market value of voting and nonvoting common equity held by non-affiliates of the registrant was approximately \$9,641,265 as of the last business day of the registrant's most recently completed second fiscal quarter in 2018.

As of December 20, 2018, the registrant had 6,685,415 shares of Common Stock issued and outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

In accordance with General Instruction G (3) of Form 10-K, certain information required by Part III hereof will either be incorporated into this Form 10-K by reference to the registrant's definitive proxy statement for registrant's 2019 Annual Meeting of Stockholders filed within 120 days of September 30, 2018 or will be included in an amendment to this Form 10-K filed within 120 days of September 30, 2018.

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### **Caution Regarding Forward Looking Statements**

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts included or incorporated by reference in this Annual Report on Form 10-K, including without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives 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 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” and “Item 7-Management’s Discussions and Analysis of Financial Condition and Results of Operation” below.

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.

**Part I**

**Item 1. Business.**

***Overview***

Asta Funding, Inc. (“Asta”), a Delaware corporation, together with its wholly owned significant operating subsidiaries Palisades Collection, LLC, Palisades Acquisition XVI, LLC (“Palisades XVI”), Palisades Acquisition XIX, LLC (“Palisades XIX”), Palisades Acquisition XXIII, LLC (“Palisades XXIII”), VATIV Recovery Solutions LLC (“VATIV”), ASFI Pegasus Holdings, LLC (“APH”), Fund Pegasus, LLC (“Fund Pegasus”), GAR Disability Advocates, LLC (“GAR Disability Advocates”), Five Star Veterans Disability, LLC (“Five Star”), EMIRIC, LLC (“EMIRIC”), Simia Capital, LLC (“Simia”), Sylvave, LLC (“Sylvave”) (formerly known as Pegasus Funding, LLC (“Pegasus”)), Practical Funding LLC (“Practical Funding”), 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 managing for its own account and servicing distressed charged off consumer receivables, disability advocacy through our wholly owned subsidiaries GAR Disability Advocates and Five Star and funding of personal injury claims, through our wholly owned subsidiaries Sylvave, Simia and Practical Funding.

For the period from October 1, 2017 to January 12, 2018, we owned an 80% interest in Pegasus of which we controlled 50%, and accounted for Pegasus under the equity method in accordance with accounting principles generally accepted in the United States (“US GAAP”). On January 12, 2018, the Company acquired the remaining 20% minority shareholder's interest in Pegasus, changed its name to Sylvave, and now currently owns 100% of Sylvave. Commencing on the date of acquisition, the Company consolidated the financial results of this entity, which will remain in operation only to collect on its current portfolio.

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

As a result of the sale of CBC all periods presented herein account for CBC as a discontinued operation. This determination resulted in the reclassification of the historical 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 2 - Discontinued Operations in the Company's notes to the consolidated financial statements.

**Financial Information about Operating Segments**

The Company operates through strategic business units that are aggregated into three reportable segments: consumer receivables, social security disability advocacy and personal injury claims. 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 charged off consumer receivables. 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.

**Personal injury claims**

This segment is comprised of purchased interests in personal injury claims from claimants who were a party to personal injury litigation. The Company 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 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. Simia commenced funding personal injury settlement claims in January 2017 and ceased funding claims in June 2017. The Company is continuing its personal injury claims business in a new entity Practical Funding, which was formed on March 16, 2018. As of September 30, 2018, Practical Funding has not advanced any monies to claimants for personal injury claims.

**Social security disability advocacy**

This segment consists of advocacy groups representing individuals nationwide in their claims for social security disability and supplemental social security income benefits from the Social Security and Veterans Administration.

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The consumer receivable segment and the social security disability advocacy segment each accounted for more than 10% of revenues in fiscal year 2018 and 2017. The following table summarizes the net revenues by percentage from the three lines of business for the fiscal years 2018 and 2017:

|                                       | <b>Year Ended September 30,</b> |               |
|---------------------------------------|---------------------------------|---------------|
|                                       | <b>2018</b>                     | <b>2017</b>   |
| Finance income (consumer receivables) | 73.6%                           | 74.3%         |
| Personal injury claims income         | 5.0                             | 2.0           |
| Social security disability fee income | 21.4                            | 23.7          |
| <b>Total revenues</b>                 | <b>100.0%</b>                   | <b>100.0%</b> |

Information about the results of each of the Company's reportable segments for the last two fiscal years and total assets as of the end of the last two fiscal years, reconciled to the consolidated results, is 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, a note receivable, property and equipment, goodwill, deferred taxes and other assets.

| (Dollars in millions)                        | <b>Consumer<br/>Receivables</b> | <b>Social<br/>security<br/>disability<br/>advocacy</b> | <b>Personal<br/>Injury<br/>Claims (2)</b> | <b>Corporate (3)</b> | <b>Total</b> |
|--|---------------------------------|--|---|----------------------|--------------|
| <b>Fiscal Year Ended September 30, 2018:</b> |                                 |  |   |                      |              |
| Revenues                                     | \$ 15.9                         | \$ 4.6   | \$ 1.1                                    | \$ —                 | \$ 21.6      |
| Other income (5)                             | 4.0                             | —  | —   | 0.5                  | 4.5          |
| Segment profit (loss)                        | 17.8                            | 1.1  | 1.1                                       | (10.4)               | 9.6          |
| Segment Assets (1) (4)                       | 12.4                            | 1.0  | 11.8                                      | 61.1                 | 86.3         |
| <b>2017:</b>                                 |                                 |  |   |                      |              |
| Revenues                                     | 15.9                            | 5.1  | 0.4                                       | —                    | 21.4         |
| Other income                                 | —                               | —  | —   | (0.1)                | (0.1)        |
| Segment profit (loss)                        | 12.5                            | (1.7)  | 4.1                                       | (22.2)               | (7.3)        |
| Segment Assets (1) (4)                       | 20.4                            | 3.9  | 55.0                                      | 122.2                | 201.5        |

The Company does not have any intersegment revenue transactions.

- (1) Includes other amounts in other line items on the consolidated balance sheet.
- (2) The Company recorded Pegasus as an equity investment in its consolidated financial statements through January 12, 2018. Commencing on January 13, 2018, Sylvave is consolidated in the Company's financial statements. For segment 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 \$92.2 million of assets related to discontinued operations as of September 30, 2017. See Note 2 - Discontinued Operations in the Company's notes to consolidated financial statements.
- (5) Included in other income is approximately \$4.0 million in gain on settlements. See Note 10 - Settlements in the Company's notes to its consolidated financial statements.

**Principal Markets and Methods of Distribution**

All of the Company's lines of business are principally conducted in the United States, with approximately \$3.3 million of the receivables originating and being serviced overseas as of September 30, 2018.

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### Consumer receivables

Prior to purchasing a portfolio, we perform a qualitative and quantitative analysis of the underlying receivables and calculate the purchase price which is intended to offer us an adequate return on our investment after servicing expenses. After purchasing a portfolio, we actively monitor performance and review and adjust our collection and servicing strategies accordingly.

We purchase receivables from credit grantors and others through privately negotiated direct sales. We fund portfolios through internally generated cash flow.

Our objective is to maximize our return on investment in acquired consumer receivable portfolios. As a result, before acquiring a portfolio, we analyze the portfolio to determine how to best maximize collections in a cost efficient manner and decide whether to use our internal servicing and collection department, third-party collection agencies, attorneys, or a combination of all three options.

When we outsource the servicing of receivables, our management typically determines the appropriate third-party collection agencies and attorneys based on the type of receivables purchased. Once a group of receivables is sent to third-party collection agencies and attorneys, our management actively monitors and reviews the third-party collection agencies' and attorneys' performance on an ongoing basis. Based on portfolio performance considerations, our management may either (i) move certain receivables from one third-party collection agency or attorney to another, or (ii) sell portions of the portfolio accounts. Our internal collection unit, which currently employs three collection-related staff, including senior management, assists us in benchmarking our third-party collection agencies and attorneys, and provides us with flexibility for servicing a portion of our consumer receivable portfolios in-house.

We have increased our focus on purchasing consumer receivables internationally from foreign banks via direct sales or credit grantors. We have established relationships in Colombia and Peru with agencies and attorneys, and we are committed to pursue opportunities available to acquire foreign consumer receivables.

### Personal injury claims

Simia commenced operations in January 2017, and conducts its business solely in the United States. Simia obtained its business from external brokers and internal sales professionals soliciting individuals with personal injury claims. Simia and Sylvave have not funded any new cases since June 2017 and April 2017, respectively, but remain in business to liquidate their existing personal injury claim advance portfolios. Practical Funding will rely on generating business from attorneys and internal sales professionals soliciting individuals with personal injury claims.

### Social security disability advocacy

GAR Disability Advocates and Five Star provide its social security disability advocacy services throughout the United States. They rely upon search engine optimization ("SEO") to bring awareness to their intended market.

## **Industry Overview**

### Consumer receivables

The purchasing, servicing and collection of distressed charged-off consumer receivables is an industry that is driven by:

- increasing levels of consumer debt;
- increasing defaults of the underlying receivables; and
- increasing utilization of third-party providers to collect such receivables.

### Personal injury claims

The funding of non-recourse personal injury claims is driven by the growth of the market for financing personal injury claims. Individuals with personal injury claims incur current cash obligations which will not be recouped until insurance settlements are paid, or adjudicated in favor of the plaintiff, if at all. These funding contracts require a lien on the proceeds of either the settlement or the favorable resolution. The demand for providing financing to individuals in need of short term funds pending insurance settlements of their personal injury claims is driven by the long periods of time taken by the insurance industry to settle and pay such claims, primarily due to lengthy litigation and the court process.



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*Social security disability advocacy*

The social security disability advocacy industry is driven by the increasing number of social security and disability applicants who find it difficult to obtain such benefits without the aid of third party assistance.

**Strategy**

*Consumer receivables*

Our primary objective both domestically and internationally is to utilize our management’s experience and expertise by identifying, evaluating, pricing and acquiring consumer receivable portfolios and maximizing collections of such receivables in a cost efficient manner. Our strategies include:

- managing the collection and servicing of our consumer receivable portfolios, including outsourcing those activities to maintain low fixed overhead by partnering with experienced collection and debt buying firms;
- selling accounts on an opportunistic basis; and
- capitalizing on our strategic relationships to identify and acquire consumer receivable portfolios as pricing, financing and conditions permit.

*Personal Injury Claims*

Practical Funding will rely on developing new and existing relationships with attorneys and Company management.

*Social security disability advocacy*

In fiscal year 2018, GAR Disability Advocates and Five Star continue to assist claimants in securing disability benefits from the Social Security and Veteran's administration.

**Operations**

*Consumer Receivables*

The Operations Servicing Division of consumer receivables consists of the Collection Department, which handles disputes and correspondence, and the Accounting and Finance Department.

*Collection Department*

The Collection Department is responsible for making contact with and receiving calls from consumers for the purpose of collecting upon the accounts contained in our consumer receivables portfolios. The Collection Department uses a friendly, customer service approach to collect receivables and utilizes collection software, a dialer and telephone system to accomplish this goal. Each collector is responsible for:

- Initiating outbound collection calls and handling incoming calls from the consumer;
- Identifying the debt and iterating the benefits of paying the obligation;
- Working with the customer to develop acceptable means of satisfying the obligation; and
- Offering (if necessary, and based upon the individual situation) an obligor a discount on the overall obligation.

*Accounting and Finance Department*

In addition to customary accounting activities, the Accounting and Finance Department is responsible for:

- Making daily deposits of customer payments;

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Posting payments to customers accounts; and

Providing senior management with daily, weekly and monthly receivable activity and performance reports.

Additionally, the Accounting Department reviews the results of the collection of consumer receivable portfolios that are being serviced by third-party collection agencies and attorneys. The Accounting and Finance Department also participates in the internal auditing and consolidation of all business segments.

### Personal Injury Claims

The operations of the personal injury claims unit includes:

Sales/Underwriting/Collections - The underwriting group is responsible for analyzing the merits of the personal injury claims, collections of the portfolio and for business development and sales.

Accounting - The accounting group is responsible for the reporting of all the financial operations of the personal injury claims unit.

### Social security disability advocacy

GAR Disability Advocates and Five Star consists of the following departments:

Sales/Marketing - The Sales Group is responsible for the sales strategy and advertising campaigns.

Intake - The Intake Department is responsible for client development, including screening leads and developing information on individual cases.

Case Management - The Case Management Department oversees client claims, in an attempt to obtain social security disability benefits.

Accounting - The accounting group is responsible for the reporting of all the financial operations of the social security disability segment.

## **Marketing**

### Consumer receivables

The Company did not make any consumer debt purchases in fiscal year 2018. We have expanded relationships with credit providers internationally, as well as maintained our existing relationships domestically with brokers, finance companies and other credit providers. We are working to expand our name recognition internationally by attending international conferences, utilizing email solicitations and attending face-to-face bank meetings.

### Personal injury claims

Practical Funding will not invest in a formal marketing program at this time. However, it will rely on internal sales, underwriting and attorneys to enhance our presence in the market.

### Social security disability advocacy

Security Disability Advocacy utilizes SEO to bring more awareness to prospective clients.

## **Competition**

### Consumer receivables

With the competitive nature of the domestic market, there are strategic advantages of acquiring portfolios internationally in countries such as Colombia and Peru. We cannot assure that the international competition will not increase in the future, affecting our consumer receivables financial performance.

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We compete with:

- other purchasers of consumer receivables, including third-party collection companies; and
- other financial services companies who purchase consumer receivables.

Some of our competitors are larger and more established and may have substantially greater financial, technological, personnel and other resources than we have, including greater access to the credit and capital markets.

We compete in the marketplace for consumer receivable portfolios based on many factors, including:

- purchase price;
- representations, warranties and indemnities requested;
- timeliness of purchase decisions; and
- reputation.

We cannot assure that we will be able to compete successfully against current or future competitors or that competition will not increase in the future.

### Personal injury claims

The litigation funding business is highly competitive and fragmented, and we expect that competition from new and existing companies will continue. We compete in the litigation funding marketplace based on many factors, including:

cost of funds advanced;  
reputation; and  
marketing costs.

We believe that our personal injury claims funding management team has expertise and experience in identifying, evaluating, pricing, and managing the funding of personal injury claim cases. However, we cannot assure that our litigation funding businesses will be able to compete against current or future competitors or that competition will not increase in the future.

### Social Security Disability Advocacy

The social security disability advocacy environment is competitive. We believe that the management of GAR Disability Advocates and Five Star have the knowledge to compete in this environment. Nevertheless, we can offer no assurance that the business will remain competitive against current and future competitors.

## **Seasonality and Trends**

### Consumer receivables

Our management believes that our operations may, to some extent, be affected by high delinquency rates and by lower recoveries on consumer receivables acquired for liquidation during or shortly following certain holiday periods.

### Personal injury claims

There are no discernible trends to indicate seasonality in the personal injury claims business.

### Social Security Disability Advocacy

There is no indication that seasonality has any noticeable impact on the social security disability process.

## **Technology**

### Consumer receivables

We believe that a high degree of automation is necessary to enable us to grow and successfully compete with other companies in our business sector. Accordingly, we continually look to upgrade our technology systems to support the servicing and recovery of consumer receivables acquired for liquidation. Our telecommunications and technology systems allow us to quickly and accurately process large amounts of data necessary to purchase and service consumer receivable portfolios. In addition, we rely on the information technology of our third-party collection agencies and attorneys and periodically review their systems to ensure that they can adequately service the consumer receivable portfolios outsourced to them.

Due to our desire to increase productivity through automation, we periodically review our systems for possible upgrades and enhancements. We are continually working to enhance our international systems capabilities enabling us to effectively compete in the international marketplace.

### Personal injury claims

Practical Funding will be dependent a website to maintain and increase its business and, therefore, must remain current in its technology.

### Social Security Disability Advocacy

GAR Disability and Five Star rely on substantial use of the internet and, therefore, endeavors to remain current technologically.

## **Government Regulation**

### Consumer receivables

Our businesses are subject to extensive federal and state regulations. The relationship of a consumer and a creditor is extensively regulated by federal, state and local laws, rules, regulations and ordinances. These laws include, but are not limited to, the following federal statutes and regulations: the Federal Truth-In-Lending Act, the Fair Credit Billing Act ("FCBA"), the Equal Credit Opportunity Act and the Fair Credit Reporting Act ("FCRA"), as well as comparable statutes in states where consumers reside and/or where creditors are located. Among other things, the laws and regulations applicable to various creditors impose disclosure requirements regarding the advertisement, application, establishment and operation of credit card accounts or other types of credit programs. Federal law requires a creditor to disclose to consumers, among other things, the interest rates, fees, grace periods and balance calculation methods associated with their accounts. In addition, consumers are entitled to have payments and credits applied to their accounts promptly, to receive prescribed notices and to request that billing errors be resolved promptly. Moreover, some laws prohibit certain discriminatory practices in connection with the extension of credit. Further, state laws may limit the interest rate and the fees that a creditor may impose on consumers. Failure by creditors to comply with applicable laws could create claims and rights of offset by consumers that would reduce or eliminate their obligations, which could have a material adverse effect on our operations. Pursuant to agreements under which we purchase receivables, we are typically indemnified against losses resulting from the failure of the creditor to have complied with applicable laws relating to the receivables prior to our purchase of such receivables.

Certain laws, including the laws described above, may limit our ability to collect amounts owing with respect to the receivables regardless of any act or omission on our part. For example, under the FCBA, a credit card issuer may be subject to certain claims and defenses arising out of certain transactions in which a credit card is used if the consumer has made a good faith attempt to obtain satisfactory resolution of a problem relative to the transaction and, except in cases where there is a specified relationship between the person honoring the card and the credit card issuer, the amount of the initial transaction exceeds \$50 and the place where the initial transaction occurred was in the same state as the consumer's billing address or within 100 miles of that address. Accordingly, as a purchaser of defaulted receivables, we may purchase receivables subject to valid defenses on the part of the consumer. Other laws provide that, in certain instances, consumers cannot be held liable for, or their liability is limited to \$50 with respect to, charges to the credit card credit account that were a result of an unauthorized use of the credit card account. No assurances can be given that certain of the receivables were not established as a result of unauthorized use of a credit card account, and, accordingly, the amount of such receivables may not be collectible by us.

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Several federal, state and local laws, rules, regulations and ordinances, including, but not limited to, the Fair Debt Collection Practices Act (“FDCPA”) and the Federal Trade Commission Act and comparable state statutes, regulate consumer debt collection activity. Although, for a variety of reasons, we may not be specifically subject to the FDCPA or certain state statutes that govern third-party debt collectors, it is our policy to comply with laws in our collection activities. Additionally, our third-party collection agencies and attorneys may be subject to these laws. To the extent that some or all of these laws apply to our collection activities or our third-party collection agencies’ and attorneys’ collection activities, failure to comply with such laws could have a material adverse effect on us.

In order to comply with the foregoing laws and regulations, we provide a comprehensive development training program for our new collection/dispute department representatives and on-going training for all collection/dispute department associates. All collection and dispute representatives are tested annually on their knowledge of the FDCPA and other applicable laws. Account representatives not achieving our minimum standards are required to complete a FDCPA review session and are then retested. In addition, annual supplemental instruction in the FDCPA and collection techniques is provided to all our account representatives.

There are significant corporate governance and executive compensation-related provisions in the Dodd Frank Wall Street Reform and Provision Act (“Dodd-Frank Act”) that required the Securities and Exchange Commission (“SEC”) to adopt additional rules and regulations in areas such as corporate governance, and executive compensation. Our efforts to comply with these requirements have resulted in an increase in expenses and a diversion of management’s time from other business activities. We are subject to changing rules and regulations of federal and state governments, the Public Company Accounting Oversight Board (“PCAOB”), the Financial Industry Regulatory Authority, Inc. (“FINRA”) and the NASDAQ Global Market, all of which have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress.

The Dodd-Frank Act subjects us to substantial additional federal regulation, and we cannot predict the effect of such regulation on our business, results of operations, cash flows or financial condition. Through the Dodd-Frank Act, Congress established the Consumer Financial Protection Bureau (the “CFPB”), which has regulatory, supervisory and enforcement authority over entities involved in consumer financial markets. The CFPB has the authority to conduct periodic examinations of “larger participants” in each market, and we believe it is likely that we will be subject to an examination.

The CFPB published a final rule that allows the agency to federally supervise the larger consumer debt collectors. The CFPB also released the field guide that examiners will use to ensure that companies and banks engaging in debt collection are following the law.

The consumer debt collection market covered by the rule includes three main types of debt collectors: first, firms that may buy defaulted debt and collect the proceeds for themselves; second, firms that may collect defaulted debt owned by another company in return for a fee; and third, debt collection attorneys that collect through litigation. A single company may be involved in any or all of these activities.

The CFPB’s supervisory authority over these entities began when the rule took effect on January 2, 2013. Under the rule, any firm that has more than \$10 million in annual receipts from consumer debt collection activities will be subject to the CFPB’s supervisory authority. This authority will extend to about 175 debt collectors, which, according to the CFPB, account for over 60 percent of the industry’s annual receipts in the consumer debt collection market.

Pursuant to the CFPB’s supervisory authority, examiners assess potential risks to consumers and whether debt collectors are complying with requirements of federal consumer financial law. Among other things, examiners evaluate whether debt collectors provide required disclosures; use accurate information; maintain a consumer complaint and dispute resolution process; and communicate with consumers in the manner required by law.

The CFPB’s general Supervision and Examination Manual, as well as its examination manual specific to the debt collection market, provide guidance on how the bureau conducts its monitoring of debt collection activities. Examiners will evaluate the quality of the regulated entity’s compliance management systems, review practices to ensure they comply with federal consumer financial law, and identify risks to consumers throughout the debt collection process. The CFPB can seek relief that includes: rescission or reformation of contracts, restitution, disgorgement of profits, payment of damages, limits on activities and civil money penalties of up to \$1 million per day for knowing violations.

As a company that engages in debt collection, we need to understand the oversight that the CFPB brings. Preparing for a CFPB audit will cost time and money. Additionally, the CFPB has the power to bring an enforcement action or cause a required settlement. In addition, the amount of privileged and confidential information the CFPB could release, can lead to private lawsuits, including class and mass actions, as well as other state and federal agency oversight.

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The CFPB is expressly charged with prohibiting unfair, deceptive or abusive acts or practices. Through its broad powers to regulate and enforce federal consumer financial laws, the CFPB could place restrictions on our business, the businesses of our customers and the business of our affiliates, if the CFPB were to determine through rulemaking, supervisory or enforcement actions, for example, that particular acts or practices were unfair, deceptive or abusive to consumers.

The CFPB thus exercises supervisory authority over us. At this time, it is not possible or practical to attempt to provide a comprehensive analysis of how these laws and regulations may impact debt collectors.

Additionally, the Dodd-Frank Act empowers state attorneys general (or the equivalent thereof) to bring civil actions in federal district court (or a state court that is located in that state and that has jurisdiction over the defendant), to enforce Title X of the Act or regulations issued by the CFPB thereunder. Therefore, we could also be the subject of investigations and enforcement actions by the Federal Trade Commission or by state agencies (e.g., state attorneys general) with powers to enforce CFPB regulations and the FCRA. Additional laws or amendments to existing laws, may be enacted that could impose additional restrictions on the servicing and collection of receivables. Such new laws or amendments may adversely affect our ability to collect the receivables.

The Dodd-Frank Act authorized the CFPB to prescribe rules interpreting the FDCPA. On November 12, 2013, the CFPB signaled its intention to promulgate substantive rules under the FDCPA by publishing an Advance Notice of Proposed Rulemaking (ANPR) with regard to debt collection practices. The ANPR requested comments with regard to a wide array of issues relating to debt collection. The comment period closed on February 28, 2014. The CFPB has not yet issued a proposed rule. In its Spring 2018 rulemaking agenda, the CFPB stated that it intends to issue a proposed rule in March 2019.

The Company has and will continue to have a substantive compliance program and maintain procedures to ensure that the law is followed and that consumer complaints are dealt with in an appropriate fashion.

We currently hold a number of licenses issued under applicable consumer credit laws or other licensing statutes or regulations. Certain of our current licenses, and any licenses that we may be required to obtain in the future, may be subject to periodic renewal provisions and/or other requirements. Our inability to renew licenses or to take any other required action with respect to such licenses could have a material adverse effect upon our results of operation and financial condition.

### Personal injury claims

Numerous states have recently introduced legislation with respect to the litigation funding business, which, up to now, has been largely unregulated. Recently proposed laws, while varying from state to state, generally would establish requirements for contracts relating to litigation funding, including setting maximum amounts of interest, fees and other charges that may be imposed.

### Social security disability advocacy

The availability of funds to pay Social Security disability and Veteran's benefits, are dependent on governmental regulation and budgetary constraints, which could have a material impact on the GAR Disability Advocates and Five Star business.

## **Employees**

As of September 30, 2018, we had a total of 60 full-time employees. We are not a party to any collective bargaining agreements.

## **Additional Information**

Our web address is [www.astafunding.com](http://www.astafunding.com). Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, amendments thereto, and other SEC reports are available on our website as soon as reasonably practical after filing electronically with the SEC. No part of our website is incorporated by reference into this report.

## **Item 1A. Risk Factors.**

### **Note Regarding Risk Factors**

*You should carefully consider the risk factors below as well as risks identified throughout this Annual Report on Form 10-K and our other filings with the SEC in evaluating us. In addition to the following identified risks, there may also be risks that we do not yet know of or that we currently think are immaterial that may also impair our business operations. If any of the following risks occur, or if risks that we do not yet know of or that we currently think are minor occur, our business, results of operation or financial condition could be adversely affected, the trading price of our common stock could decline and stockholders might lose all or part of their investment. The risk factors presented below are those which we currently consider material. However, they are not the only risks facing our company. Additional risks not presently known to us, or which we currently consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occur, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock could decline, and you could lose part or all of your investment. Except as required by law, we expressly disclaim any obligation to update or revise any forward-looking statements.*

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***We have identified material weaknesses in our internal control over financial reporting that, if not remediated, could result in additional material misstatements in our financial statements.***

As described in “Part II, Item 9A — Controls and Procedures,” management has identified and evaluated the control deficiencies that gave rise to the accounting errors related to equity method accounting, foreign currency matters, related party transactions, accounting for significant and/or complex transactions and documentation and reconciliation of social security disability cash receipts, and has concluded that those deficiencies, represent material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of those material weaknesses, management has concluded that we did not maintain effective internal control over financial reporting as of September 30, 2018. See “Part II, Item 9A — Controls and Procedures.”

We are in the process of developing and implementing a remediation plan to address the material weaknesses. If our remediation efforts are insufficient or if additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to further restate our financial results, which could materially and adversely affect our business, results of operations and financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the material weakness, subject us to fines, penalties or judgments, harm our reputation or otherwise cause a decline in investor confidence.

***Government regulations may limit our ability to recover and enforce the collection of our receivables.***

Federal, state and local laws, rules, regulations and ordinances may limit our ability to recover and enforce our rights with respect to the receivables acquired by us. These laws include, but are not limited to, the following federal statutes and regulations promulgated thereunder and comparable statutes in states and foreign jurisdictions such as Colombia and Peru where consumers reside and/or where creditors are located:

- The Fair Debt Collection Practices Act;
- The Federal Trade Commission Act;
- The Truth-In-Lending Act;
- The Fair Credit Billing Act;
- The Equal Credit Opportunity Act;
- The Fair Credit Reporting Act;
- The Financial Privacy Rule;
- The Safeguards Rule;
- Telephone Consumer Protection Act;
- Health Insurance Portability and Accountability Act (“HIPAA”)/Health Information Technology for Economical and Clinical Health Act (“HITECH”);
- U.S. Bankruptcy Code; and
- Credit Card Accountability Responsibility and Disclosure Act of 2009.

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We may be precluded from collecting receivables we purchase where the creditor or other previous owner or third-party collection agency or attorney failed to comply with applicable law in originating or servicing such acquired receivables. Laws relating to the collection of consumer debt also directly apply to our business. Our failure to comply with any laws applicable to us, including state licensing laws, could limit our ability to recover on receivables and could subject us to fines and penalties, which could reduce our earnings and result in a default under our loan arrangements. In addition, our third-party collection agencies and attorneys may be subject to these and other laws and their failure to comply with such laws could also materially adversely affect our finance income and earnings.

Additional laws or amendments to existing laws may be enacted that could impose additional restrictions on the servicing and collection of receivables. Such new laws or amendments may adversely affect the ability to collect on our receivables, which could also adversely affect our finance income and earnings.

Because our receivables are generally originated and serviced pursuant to a variety of federal, state and/or local laws by a variety of entities and may involve consumers in all 50 states, the District of Columbia, Puerto Rico and South America, there can be no assurance that all originating and servicing entities have, at all times, been in substantial compliance with applicable law. Additionally, there can be no assurance that we or our third-party collection agencies and attorneys have been or will continue to be at all times in substantial compliance with applicable law. Failure to comply with applicable law could materially adversely affect our ability to collect our receivables and could subject us to increased costs, fines and penalties.

We are subject to changing rules and regulations of federal and state government as well as the stock exchange on which our common stock is listed. These entities, including PCAOB, the SEC and the NASDAQ Global Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress.

### ***Changes in governmental laws and regulations could increase our costs and liabilities or impact our operations.***

Title X of the Dodd-Frank Act (also referred to as the Consumer Financial Protection Act) created a new independent regulator, CFPB. The CFPB has rulemaking, supervisory, and enforcement and other authorities relating to consumer financial products and services, including debt collection, provided by covered persons. We are subject to the CFPB's supervisory and enforcement authority.

The relationship between consumers, lenders and credit card issuers is extensively regulated by consumer protection and related laws and regulations. Changes in laws and regulations or the manner in which they are interpreted or applied may alter our business environment. This could affect our results of operations or increase our liabilities. These negative impacts could result from changes in collection laws, laws related to credit reporting, statutes of limitation, laws related to consumer bankruptcy or insolvency, privacy protection, accounting standards, taxation requirements, employment laws and communications laws, among others.

The CFPB also accepts debt collection consumer complaints and has provided form letters for consumers to use in their correspondences with debt collectors. The CFPB makes publicly available its data on consumer complaints, and consumer complaints against us could result in reputational damage to us. The Dodd-Frank Act also mandates the submission of multiple studies and reports to Congress by the CFPB, and CFPB staff is regularly making speeches on topics related to credit and debt. All of these activities could trigger additional legislative or regulatory action.

The CFPB has rulemaking authority with respect to significant federal statutes that impact the debt collection industry, including the Federal Debt Collection Practices Act ("FDCPA"), the Fair Credit Reporting Act "FCRA", and Section 5 of the Federal Trade Commission ("FTC Act"), which prohibits unfair or deceptive acts or practices. As a result, the CFPB has the authority to adopt regulations that interpret the FDCPA, and the FTC Act, potentially describing specified acts and practices as being "unfair," "deceptive" or "abusive," impacting the manner in which we conduct our debt collection business.

The CFPB has the authority to conduct hearings and adjudication proceedings, impose monetary penalties for violations of applicable federal consumer financial laws (including Title X of the Dodd-Frank Act, FDCPA, and FCRA, among other consumer protection statutes) which may require remediation of practices and include enforcement actions. The CFPB also has the authority to obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief), costs, and monetary penalties. In addition, where a company has violated Title X of the Dodd-Frank Act or CFPB regulations implemented thereunder, the Dodd-Frank Act empowers state Attorneys General and other state regulators to bring civil actions to remedy violations under state law. The CFPB has been active in its supervision, examination and enforcement of financial services companies, most notably bringing enforcement actions imposing fines and mandating large refunds to customers of several financial institutions for practices relating to the extension and collection of consumer credit. If the CFPB, the FTC, acting under the FTC Act or other applicable statute such as the FDCPA, or one or more state Attorneys General or other state regulators make findings that we have violated any of the applicable laws or regulations, they could exercise their enforcement powers in ways that could have an adverse effect on our business, results of operations, cash flows, or financial condition.



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We may become subject to additional costs or liabilities in the future resulting from our own, or our vendors' supervision or examination by the CFPB, or by changes in, or additions to laws and regulations that could adversely affect our results of operations and financial condition. Further, we cannot definitively predict the scope and substance of any such laws or regulations ultimately adopted by the CFPB related to our activities and the exact efforts required by us to comply therewith, nor can we have any way to know with certainty the ultimate impact on our business, results of operations, and financial condition that such regulations may have.

***Investigations or enforcement actions by governmental authorities may result in changes to our business practices; negatively impact our receivables portfolio purchasing volume; make collection of receivables more difficult or expose us to the risk of fines, penalties, restitution payments and litigation.***

Our business practices are subject to review from time to time by various governmental authorities and regulators, including the Consumer Financial Protection Bureau ("CFPB"), who may commence investigations or enforcement actions or reviews targeted at businesses in the financial services industry. These reviews may involve governmental authority consideration of individual consumer complaints, or could involve a broader review of our debt collection policies and practices. Such investigations could lead to assertions by governmental authorities that we are not complying with applicable laws or regulations. In such circumstances, authorities may request or seek to impose a range of remedies that could involve potential compensatory or punitive damage claims, fines, restitution payments, sanctions or injunctive relief, that if agreed to or granted, could require us to make payments or incur other expenditures that could have an adverse effect on our financial position. Government authorities could also request or seek to require us to cease certain of our practices or institute new practices.

We may also elect to change practices that we believe are compliant with applicable law and regulations in order to respond to the concerns of governmental authorities. In addition, we may become required to make changes to our internal policies and procedures in order to comply with new statutory and regulatory requirements under the Dodd-Frank Act or other applicable laws. Such changes in practices or procedures could negatively impact our results of operations. Negative publicity relating to investigations or proceedings brought by governmental authorities could have an adverse impact on our reputation, could harm our ability to conduct business with industry participants, and could result in financial institutions reducing or eliminating sales of receivables portfolios to us which would harm our business and negatively impact our financial results. Moreover, changing or modifying our internal policies or procedures, responding to governmental inquiries and investigations and defending lawsuits or other proceedings could require significant efforts on the part of management and result in increased costs to our business. In addition, such efforts could divert management's full attention from our business operations. All of these factors could have an adverse effect on our business, results of operations, and financial condition.

***We may not be able to purchase consumer receivable portfolios domestically and internationally at favorable prices or on sufficiently favorable terms if at all.***

Our success in the consumer receivables business segment depends upon the continued availability of consumer receivable portfolios that meet our purchasing criteria and our ability to identify and finance the purchases of such portfolios. The availability of consumer receivable portfolios at favorable prices and on terms acceptable to us, if at all, depends on a number of factors outside of our control, including:

- the growth in consumer debt;
- the volume of consumer receivable portfolios available for sale;
- availability of financing to fund purchases;
- competitive factors affecting potential purchasers and sellers of consumer receivable portfolios;
- possible future changes in the bankruptcy laws, state laws and homestead acts which could make it more difficult for us to collect, and
- The foreign exchange rate changes of the countries in which we do business

***There is no assurance that we will realize the full value of the deferred tax asset.***

As of September 30, 2018, we had a net deferred tax asset of \$10.9 million. Our ability to use our deferred tax asset is dependent on our ability to generate future earnings within the operating loss carry-forward periods, which are generally 20 years. Some or all of our deferred tax asset could expire unused if we are unable to generate taxable income in the future sufficient to utilize the deferred tax asset, or we enter into transactions that limit our right to use it. If a material portion of our deferred tax asset expires unused, it could have a material adverse effect on our future business, results of operations, financial condition and the value of our common stock. Our ability to realize the deferred tax asset is periodically reviewed and any necessary valuation allowance is adjusted accordingly.

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Additionally, 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 had 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. Our assessment of the Act resulted in a one-time charge to income taxes of approximately \$4.4 million for the year ended September 30, 2018.

***We may not be able to collect sufficient amounts on our consumer receivable portfolios to recover the costs associated with the purchase of those portfolios and to fund our operations.***

We acquire and collect on consumer receivable portfolios that contain charged-off receivables. In order to operate profitably over the long term, we must continually purchase and collect on a sufficient volume of receivables to generate revenue that exceeds our purchase costs. For accounts that are charged-off or semi-performing, the originators or interim owners of the receivables generally have:

- made numerous attempts to collect on these obligations, often using both their in-house collection staff and third-party collection agencies; and/or
- subsequently deemed these obligations to be uncollectible.

These receivable portfolios are purchased at significant discounts to the amount the consumers owe. These receivables are difficult to collect and actual recoveries may be less than the amount expected. In addition, our collections may worsen in a weak economic cycle. We may not recover amounts in excess of our acquisition and servicing costs.

Our ability to recover the purchase costs on our portfolios and produce sufficient returns can be negatively impacted by the quality of the purchased receivables. In the normal course of our portfolio acquisitions, some receivables may be included in the portfolios that fail to conform to certain terms of the purchase agreements and we may seek to return these receivables to the seller for payment or replacement receivables. However, we cannot guarantee that any of such sellers will be able to meet their payment obligations to us. Accounts that we are unable to return to sellers may yield no return. If cash flows from operations are less than anticipated as a result of our inability to collect sufficient amounts on our receivables, our ability to satisfy our debt obligations, purchase new portfolios, and achieve future growth and profitability may be materially adversely affected.

***We may be subject to competition for the purchase of international consumer receivable portfolios which may result in an increase in prices of such portfolios.***

We compete with other purchasers of consumer receivable portfolios, with third-party collection agencies and with financial services companies that manage their own consumer receivable portfolios. We compete on the basis of price, reputation, industry experience and performance. Some of our competitors have greater capital, personnel and other resources than we have. The possible entry of new competitors, including competitors that historically have focused on the acquisition of different asset types, and the expected increase in competition from current market participants may reduce our access to consumer receivable portfolios. Aggressive pricing by our competitors has raised the price of consumer receivable portfolios above levels that we are willing to pay, which could reduce the number of consumer receivable portfolios suitable for us to purchase or if purchased by us, reduce the profits, if any, generated by such portfolios. If we are unable to purchase receivable portfolios at favorable prices or at all, our finance income and earnings could be materially reduced.

***We depend upon third parties to service a significant portion of our domestic and international consumer receivable portfolios. The loss of certain servicers could have an adverse effect on our financial position and results of operation.***

At September 30, 2018, 31% of our portfolio face value, which represents approximately 87% of our portfolio face value at all third party collection agencies and attorneys, is serviced by five organizations domestically and one organization internationally, we are dependent upon the efforts of these collection agencies and attorneys to service and collect our consumer receivables. Any failure by our third-party collection agencies and attorneys to adequately perform collection services for us or remit such collections to us could materially reduce our finance income and our profitability. In addition, our finance income and profitability could be materially adversely affected if we are not able to secure replacement third party collection agencies and attorneys and redirect payments from the customers to our new third party collection agencies and attorneys promptly in the event our agreements with our third-party collection agencies and attorneys are terminated, our third-party collection agencies and attorneys fail to adequately perform their obligations or if our relationships with such third-party collection agencies and attorneys adversely change.

***We may rely on third parties to locate, identify and evaluate consumer receivable portfolios available for purchase.***

We may rely on third parties, including brokers and third-party collection agencies and attorneys, to identify consumer receivable portfolios and, in some instances, to assist us in our evaluation and purchase of these portfolios. As a result, if such third parties fail to identify receivable portfolios or if our relationships with such third parties are not maintained, our ability to identify and purchase additional receivable portfolios could be materially adversely affected. In addition, if we, or such parties, fail to correctly or adequately evaluate the value or collectability of these consumer receivable portfolios, we may pay too much for such portfolios and suffer an impairment, which would negatively impact our earnings.

***We rely on our third party collectors to comply with all rules and regulations and maintain proper internal controls over their accounting and operations.***

Because the receivables were originated and serviced pursuant to a variety of federal and/or state laws by a variety of entities and involved consumers in all 50 states, the District of Columbia, Puerto Rico, Columbia and Peru, there can be no assurance that all original servicing entities have, at all times, been in substantial compliance with applicable law. Additionally, there can be no assurance that we or our third-party collection agencies and attorneys have been or will continue to be at all times in substantial compliance with applicable law. The failure to comply with applicable law and not maintain proper controls in accounting and operations could materially adversely affect our ability to collect our receivables and could subject us to increased costs, fines and penalties.

***Our collections may decrease if bankruptcy filings increase.***

During times of economic uncertainty, the amount of defaulted consumer receivables generally increases, which contributes to an increase in the amount of personal bankruptcy filings. Under certain bankruptcy filings, a debtor's assets are sold to repay credit originators, but since the defaulted consumer receivables we purchase are generally unsecured, we may not be able to collect on those receivables. Our collections may decline with an increase in bankruptcy filings. If our actual collection experience with respect to a defaulted consumer receivable portfolio is significantly lower than we projected when we purchased the portfolio, our earnings could be negatively affected.

***We are subject to various risks in connection with our litigation funding business.***

Risks of the litigation funding business include the potential regulation or limitation of interest rates and other fees advanced by our litigation funding subsidiaries under federal and/or state regulation, a change in statutory or case law which limits or restricts the ability of our litigation funding subsidiaries to charge or collect fees and interest at anticipated levels, claimants being unsuccessful in whole or in part in the personal injury claims or divorce settlement upon which our funds are provided, the continued services of the senior management of our litigation funding subsidiaries to source and analyze cases in accordance with the subsidiaries' respective underwriting guidelines.

***The loss of any of our executive officers may adversely affect our operations and our ability to successfully acquire receivable portfolios.***

Our executive officers are responsible for making substantially all management decisions, including determining which portfolios to purchase, the purchase price and other material terms of such portfolio acquisitions. These decisions are instrumental to the success of our business. Significant losses of the services of our executive officers or the inability to replace our officers with individuals who have experience in the industry or with the Company could disrupt our operations and adversely affect our ability to successfully acquire receivable portfolios.

***The Stern family effectively controls the Company, substantially reducing the influence of our other stockholders.***

Members of the Stern family own directly or indirectly, approximately 59% of our outstanding shares of common stock as of September 30, 2018. Through January 6, 2019, the Stern family, in conjunction with a voting agreement signed with an activist shareholder in January 2017; is limited to voting up to 49% of the outstanding shares. As a result, the Stern family is able to significantly influence the actions that require stockholder approval, including:

- the election of our directors; and
- the approval of mergers, sales of assets or other corporate transactions or matters submitted for stockholder approval.

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As a result, our other stockholders may have reduced influence over matters submitted for stockholder approval. In addition, the Stern family's influence could discourage any unsolicited acquisition of the Company and, consequently, materially adversely affect the price of our common stock.

***Negative press regarding the debt collection industry may have a negative impact on a customer's willingness to pay the debt we acquire.***

Consumers are exposed to information from a number of sources that may cause them to be more reluctant to pay their debts or to pursue legal actions against us. Online, print and other media publish stories about the debt collection industry which cite specific examples of abusive collection practices. These stories can lead to the rapid dissemination of the story, adding to the level of exposure to negative publicity about our industry. Various internet sites are maintained where consumers can list their concerns about the activities of debt collectors and seek guidance from other website posters on how to handle the situation. Advertisements by debt relief attorneys and credit counseling centers are becoming more common, adding to the negative attention given to our industry. As a result of this negative publicity, customers may be more reluctant to pay their debts or could pursue legal action against us regardless of whether those actions are warranted. These actions could impact our ability to collect on the receivables we acquire and affect our revenues and profitability.

***Class action suits and other litigation could divert our management's attention from operating our business and increase our expenses.***

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.

***Economic slowdowns increase our credit losses.***

During periods of economic slowdown or recession, we experience an increase in rates of delinquencies and frequency and severity of credit losses. Our actual rates of delinquencies and frequency and severity of credit losses may be comparatively higher during periods of economic slowdown or recession than those experienced by more traditional providers of consumer credit because of our focus on the financially underserved consumer market, which may be disproportionately impacted.

***Because a significant portion of our reported income is based on management's estimates of the future performance of our asset portfolios and fees receivable, differences between actual and expected performance of the receivables may cause fluctuations in net income.***

Significant portions of our reported income (or losses) are based on management's estimates of cash flows we expect to receive on our asset portfolios and fees receivable, particularly for such assets that we report based on fair value. The expected cash flows are based on management's estimates of interest rates, default rates, payment rates, cardholder purchases, servicing costs, and discount rates. These estimates are based on a variety of factors, many of which are not within our control. Substantial differences between actual and expected performance of the receivables will occur and cause fluctuations in our net income. For instance, higher than expected rates of delinquencies and losses could cause our net income to be lower than expected. Similarly, levels of loss and delinquency can result in our being required to repay our lenders earlier than expected, thereby reducing funds available to us for future growth.

***We may determine to incur near-term losses based on longer-term strategic considerations.***

We may consider long-term strategic considerations more important than near-term economic gains when assessing business arrangements and opportunities. We may nevertheless determine to participate in, or structure, future financing transactions based on longer-term strategic considerations.

***We may experience losses on portfolios consisting of new types of receivables or receivables in new geographies due to our lack of collection experience with these receivables, which could harm our business, financial condition and operating results.***

We continually look for opportunities to expand the classes of assets that make up the portfolios we acquire. Therefore, we may acquire portfolios consisting of assets with which we have little or no collection experience or portfolios of receivables in new geographies where we do not historically maintain an operational footprint. Our lack of experience with these assets may hinder our ability to generate expected levels of profits from these portfolios. Further, our existing methods of collections may prove ineffective for these new receivables, and we may not be able to collect on these portfolios. Our inexperience with these receivables may have an adverse effect on our business, financial condition and operating results.

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### ***We may not be able to manage our growth effectively, including the expansion of our foreign operations.***

Continued growth will place additional demands on our resources, and we cannot be sure that we will be able to manage our growth effectively. For example, continued growth could place strains on our management, operations, and financial resources that our infrastructure, facilities, and personnel may not be able to adequately support. In addition, the recent expansion of our foreign operations subjects us to a number of additional risks and uncertainties, including:

- compliance with and changes in international laws, including regulatory and compliance requirements that could affect our business;
- increased exposure to U.S. laws that apply abroad, such as the Foreign Corrupt Practices Act;
- social, political and economic instability or recessions;
- fluctuations in foreign economies and currency exchange rates;
- difficulty in hiring, staffing and managing qualified and proficient local employees and advisors to run international operations;
- the difficulty of managing and operating an international enterprise, including difficulties in maintaining effective communications with employees due to distance, language, and cultural barriers;
- difficulties implementing and maintaining effective internal controls and risk management and compliance initiatives;
- potential disagreements with our joint venture business partners;
- differing labor regulations and business practices; and
- foreign tax consequences.

To support our growth and improve our international operations, we continue to make investments in infrastructure, facilities, and personnel in our operations; however, these additional investments may not be successful or our investments may not produce profitable results. If we cannot manage our growth effectively, our business, financial condition and operating results may be adversely affected.

### ***We may seek to make acquisitions that prove unsuccessful or strain or divert our resources.***

We may seek to grow through acquisitions of related businesses in the financial services sector. Such acquisitions present risks that could materially adversely affect our business and financial performance, including:

- the diversion of our management's attention from our everyday business activities;
- the assimilation of the operations and personnel of the acquired business;
- the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired business; and
- the need to expand management, administration and operational systems.

If we make such acquisitions, we cannot predict whether:

- we will be able to successfully integrate the operations of any new businesses into our business;
- we will realize any anticipated benefits of completed acquisitions; or
- there will be substantial unanticipated costs associated with acquisitions.

In addition, future acquisitions by us may result in:

- potentially dilutive issuances of our equity securities;

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- the incurrence of debt; and
- the recognition of significant charges for depreciation and impairment charges related to goodwill and other intangible assets.

***If our technology infrastructure is not operational, our operations could be disrupted and our ability to successfully operate the business could be compromised.***

Our success depends, in part, on sophisticated telecommunications and computer systems. The temporary loss of our computer or telecommunications systems, through casualty, operating malfunction or service provider failure, could disrupt our operations. In addition, we must record and process significant amounts of data quickly and accurately to properly bid on prospective acquisitions of receivable portfolios and to access, maintain and expand the databases we use for our collection and monitoring activities. Any failure of our information systems and their backup systems could interrupt our operations. We may not have adequate backup arrangements for all of our operations and we may incur significant losses if an outage occurs. In addition, we rely on third-party collection agencies and attorneys who also may be adversely affected in the event of an outage in which the third-party collection agencies and attorneys do not have adequate backup arrangements. Any interruption in our operations or our third-party collection agencies' and attorneys' operations could have an adverse effect on our results of operations and financial condition. We have implemented a disaster recovery program to mitigate this risk.

***A cyber security incident could have a negative effect on our business as we outsource a significant amount of the collection accounts with personal information electronically.***

A security breach could have a detrimental effect on our business as we maintain a significant amount of personal information in our electronic files. A breach of our system or a leak of the personal information we maintain could leave us vulnerable to, among other things, loss of information and potential litigation each of which could have a material adverse effect on our business.

***Our organizational documents and Delaware law may make it harder for us to be acquired without the consent and cooperation of our board of directors and management.***

Several provisions of our organizational documents and Delaware law may deter or prevent a takeover attempt, including a takeover attempt in which the potential purchaser offers to pay a per share price greater than the current market price of our common stock. Under the terms of our certificate of incorporation, our board of directors has the authority, without further action by the stockholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. The ability to issue shares of preferred stock could tend to discourage takeover or acquisition proposals not supported by our current board of directors. In addition, we are subject to Section 203 of the Delaware General Corporation Law, which restricts business combinations with some stockholders once the stockholder acquires 15% or more of our common stock.

***Future sales of our common stock by our affiliates or other stockholders may depress our stock price.***

Sales of a substantial number of shares of our common stock in the public market could cause a decrease in the market price of our common stock. We had 6,685,415 shares of common stock issued and outstanding as of December 20, 2018. Of these shares, 3,998,727 are owned by affiliates of the company, which are defined as in Rule 405 under the Act as a "person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with", an issuer. In addition, options to purchase 728,867 shares of our common stock were outstanding as of September 30, 2018, of which 710,694 were exercisable. We may also issue additional shares in connection with our business and may grant additional stock options or restricted shares to our employees, officers, directors and consultants under our present or future equity compensation plans or we may issue warrants to third parties outside of such plans. As of September 30, 2018, there were 1,323,343 shares available for such purpose with such shares available under the 2012 Stock Option and Performance Award Plan. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

***We have the ability to issue preferred shares, warrants, convertible debt and other securities without stockholder approval which could dilute the relative ownership interest of current stockholders and adversely affect our share price.***

Future sales of our equity-related securities in the public market, could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings. Our common shares may be subordinate to classes of preferred shares issued in the future in the payment of dividends and other distributions made with respect to common shares, including distributions upon liquidation or dissolution. Our certificate of incorporation permits our board of directors to issue preferred shares without first obtaining stockholder approval. If we issued preferred shares, these additional securities may have dividend or liquidation preferences senior to our common shares. If we issue convertible preferred shares, a subsequent conversion may dilute the current common stockholders' interest. We have similar abilities to issue convertible debt, warrants and other equity securities.

***Climate change and related regulatory responses may adversely impact our business.***

Climate change as a result of emissions of greenhouse gases is a significant topic of discussion and may generate federal and other regulatory responses in the near future, including the imposition of a so-called “cap and trade” system. It is impracticable to predict with any certainty the impact on our business of climate change or the regulatory responses to it, although we recognize that they could be significant. The most direct impact is likely to be an increase in energy costs, which would increase slightly our operating costs, primarily through increased utility and transportation costs. In addition, increased energy costs could impact consumers and their ability to incur and repay indebtedness. However, it is too soon for us to predict with any certainty the ultimate impact, either directionally or quantitatively, of climate change and related regulatory responses.

***Our quarterly operating results may fluctuate and cause our stock price to decline.***

Because of the nature of our business, our quarterly operating results may fluctuate, which may adversely affect the market price of our common stock. Our results may fluctuate as a result of any of the following:

- the timing and amount of collections on our consumer receivable portfolios;
- our inability to identify and acquire additional consumer receivable portfolios;
- a decline in the estimated future value of our consumer receivable portfolio recoveries;
- increases in operating expenses associated with the growth of our operations;
- general and economic market conditions; and within various jurisdictions; and
- prices we are willing to pay for consumer receivable portfolios.

***Our financial performance is subject to risks associated with changes in the value of the U.S. dollar versus local currencies.***

Our primary exposure to movements in foreign currency exchange rates relates to non- U.S. dollar denominated sales and operating expenses worldwide. The Company does not use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates.

***Our business could be negatively affected as a result of actions of activist shareholders, and such activism could impact the trading value of our securities.***

Responding to activist shareholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such activities could interfere with our ability to execute our strategic plan. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

***We are a “smaller reporting company” and, as such, are allowed to provide less disclosure than larger public companies.***

We are currently a “smaller reporting company,” as defined by Rule 12b-2 of the Exchange Act. As a “smaller reporting company,” we have certain decreased disclosure obligations in our SEC filings, which may make it harder for investors to analyze our results of operations and financial prospects and may result in less investor confidence.

**Item 2. *Properties***

Our executive and administrative offices are located in Englewood Cliffs, New Jersey, where we lease approximately 13,400 square feet of general office space. The lease was renewed September 1, 2015 and expires on August 31, 2020.

Our office in Houston, Texas occupies approximately 900 square feet of general office space. The lease expires on August 31, 2019.

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We believe that our existing facilities are adequate for our current needs.

**Item 3. 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.

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 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

**Market for Our Common Stock**

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "ASFI." High and low sales prices of our common stock as reported by NASDAQ are set forth below for the periods indicated (such quotations reflect inter-dealer prices without retail markup, markdown, or commission, and may not necessarily represent actual transactions):

|                                      | <u>High</u> | <u>Low</u> |
|--------------------------------------|-------------|------------|
| <b>Fiscal Year 2017</b>              |             |            |
| October 1, 2016 to December 31, 2016 | \$ 10.47    | \$ 8.65    |
| January 1, 2017 to March 31, 2017    | 10.35       | 7.75       |
| April 1, 2017 to June 30, 2017       | 9.05        | 6.15       |
| July 1, 2017 to September 30, 2017   | 8.40        | 6.80       |
| <b>Fiscal Year 2018</b>              |             |            |
| October 1, 2017 to December 31, 2017 | \$ 8.45     | \$ 7.05    |
| January 1, 2018 to March 31, 2018    | 11.50       | 3.55       |
| April 1, 2018 to June 30, 2018       | 4.05        | 3.25       |
| July 1, 2018 to September 30, 2018   | 4.75        | 2.80       |

**Dividends**

Future dividend payments will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements and any other factors our board of directors deems relevant. In addition, our agreements with our lender may, from time to time, restrict our ability to pay dividends. Currently there are no restrictions in place. We did not declare any dividends during fiscal year 2017. However, on February 5, 2018, we declared a special cash dividend in the amount of \$5.30 per share with respect to our common stock, which was paid on February 28, 2018 to holders of record at the close of business on February 16, 2018. The aggregate payment to shareholders was approximately \$35.4 million.

**Holders of Our Common Stock**

On September 30, 2018, there were 18 holders of record of our common stock.



## Issuer Purchases of Equity Securities

The Company did not repurchase any shares of its common stock during the three months ended September 30, 2018.

## Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operation.*

### Caution Regarding Forward-Looking Statements

*This Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this Annual Report on Form 10-K contain forward-looking statements that involve risks and uncertainties. All forward-looking statements included in this Annual Report on Form 10-K are based on information available to us on the date hereof, and except as required by law, we assume no obligation to update any such forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the caption "Risk Factors" contained in this report and elsewhere herein. The following should be read in conjunction with our annual financial statements contained elsewhere in this report.*

### Overview

We are engaged in the businesses of acquiring, managing, servicing and recovering on portfolios of consumer receivables, assisting claimants in the process of social security disability claims and funding personal injury claims.

For the current year period from October 1, 2017 to January 12, 2018, Pegasus was 80% owned, and accounted for under the equity method. On January 12, 2018, the Company acquired the remaining 20% minority shareholder's interest in Pegasus, changed its name to Sylvave and now currently owns 100% of Sylvave. Commencing on the date of acquisition, the Company consolidated the financial results of this entity.

#### *Consumer Receivables*

The consumer receivable portfolios generally consist of charged-off receivables, which are accounts that have been written-off by the originators and may have been previously serviced by collection agencies.

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

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

- our relationships with industry participants, financial institutions, collection agencies, investors and our financing sources;
- brokers who specialize in the sale of consumer receivable portfolios; and
- other sources.

#### *Personal Injury Claims*

##### *Acquisition of 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 historically had an 80% non-controlling interest in the joint venture from the date of formation through January 12, 2018. 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.

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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. Pursuant to the Term Sheet, the parties thereto have agreed that Pegasus would continue in existence in order to collect advances on its existing Portfolio. The Company and PLF decided not to renew the Pegasus joint venture that, by its terms, was scheduled to terminate on December 28, 2016.

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

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

Additionally, on January 12, 2018, ASFI Pegasus Holdings, LLC (“ASFI”), a Delaware limited liability company and a subsidiary of Asta Funding, Inc. (the “Company” or “Asta”), a Delaware corporation, entered into a Membership Interest Purchase Agreement (the “Purchase Agreement”) with Pegasus Legal Funding, LLC, a Delaware limited liability company (the “Seller”). Under the Purchase Agreement, ASFI bought the Seller's ownership interests of Pegasus Funding, LLC (“Pegasus”), which was 20% of the issued and outstanding limited liability company interests of Pegasus, for an aggregate purchase price of \$1.8 million. As a result of the execution of the Purchase Agreement, ASFI became the owner of 100% of the limited liability company interests of Pegasus, and recognized a loss on acquisition of \$1.4 million, which is recorded in the Company's consolidated financial statements. Immediately on acquisition, the Company changed the name from Pegasus to Sylvave.

### *Simia and Sylvave*

On November 11, 2016, the Company formed Simia, a wholly owned subsidiary, to continue its personal injury claims funding business. Simia commenced operation in January 2017, and conducts its business solely in the United States.

As noted in Note 5 - Equity Method Investments in the Company's notes to consolidated financial statements, effective January 12, 2018, the Company now accounts for Sylvave, its wholly owned subsidiary, on a consolidated basis. Simia and Sylvave remain in operation to continue to collect on their outstanding personal injury claim portfolios, but will not be funding any new advances to claimants.

### *Practical Funding*

The Company formed a new wholly owned subsidiary, Practical Funding on March 16, 2018 to continue in the personal injury claims funding business. To date, Practical Funding has not funded any advances on personal injury claims.

### ***Divorce Funding***

On May 8, 2012, the Company formed EMIRIC, LLC, a wholly owned subsidiary of the Company. EMIRIC, LLC entered into a joint venture with California-based Balance Point Divorce Funding, LLC (“BP Divorce Funding”). The Venture provides non-recourse funding to a spouse in a matrimonial action where the marital assets exceed \$2.0 million. 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 BPCM's investment on a case by case basis and after a 15% preferred return to us. 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 BPCM'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 September 30, 2018 and 2017, BPCM had fully reserved against its invested amount of \$2.5 million, in cases managed by this Venture. There was no income recognized for the years ended September 30, 2018 and 2017.

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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. 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. On April 1, 2017, BP Divorce Funding defaulted on this agreement, and as such, the loan balance of approximately \$1.5 million was deemed uncollectible and was written off in general and administrative expenses in the consolidated statement of operations during the year ended September 30, 2017.

### ***Social Security Disability Advocacy Business***

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

### ***Structured Settlement Business- Discontinued Operations***

On December 13, 2017, we sold all of our issued and outstanding equity capital in CBC Settlement Funding, LLC ("CBC"), our wholly owned subsidiary engaged in structured settlements. As a result of this sale, all periods presented in our consolidated financial statements will account for CBC as a discontinued operation. This determination resulted in the reclassification of the historical 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. As of September 30, 2018, the Company had no assets or liabilities related to discontinued operations. As of September 30, 2017, the Company had total assets related to discontinued operations of \$92.2 million, and total liabilities related to discontinued operations of \$81.8 million. Total revenues for the years ended September 30, 2018 and 2017 were \$2.2 million and \$7.2 million, respectively. See Note 2 - Discontinued Operations in the Company's notes to the consolidated financial statements.

### **Critical Accounting Policies**

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

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

The Company uses the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. Under the cost recovery method, no income is recognized until the cost of the portfolio has been fully recovered. A pool can become fully amortized (zero carrying balance on the balance sheet) while still generating cash collections. In this case, all cash collections are recognized as revenue when received. The Company aggregates portfolios of receivables acquired sharing specific common characteristics which were acquired within a given quarter. In addition, the Company uses a variety of qualitative and quantitative factors to estimate collections and the timing thereof. The Company obtains and utilizes, as appropriate, input, including but not limited to, monthly collection projections and liquidation rates, from third party collection agencies and attorneys, as further evidentiary matter, to assist in evaluating and developing collection strategies and in evaluating and modeling the expected cash flows for a given portfolio.

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

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

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

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.

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

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

[Table of Contents](#)**Results of Operations**

The following discussion of our operations and financial condition should be read in conjunction with our financial statements and notes thereto included elsewhere in this report. In these discussions, dollar amounts have been rounded to aid in its presentation.

|  | Years Ended September 30, |                        |
|--|---------------------------|------------------------|
|  | 2018                      | 2017                   |
| Finance income, net  | \$ 15,863,000             | \$ 15,920,000          |
| Personal injury claim income (1)                             | 1,084,000                 | 434,000                |
| Disability fee income  | 4,598,000                 | 5,085,000              |
| <b>Total revenues</b>  | <b>21,545,000</b>         | <b>21,439,000</b>      |
| Gain on settlements  | 4,044,000                 | —                      |
| Other (expense) income                                       | 479,000                   | (94,000)               |
|  | <b>26,068,000</b>         | <b>21,345,000</b>      |
| General and administrative expenses                          | 15,429,000                | 31,900,000             |
| Loss on acquisition of minority interest                     | 1,420,000                 | —                      |
| Interest expense   | 20,000                    | 240,000                |
| Impairments of consumer receivables acquired for liquidation | 310,000                   | 1,129,000              |
| Earnings from equity method investment (2)                   | (750,000)                 | (4,619,000)            |
|  | <b>16,429,000</b>         | <b>28,650,000</b>      |
| Income (loss) before income taxes from continuing operations | 9,639,000                 | (7,305,000)            |
| Income tax expense   | 5,502,000                 | 1,077,000              |
| <b>Income (loss) from continuing operations</b>              | <b>4,137,000</b>          | <b>(8,382,000)</b>     |
| Loss from discontinued operations, net of tax                | (80,000)                  | (4,620,000)            |
| <b>Net Income (loss) attributable to Asta Funding, Inc.</b>  | <b>\$ 4,057,000</b>       | <b>\$ (13,002,000)</b> |

(1) This line item is comprised of the personal injury claims revenue from Simia and Sylvave

(2) This line item is comprised of the net earnings from Pegasus from October 1, 2017 to the date of acquisition and Serlefin Peru (reclassified from finance income to earnings from equity method investment in the current year).

**Year Ended September 30, 2018 Compared to the Year Ended September 30, 2017**

*Finance income.* For the fiscal year ended September 30, 2018 (“fiscal year 2018”), finance income from consumer receivables was flat, as the Company has continued to collect on its existing cost recovered consumer receivable portfolios. During fiscal year 2018, the Company did not purchase any portfolios. During fiscal year 2017, the Company acquired \$35.0 million in face value of new portfolios at a cost of \$2.2 million. The portfolios purchased during fiscal year 2017 are accounted for on the cost recovery method.

Net collections decreased \$4.9 million, or 21.1%, to \$18.6 million for fiscal year 2018 from \$23.5 million for fiscal year 2017. During fiscal year 2018, gross collections decreased 16.3% to \$35.5 million from \$42.5 million for fiscal year 2017, reflecting the lower level of purchases over the last few years. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased \$1.9 million, from \$18.9 million to \$17.0 million, or 10.4% for fiscal year 2018, as compared to the same period in the prior year and averaged 47.7% of collections for fiscal year 2018 as compared to 44.6% in the same prior year period.

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For the year ended September 30, 2018 and 2017, approximately 84.4% and 67.7% of collections were recognized in finance income, respectively. The increased percentage in 2018, is the result of consumer portfolio's becoming fully recovered in the current year.

*Disability Fee income.* Disability fee income decreased 9.6% or \$0.5 million to \$4.6 million in fiscal year 2018, compared to \$5.1 million in fiscal year 2017 as a result of decrease in disability claimants cases being settled in the current year, translating into a decrease in closed cases.

*Gain on settlements.* For the year ended September 30, 2018, the Company recorded a gain on settlements of \$4.0 million. The settlements were for \$3.4 million and \$0.6 million from a third party servicer and a third party financial institution, respectively. See Note 10 - Settlements, in the notes to the Company's consolidated financial statements.

*Other income (expense).* The following table summarizes other income (expense) for the years ended September 30, 2018 and 2017:

|                              | 2018       | 2017        |
|------------------------------|------------|-------------|
| Interest and dividend income | \$ 475,000 | \$ 765,000  |
| Realized losses              | —          | (833,000)   |
| Other                        | 4,000      | (26,000)    |
|                              | \$ 479,000 | \$ (94,000) |

*General and administrative expenses.* For fiscal year 2018, general and administrative expenses decreased \$16.5 million, or 51.6%, to \$15.4 million from \$31.9 million for the prior year. The decrease in general and administrative expenses is related to decreased bad debt expenses related to our investment in BP Case Management of \$4.0 million and the write off our investment in the Topaz fund of \$3.4 million, decreased professional fees primarily related to the Mangrove matter of \$4.1 million, decrease in collection expenses of \$1.1 million, payroll related expenses \$2.8 million, advertising \$0.6 million and other operational expenses \$0.5 million.

*Loss on acquisition of minority interest.* For the year ended September 30, 2018, the Company recognized a loss on acquisition of minority interest of \$1.4 million on the acquisition of the 20% minority interest in Pegasus, purchased by the Company, which was previously owned by PLF

*Impairments.* For fiscal year 2018, the Company recorded an impairment of \$0.3 million of its consumer receivable portfolio, compared to \$1.1 million for fiscal year 2017. For the year ended September 30, 2018, the Company impaired one domestic and two international portfolios which resulted in a charge to expense of \$0.1 million and \$0.2 million, respectively. For the year ended September 30, 2017, the Company impaired one domestic and four international portfolios which resulted in a charge to expense of \$0.1 million and \$1.0 million, respectively.

*Earnings from equity method investment.* For the fiscal year 2018, earnings from equity method investment decreased \$3.8 million to \$0.8 million, compared to earnings from equity method of \$4.6 million for fiscal year 2017, primarily due to acquisition of the remaining 20% of the non controlling interest on January 12, 2018, no current year fundings and subsequent income being recorded as part of our personal injury claims income from Sylvave and Simia in the consolidated statement of operations.

*Net income before taxes - Consumer Receivables.* Net income before taxes increased \$5.3 million, to \$17.8 million for fiscal year 2018, as compared to \$12.5 million for fiscal year 2017, primarily due to settlement income of \$4.0 million, decrease in impairment charges of \$0.9 million and decrease in collection expenses \$1.0 million partially offset by unfavorable foreign exchange loss of \$0.6 million.

*Net loss before taxes - Social Security Disability Advocacy.* Net income before taxes increased \$2.8 million to \$1.1 million for fiscal year 2018, compared to a net loss of \$1.7 million for fiscal year 2017, as a result of decreased revenues of \$0.5 million offset by various planned cost reduction measures (payroll related \$1.8 million, advertising \$0.6 million, professional fees \$0.3 million, postage of \$0.3 million and other operational expenses \$0.3 million).

*Income tax expense (benefit).* Income tax expense of \$5.5 million was recorded for fiscal year 2018, consisting of a \$3.7 million current income tax expense and a \$1.8 million deferred income tax expense. The tax benefit on discontinued operations was \$44,000 and there was income tax expense of \$5.5 million on continuing operations. The state portion of the income tax provision for the fiscal year 2017 has been offset against state net operating loss carry forwards, and, as a result, no state taxes were payable.

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*Discontinued operations.* Loss from discontinued operations, net of tax, decreased \$4.5 million or 98.2% to a loss from discontinued operations of \$0.1 million in fiscal year 2018, compared to loss from discontinued operations of \$4.6 million in fiscal year 2017. The decrease in current year loss was primarily due to the sale of CBC during the first quarter of the current fiscal year.

*Net income (loss).* As a result of the above, the Company had net income of \$4.1 million for fiscal year 2018, compared to net loss of \$13.0 million for fiscal year 2017.

### **Liquidity and Capital Resources**

At September 30, 2018, the Company had \$6.3 million in cash and cash equivalents, as well as \$38.1 million in level 1 securities that are classified as available for sale, on hand and no debt. In addition, the Company had working capital of \$84 million at September 30, 2018.

We believe that our available cash resources and expected cash inflows from operations will be sufficient to fund operations for the next twelve months.

#### *Receivables Financing Agreement*

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

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

On June 3, 2014, Palisades XVI finished paying the Remaining Amount. The final principal payment of \$2.9 million included a voluntary prepayment of \$1.9 million provided from funds of the Company. Accordingly, Palisades XVI was entitled to receive \$16.9 million of future collections from the Portfolio Purchase before BMO is entitled to receive any payments with respect to its Income Interest. During the month of June 2016, the Company received the balance of the \$16.9 million, and, as of September 30, 2018, the Company recorded a liability to BMO of approximately \$117,000. The funds were subsequently remitted to BMO on October 10, 2018. The liability to BMO is recorded when actual collections are received.

With the payment of the Remaining Amount and upon completion of the documents granting the Palisades XVI Income Interest, including a written confirmation from BMO that the obligation has been paid in full, Palisades XVI has been released from further debt obligations from the RFA.

#### **Cash Flow**

As of September 30, 2018, our cash and cash equivalents decreased \$11.3 million to \$6.3 million, from \$17.6 million at September 30, 2017.

Net cash provided by operating activities was \$4.0 million during the fiscal year ended September 30, 2018, as compared to \$11.9 million used in operating activities for the fiscal year ended September 30, 2017. The increase in cash provided by operating activities is primarily due to change in prepaid and income taxes receivable of \$12.1 million and earnings from equity method investment of \$3.9 million. Net cash provided by investing activities was \$18.5 million during the fiscal year ended September 30, 2018, as compared to \$55.6 million provided by investing activities during the fiscal year ended September 30, 2017. The decrease in cash provided by investing activities is primarily due to higher proceeds from sales of available-for-sale securities in the prior fiscal year. Net cash used in financing activities was \$33.6 million during the fiscal year ended September 30, 2018, as compared to net cash used in financing activities of \$42.7 million during the fiscal year ended September 30, 2017. The decrease in cash used in financing activities during the current year was primarily due to the purchase of treasury stock in the prior fiscal year, partially offset by payment of a special dividend in the current fiscal year.

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Our cash requirements have been and will continue to be significant to operate our various lines of business. Significant requirements include costs involved in the collections of consumer receivables, investment in consumer receivable portfolios and investment in personal injury claims. In addition, dividends could be paid if and when approved by the Board of Directors. Acquisitions recently have been financed through cash flows from operating activities. We believe we will not be dependent on a credit facility 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.

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

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

### **Off-Balance Sheet Arrangements**

As of September 30, 2018, we did not have any off balance sheet arrangements.

### **Recent Accounting Pronouncements**

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

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

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

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



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

In March 2016, the FASB issued Update No. 2016-09, Improvements to Employee Share Based Payment Accounting, to simplify and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The effective date for this update is for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The 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 January 2017, the FASB issued ASU No. 2017-01, Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. The main objective in developing this update is enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date for this update is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The adoption of this update will not have a material impact on the Company's consolidated financial statements.

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

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

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

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

**Item 8. *Financial Statements and Supplementary Data.***

The information called for by Item 8 is included following the index to the financial statements of the Company on page F-1 of this Form 10-K.

**Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.***

None.

**Item 9A. *Controls and Procedures.***

**(a) Evaluation of Disclosure Controls and Procedures.**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2018 due to the existence of the material weaknesses in internal control over financial reporting described below (which we view as an integral part of our disclosure controls and procedures).

**(b) Management's Annual Report on Internal Control Over Financial Reporting.**

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). Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d(f) under the Exchange Act) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. GAAP. Internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, (c) provide reasonable assurance that receipts and expenditures are being made only in accordance with appropriate authorization of management and the board of directors, and (d) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2018. In making this assessment, management 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, management concluded that we did not maintain effective internal control over financial reporting as of September 30, 2018 due to the material weaknesses identified below.

**(c) Management Identified Material Weaknesses In Internal Control Over Financial Reporting**

Management identified material weaknesses resulting from the lack of timely and effective review of the Company's period-end closing process. Specifically, management concluded that the material weakness relates to the Company not having adequate personnel and resources in place to perform a timely and effective review of our period-end closing process. Additionally, management identified material weaknesses resulting from the following:

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

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### *Planned Ongoing/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 is in the process of developing 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 is reviewing the current financial controls to assess if additional management review controls are necessary and have begun working 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 now require approvals of designated managers and the accounting department prior to execution. All contracts are reviewed by accounting personnel with requisite experience in identifying complex accounting transactional and disclosure issues.

2. The Company 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, which was first reported by the Company in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, which was filed with the SEC on August 9, 2017, and was also identified as a material weakness in connection with the preparation of this report .

### *Planned Ongoing/Remedial Actions:*

The Company has increased the frequency of onsite inspections of third party servicers over the last three months, utilizing existing accounting/finance personnel familiar with the specific accounting processes involved at each location. The Company has provided training to accounting personnel at subsidiary locations, and is developing detailed checklist and processes that can be used, and reviewed by management during period ends.

3. The Company did not maintain effective internal controls over accounting for complex transactions specifically associated with equity method investment, which was first reported by the Company in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, which was filed with the SEC on August 9, 2017, and was also identified as a material weakness in connection with the preparation of this report .

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### *Planned Ongoing/Remedial Actions:*

- The Company has developed policies, procedures, and controls to ensure the proper accounting for complex technical issues are identified, researched and brought to management's attention. The Company is in the process of training the appropriate personnel on new and existing accounting pronouncements, Company policies, procedures, and controls.

4. 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, were first reported by the Company in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, which was filed with the SEC on August 9, 2017, and was also identified as a material weakness in connection with the preparation of this report .

### *Planned Ongoing/Remedial Actions:*

- The Company has developed and plans to 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 Accumulated Other Comprehensive Income ("AOCI") or earnings.
- The Company is currently reconciling the AOCI account, in a timely manner.

5. The Company's social security disability advocacy segments controls lack the ability to ensure, in a timely manner, that they are legally entitled to the monies received; whether they have third-party documentation supporting the cash receipts; or whether a specific advocacy case is ongoing or closed. The aggregation of the impact of these deficiencies rises to the level of a material weakness, being first identified as a material weakness in connection with the preparation of this report .

### *Planned Remedial Actions:*

- The Company plans to implement changes to the software that manages the social security disability business, to reconcile the amounts received by the Social Security Administration ("SSA") to SSA's notice of award. Additionally, applicable personnel will be trained on the new software modifications to ensure compliance in the input and maintenance of claimant's files.
- The Company plans to appropriately reconcile the amounts received from the SSA to the notice of awards, in a timely manner.

### **(d) Changes in Internal Controls over Financial Reporting.**

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated our internal control over financial reporting to determine whether any changes occurring during the fourth quarter of fiscal year 2018 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting. During the fourth quarter of fiscal year 2018, the Company formalized its Foreign Corrupt Practices Act Policy, a provided training to its employees. Additionally, during fiscal 2018, the Company restructured a portion of the business through a sale of one of its subsidiaries, and the relocation of the other. As of September 30, 2018, all subsidiaries of the Company were located within the Company's corporate offices. During the fourth quarter of fiscal year 2018, the Company identified an additional material weakness associated with documentation in the social security disability advocacy segment, described above. Management has concluded that there have been no other changes that occurred during such quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information.**

None.

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance.***

The information required by this item will be set forth in our definitive proxy statement with respect to our 2019 annual meeting of stockholders to be filed not later than 120 days after September 30, 2018 and is incorporated herein by this reference.

**Item 11. *Executive Compensation***

The information required by this item will be set forth in our definitive proxy statement with respect to our 2019 annual meeting of stockholders to be filed not later than 120 days after September 30, 2018 and is incorporated herein by this reference.

**Item 12. *Security Ownership Of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item will be set forth in our definitive proxy statement with respect to our 2019 annual meeting of stockholders to be filed not later than 120 days after September 30, 2018 and is incorporated herein by this reference.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

The information required by this item will be set forth in our definitive proxy statement with respect to our 2019 annual meeting of stockholders to be filed not later than 120 days after September 30, 2018 and is incorporated herein by this reference.

**Item 14. *Principal Accounting Fees and Services.***

The information required by this item will be set forth in our definitive proxy statement with respect to our 2019 annual meeting of stockholders to be filed not later than 120 days after September 30, 2018 and is incorporated herein by this reference.

**Part IV**

**Item 15. *Exhibits, Financial Statement Schedules.***

(a) The following documents are filed or furnished as part of this report:

| <b>Exhibit<br/>Number</b> |   |
|---------------------------|---|
| 2.1#                      | <a href="#">Membership Interest Purchase Agreement, dated December 31, 2013, by and among CBC Settlement Funding, LLC, CBC Management Services Group, LLC, Asta Funding, Inc. and the other parties thereto (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 7, 2014).</a>             |
| 2.2                       | <a href="#">Securities Purchase Agreement, dated December 13, 2017, by and between Asta Funding, Inc., and CBC Holdings LLC (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed December 19, 2017).</a>   |
| 2.3#                      | <a href="#">Membership Interest Purchase Agreement, dated January 12, 2018, by and between ASFI Pegasus Holdings, LLC and Pegasus Legal Funding, LLC (incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 18, 2018).</a>   |
| 2.4#                      | <a href="#">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).</a> |
| 3.1                       | <a href="#">Certificate of Incorporation of Asta Funding, Inc. (incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Quarterly Report on Form 10-Q filed August 9, 2016).</a>   |

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- 3.2 [Certificate of Amendment to Certificate of Incorporation of Asta Funding, Inc. \(incorporated by reference to Exhibit 3.1\(a\) to Asta Funding, Inc.'s Quarterly Report on Form 10-QSB filed May 15, 2002\).](#)
- 3.3 [Certificate of Designation of Series A Junior Preferred Stock of Asta Funding, Inc. \(incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed August 24, 2012\).](#)
- 3.4 [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. \(incorporated by reference to Exhibit 3.3 to Asta Funding, Inc.'s Quarterly Report on Form 10-O filed August 9, 2016\).](#)
- 3.7 [Amendment to Amended and Restated Bylaws of Asta Funding, Inc. \(incorporated by reference to Exhibit 3.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 9, 2017\).](#)
- 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+ [Asta Funding, Inc. 2002 Stock Option Plan \(incorporated by reference to Exhibit 10.10 to Asta Funding, Inc.'s Quarterly Report on Form 10-QSB filed May 15, 2002\).](#)
- 10.2+ [Asta Funding, Inc. Equity Compensation Plan \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed March 3, 2006\).](#)
- 10.3+ [Asta Funding, Inc. 2012 Stock Option and Performance Award Plan \(incorporated by reference to Appendix A to Asta Funding, Inc.'s Definitive Proxy Statement filed February 17, 2012 for the March 21, 2012 Annual Meeting of Stockholders\).](#)
- 10.4 [Form of Subordination and Intercreditor Agreement \(incorporated by reference to Exhibit 10.26 to Asta Funding, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2008\).](#)
- 10.5 [Amended and Restated Management Agreement, dated January 16, 2009, by and between Palisades Collection, L.L.C. and the other party thereto \(incorporated by reference to Exhibit 10.27 to Asta Funding, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2008\).](#)
- 10.6 [Amended and Restated Master Servicing Agreement, dated January 16, 2009, by and between Palisades Collection, L.L.C. and the other party thereto \(incorporated by reference to Exhibit 10.28 to Asta Funding, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2008\).](#)
- 10.7 [First Amendment to Amended and Restated Master Servicing Agreement, by and among Palisades Collection and the other parties thereto \(incorporated by reference to Exhibit 10.29 to Asta Funding, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2008\).](#)
- 10.8 [Indemnification Agreement, by and among Asta Funding, Inc., GMS Family Investors LLC and Judith R. Feder \(incorporated by reference to Exhibit 10.32 to Asta Funding, Inc.'s Annual Report on Form 10-K for the year ended September 30, 2009\).](#)

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- 10.9 [Settlement Agreement and Omnibus Amendment, dated August 7, 2013, by and among Asta Funding, Inc., Palisades Acquisition XVI, LLC, Palisades Collection, L.L.C., Palisades Acquisition XV, LLC, BMO Capital Markets Corp., Fairway Finance Company, LLC and Bank of Montreal \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed August 9, 2013\).](#)
- 10.10 [Revolving Credit Agreement, dated December 28, 2011, by and between Pegasus Funding, LLC and Fund Pegasus, LLC \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 4, 2012\).](#)
- 10.11 [Security Agreement, dated December 28, 2011, by and between Pegasus Funding, LLC and Fund Pegasus, LLC \(incorporated by reference to Exhibit 10.2 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 4, 2012\).](#)
- 10.12 [Secured Revolving Credit Note, dated December 28, 2011, by Pegasus Funding, LLC in favor of Fund Pegasus, LLC \(incorporated by reference to Exhibit 10.3 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 4, 2012\).](#)
- 10.13 [Limited Liability Company Operating Agreement of Pegasus Funding, LLC \(incorporated by reference to Exhibit 10.4 to Asta Funding, Inc.'s Current Report on Form 8-K filed January 4, 2012\).](#)
- 10.15 [Lease Agreement, dated October 27, 2015, by and between ESL 200, LLC and Asta Funding, Inc. \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed October 29, 2015\).](#)
- 10.16 [First Amendment to Loan Documents, dated March 30, 2016, by and among Asta Funding, Inc., Palisades Collection, L.L.C. and Bank Hapoalim B.M. \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed March 31, 2016\).](#)
- 10.17 [Loan Agreement, dated May 2, 2014, by and among Asta Funding, Inc., Palisades Collection, L.L.C. and Bank Hapoalim B.M., dated May 2, 2014 \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed May 8, 2014\).](#)
- 10.18 [Security Agreement, dated May 2, 2014, by among Asta Funding, Inc., Palisades Collection, L.L.C., and Bank Hapoalim B.M. \(incorporated by reference to Exhibit 10.2 to Asta Funding, Inc.'s Current Report on Form 8-K filed May 8, 2014\).](#)
- 10.19 [Mutual Confidentiality Agreement, dated May 25, 2016, by and between Asta Funding, Inc. and Mangrove Partners \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed May 26, 2016\).](#)
- 10.20+ [Employment Agreement, dated March 15, 2016, by and between Asta Funding, Inc. and Bruce Foster \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed March 15, 2016\).](#)
- 10.21 [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 \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed on January 9, 2017\).](#)
- 10.22 [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 \(incorporated by reference to Exhibit 10.2 to Asta Funding, Inc.'s Current Report on Form 8-K filed on January 9, 2017\).](#)
- 10.23 [Assignment Agreement, dated April 28, 2017, by and between CBC Settlement Funding, LLC and the other party thereto \(incorporated by reference to Exhibit 10.1 to Asta Funding, Inc.'s Current Report on Form 8-K filed May 4, 2017\).](#)

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- 10.24 [Indemnification Agreement, dated September 11, 2017, by and between Asta Funding Inc. and Bruce Foster \(incorporated by reference to Exhibit 10.24 to Asta Funding Inc's Annual Report on Form 10-K for the year ended September 30, 2017\)](#)
- 10.25 [Indemnification Agreement, dated September 11, 2017, by and between Asta Funding, Inc. and Seth Berman \(incorporated by reference to Exhibit 10.25 to Asta Funding Inc's Annual Report on Form 10-K for the year ended September 30, 2017\)](#)
- 10.26 [Indemnification Agreement, dated September 11, 2017, by and between Asta Funding Inc. and Mark Levenfus \(incorporated by reference to Exhibit 10.26 to Asta Funding Inc's Annual Report on Form 10-K for the year ended September 30, 2017\)](#)
- 10.27 [Indemnification Agreement, dated September 11, 2017, by and between Asta Funding Inc. and Louis A. Piccolo \(incorporated by reference to Exhibit 10.27 to Asta Funding Inc's Annual Report on Form 10-K for the year ended September 30, 2017\)](#)
- 10.28 [Indemnification Agreement, dated September 11, 2017, by and between Asta Funding Inc. and David Slackman \(incorporated by reference to Exhibit 10.28 to Asta Funding Inc's Annual Report on Form 10-K for the year ended September 30, 2017\)](#)
- 10.29 [Indemnification Agreement, dated September 11, 2017, by and between Asta Funding Inc. and Ricky Stern \(incorporated by reference to Exhibit 10.29 to Asta Funding Inc's Annual Report on Form 10-K for the year ended September 30, 2017\)](#)
- 10.30 [Secured Promissory Note, dated as of December 13, 2017, by and between CBC Holdings LLC and Asta Funding, Inc. \(incorporated by reference to Exhibit 10.2 to Asta Funding, Inc.'s Current Report on Form 8-K filed December 19, 2017\).](#)
- 10.31 [Guarantee, dated as of December 13, 2017, by and among 777 Partners, LLC and SuttonPark Capital LLC, for and on behalf of Asta Funding, Inc. \(incorporated by reference to Exhibit 10.3 to Asta Funding, Inc.'s Current Report on Form 8-K filed December 19, 2017\).](#)
- 10.32 [Security Agreement, dated as of December 13, 2017, by and between SuttonPark Servicing LLC and Asta Funding, Inc. \(incorporated by reference to Exhibit 10.4 to Asta Funding, Inc.'s Current Report on Form 8-K filed December 19, 2017\).](#)
- 10.33 [Settlement Agreement and Release, dated as of January 12, 2018, by and among, Asta Funding, Inc., ASFI Pegasus Holdings, LLC, Fund Pegasus, LLC, Pegasus Funding, LLC, Pegasus Legal Funding, LLC, Max Alperovich, Alex Khanas, Larry Stoddard III, Louis Piccolo and A.L. Piccolo & Co., Inc. \(incorporated by reference to Exhibit 10.2 to Asta Funding, Inc's Current Report on Form 8-K filed January 18, 2018\).](#)
- 21.1\* [Subsidiaries of Asta Funding, Inc.](#)
- 23.1\* [Consent of Independent Registered Public Accounting Firm.](#)
- 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.](#)



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|         |  |
|---------|--|
| 32.2**  | <a href="#">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.</a> |
| 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.

+ Indicates management contract or compensatory plan.

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

ASTA FUNDING, INC. AND SUBSIDIARIES

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Asta Funding, Inc.

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Asta Funding, Inc. and Subsidiaries (the "Company") as of September 30, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2018 and 2017, and the consolidated results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EisnerAmper LLP

We have served as the Company's auditor since April 2017.

EISNERAMPER LLP  
Iselin, New Jersey  
December 21, 2018

## ASTA FUNDING, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

|  | September 30,        |                       |
|--|----------------------|-----------------------|
|  | 2018                 | 2017                  |
| <b>ASSETS</b>  |                      |                       |
| Cash and cash equivalents  | \$ 6,284,000         | \$ 17,591,000         |
| Available-for-sale investments (at fair value)   | 38,054,000           | 5,511,000             |
| Consumer receivables acquired for liquidation (at cost)  | 3,749,000            | 6,841,000             |
| Investment in personal injury claims, net  | 10,745,000           | 3,704,000             |
| Due from third party collection agencies and attorneys   | 755,000              | 819,000               |
| Prepaid and income taxes receivable  | 5,387,000            | 9,090,000             |
| Furniture and equipment (net of accumulated depreciation of \$1,821,000 at September 30, 2018 and \$1,759,000 at September 30, 2017)   | 100,000              | 124,000               |
| Equity method investment   | 236,000              | 50,474,000            |
| Note receivable  | 4,313,000            | —                     |
| Settlement receivable  | 3,339,000            | —                     |
| Deferred income taxes  | 10,940,000           | 12,696,000            |
| Goodwill   | 1,410,000            | 1,410,000             |
| Other assets   | 1,003,000            | 1,043,000             |
| Assets related to discontinued operations  | —                    | 92,235,000            |
| Total assets   | <u>\$ 86,315,000</u> | <u>\$ 201,538,000</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                       |
| Other liabilities  | \$ 2,281,000         | \$ 4,980,000          |
| Liabilities related to discontinued operations   | —                    | 81,751,000            |
| Total liabilities  | <u>2,281,000</u>     | <u>86,731,000</u>     |
| Commitments and contingencies  |                      |                       |
| <b>STOCKHOLDERS' EQUITY</b>  |                      |                       |
| Preferred stock, \$.01 par value; authorized 5,000,000; issued and outstanding - none  | —                    | —                     |
| Preferred stock, Series A Junior Participating, \$.01 par value; authorized 30,000 shares; issued and outstanding - none   | —                    | —                     |
| Common stock, \$.01 par value, authorized 30,000,000 shares; issued 13,459,708 at September 30, 2018 and 13,398,108 at September 30, 2017; and outstanding 6,685,415 at September 30, 2018 and 6,623,815 at September 30, 2017 | 135,000              | 134,000               |
| Additional paid-in capital   | 68,551,000           | 68,047,000            |
| Retained earnings  | 82,441,000           | 113,736,000           |
| Accumulated other comprehensive income, net of income taxes  | 35,000               | 18,000                |
| Treasury stock (at cost), 6,774,293 shares at September 30, 2018 and at September 30, 2017   | (67,128,000)         | (67,128,000)          |
| Total stockholders' equity   | <u>84,034,000</u>    | <u>114,807,000</u>    |
| Total liabilities and stockholders' equity   | <u>\$ 86,315,000</u> | <u>\$ 201,538,000</u> |

See notes to accompanying consolidated financial statements

## ASTA FUNDING, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

|  | Year Ended September 30, |                        |
|--|--------------------------|------------------------|
|  | 2018                     | 2017                   |
| <b>Revenues:</b>   |                          |                        |
| Finance income, net  | \$ 15,863,000            | \$ 15,920,000          |
| Personal injury claims income  | 1,084,000                | 434,000                |
| Disability fee income  | 4,598,000                | 5,085,000              |
|  |                          |                        |
| Total revenues   | 21,545,000               | 21,439,000             |
| Gain on settlements  | 4,044,000                | —                      |
| Other income (expense) (includes \$0 and (\$1,011,000) during the years ended September 30, 2018 and 2017, respectively, of accumulated other comprehensive income reclassifications for realized net losses on securities)  | 479,000                  | (94,000)               |
|  |                          |                        |
|  | <u>26,068,000</u>        | <u>21,345,000</u>      |
|  |                          |                        |
| <b>Expenses:</b>   |                          |                        |
| General and administrative expenses  | 15,429,000               | 31,900,000             |
| Loss on acquisition of minority interest   | 1,420,000                | —                      |
| Interest expense   | 20,000                   | 240,000                |
| Impairments of consumer receivables acquired for liquidation   | 310,000                  | 1,129,000              |
| Earnings from equity method investment   | (750,000)                | (4,619,000)            |
|  |                          |                        |
|  | <u>16,429,000</u>        | <u>28,650,000</u>      |
|  |                          |                        |
| Income (loss) before income tax from continuing operations   | 9,639,000                | (7,305,000)            |
| Income tax expense (includes tax (benefit) expense of \$0 and \$404,000 during the years ended September 30, 2018 and 2017, respectively, of accumulated other comprehensive income reclassifications for realized net (losses) gains on available for sales securities) | 5,502,000                | 1,077,000              |
|  |                          |                        |
| Income (loss) from continuing operations   | 4,137,000                | (8,382,000)            |
| Loss from discontinued operations, net of income taxes   | (80,000)                 | (4,620,000)            |
|  |                          |                        |
| Net income (loss)  | <u>\$ 4,057,000</u>      | <u>\$ (13,002,000)</u> |
|  |                          |                        |
| Net income (loss) per basic shares:  |                          |                        |
| Continuing operations  | \$ 0.62                  | \$ (0.97)              |
| Discontinued operations  | \$ (0.01)                | \$ (0.53)              |
|  | <u>\$ 0.61</u>           | <u>\$ (1.50)</u>       |
|  |                          |                        |
| Net income (loss) per diluted shares:  |                          |                        |
| Continuing operations  | \$ 0.62                  | \$ (0.97)              |
| Discontinued operations  | \$ (0.01)                | \$ (0.53)              |
|  | <u>\$ 0.61</u>           | <u>\$ (1.50)</u>       |
|  |                          |                        |
| Weighted average number of common shares outstanding:  |                          |                        |
| Basic  | 6,662,600                | 8,692,668              |
| Diluted  | 6,664,841                | 8,692,668              |

See notes to accompanying consolidated financial statements

## ASTA FUNDING, INC. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income (Loss)

|   | Year Ended September 30, |                 |
|---|--------------------------|-----------------|
|   | 2018                     | 2017            |
| Comprehensive income (loss) is as follows:  |                          |                 |
| Net income (loss)   | \$ 4,057,000             | \$ (13,002,000) |
| Net unrealized securities loss, net of tax benefit of \$9,000 and \$8,000 during the years ended September 30, 2018 and 2017 respectively.                  | (17,000)                 | (10,000)        |
| Reclassification adjustments for securities sold, net of tax benefit of \$0 and \$404,000, during the years ended September 30, 2018 and 2017 respectively. | —                        | (607,000)       |
| Foreign currency translation, net of tax (expense) benefits of (\$17,000), and \$112,000, during the years ended September 30, 2018 and 2017 respectively.  | 34,000                   | (168,000)       |
| Other comprehensive income (loss)   | 17,000                   | (785,000)       |
| Total comprehensive income (loss)   | \$ 4,074,000             | \$ (13,787,000) |

See notes to accompanying consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the years ended September 30, 2018 and 2017

Common Stock

|  | Issued<br>Shares | Amount     | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|--|------------------|------------|----------------------------------|----------------------|--|-------------------|----------------------------------|
| <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                     | —                | —          | 58,000                           | —                    | —  | —                 | 58,000                           |
| Net loss   | —                | —          | —                                | (13,002,000)         | —  | —                 | (13,002,000)                     |
| Amount reclassified from other<br>comprehensive loss | —                | —          | —                                | —                    | (607,000)  | —                 | (607,000)                        |
| Unrealized loss on marketable<br>securities, net     | —                | —          | —                                | —                    | (10,000)   | —                 | (10,000)                         |
| Purchase of treasury stock                           | —                | —          | —                                | —                    | —  | (54,203,000)      | (54,203,000)                     |
| Foreign currency translation, net                    | —                | —          | —                                | —                    | (168,000)  | —                 | (168,000)                        |
| Forgiveness of debt                                  | —                | —          | 552,000                          | —                    | —  | —                 | 552,000                          |
| Issuance of unrestricted stock                       | 61,600           | 1,000      | 403,000                          | —                    | —  | —                 | 404,000                          |
| <b>Balance, September 30, 2017</b>                   | 13,398,108       | \$ 134,000 | \$68,047,000                     | \$113,736,000        | \$ 18,000  | \$(67,128,000)    | \$ 114,807,000                   |
| Exercise of options                                  | 61,600           | 1,000      | 398,000                          | —                    | —  | —                 | 399,000                          |
| Stock based compensation expense                     | —                | —          | 106,000                          | —                    | —  | —                 | 106,000                          |
| Net income   | —                | —          | —                                | 4,057,000            | —  | —                 | 4,057,000                        |
| Unrealized loss on marketable<br>securities, net     | —                | —          | —                                | —                    | (17,000)   | —                 | (17,000)                         |
| Dividends paid                                       | —                | —          | —                                | (35,352,000)         | —  | —                 | (35,352,000)                     |
| Foreign currency translation, net                    | —                | —          | —                                | —                    | 34,000   | —                 | 34,000                           |
| <b>Balance, September 30, 2018</b>                   | 13,459,708       | \$ 135,000 | \$68,551,000                     | \$ 82,441,000        | \$ 35,000  | \$(67,128,000)    | \$ 84,034,000                    |

See notes to accompanying consolidated financial statements

**ASTA FUNDING, INC. AND SUBSIDIARIES**
**Consolidated Statements of Cash Flows**

|  | <b>Year Ended September 30,</b> |                      |
|--|---------------------------------|----------------------|
|  | <b>2018</b>                     | <b>2017</b>          |
| <b>Cash flows from operating activities:</b>   |                                 |                      |
| Net income (loss) from continuing operations   | \$ 4,137,000                    | \$ (8,382,000)       |
| Net loss from discontinued operations  | (80,000)                        | (4,620,000)          |
| Net income (loss)  | 4,057,000                       | (13,002,000)         |
| Adjustments to reconcile net income to net cash used in operating activities:  |                                 |                      |
| Depreciation and amortization  | 62,000                          | 97,000               |
| Deferred income taxes  | 1,765,000                       | 2,619,000            |
| Impairments of consumer receivables acquired for liquidation   | 310,000                         | 1,129,000            |
| Stock based compensation   | 106,000                         | 101,000              |
| Loss on sale of available-for-sale securities  | —                               | 1,011,000            |
| Provision for bad debts – personal injury claims   | 499,000                         | —                    |
| Loss on other investment   | —                               | 3,590,000            |
| Forgiveness of debt  | —                               | 552,000              |
| Settlement Receivable  | (3,884,000)                     | —                    |
| Earnings from equity method investment   | (750,000)                       | (4,619,000)          |
| Changes in:  |                                 |                      |
| Prepaid and income taxes receivable  | 3,703,000                       | (8,376,000)          |
| Due from third party collection agencies and attorneys   | 54,000                          | 228,000              |
| Other assets   | 40,000                          | 5,550,000            |
| Other liabilities  | (2,665,000)                     | 825,000              |
| Changes in net assets related to discontinued operations   | 710,000                         | (1,568,000)          |
| Net cash provided by (used in) operating activities  | 4,007,000                       | (11,863,000)         |
| <b>Cash flows from investing activities:</b>   |                                 |                      |
| Purchase of consumer receivables acquired for liquidation  | —                               | (2,214,000)          |
| Principal collected on consumer receivables acquired for liquidation   | 2,117,000                       | 7,624,000            |
| Principal collected on consumer receivable accounts represented by account sales   | 3,000                           | 197,000              |
| Purchase of available-for-sale securities  | (32,569,000)                    | (13,193,000)         |
| Proceeds from sales of available-for-sale securities   | —                               | 62,406,000           |
| Purchase of non-controlling interest   | (1,800,000)                     | —                    |
| Proceeds from sale of CBC  | 4,491,000                       | —                    |
| Proceeds from notes receivable   | 1,437,000                       | —                    |
| Proceeds from settlements  | 1,116,000                       | —                    |
| Acquisition of personal injury claims portfolios   | (14,571,000)                    | —                    |
| Investments in personal injury claims - advances   | (60,000)                        | (4,369,000)          |
| Investments in personal injury claims - receipts   | 7,091,000                       | 665,000              |
| Change in equity method investment   | 52,788,000                      | 2,727,000            |
| Capital expenditures   | (38,000)                        | (25,000)             |
| Change in investing activities related to discontinued operations  | (1,538,000)                     | 1,793,000            |
| Net cash provided by investing activities  | 18,467,000                      | 55,611,000           |
| <b>Cash flows from financing activities:</b>   |                                 |                      |
| Proceeds from exercise of stock options  | 399,000                         | —                    |
| Purchase of treasury stock   | —                               | (54,203,000)         |
| Dividends paid   | (35,352,000)                    | —                    |
| Change in financing activities related to discontinued operations  | 1,387,000                       | 11,500,000           |
| Net cash used in financing activities  | (33,566,000)                    | (42,703,000)         |
| Foreign currency effect on cash  | 101,000                         | (155,000)            |
| Net (decrease) increase in cash and cash equivalents including cash and cash equivalents classified within assets related to discontinued operations | (10,991,000)                    | 890,000              |
| Less: net (decrease) increase in cash and cash equivalents classified within assets related to discontinued operations                               | (316,000)                       | 419,000              |
| <b>Net (decrease) increase in cash and cash equivalents</b>  | <b>(11,307,000)</b>             | <b>1,309,000</b>     |
| Cash and cash equivalents at beginning of year   | 17,591,000                      | 16,282,000           |
| <b>Cash and cash equivalents and restricted cash at end of year</b>  | <b>\$ 6,284,000</b>             | <b>\$ 17,591,000</b> |
| <b>Supplemental disclosure of cash flow information:</b>   |                                 |                      |
| <b>Continuing operations:</b>  |                                 |                      |
| Cash paid for:   |                                 |                      |



|   |              |              |
|---|--------------|--------------|
| Interest  | \$ 20,000    | \$ 149,000   |
| Income taxes  | \$ —         | \$ 6,200,000 |
| <b>Discontinued operations:</b>   |              |              |
| Cash paid for:  |              |              |
| Interest  | \$ 824,000   | \$ 3,929,000 |
| <b>Supplemental disclosures of non-cash investing and financing activities:</b> |              |              |
| <b>Continuing operations:</b>   |              |              |
| Note receivable   | \$ 5,750,000 | \$ —         |
| Settlement receivable   | \$ 3,884,000 | \$ —         |
| <b>Discontinued operations:</b>   |              |              |
| Issuance of unrestricted stock  | \$ —         | \$ 404,000   |

See notes to accompanying consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

*[1] The Company:*

Asta Funding, Inc. (“Asta”), a Delaware Corporation, together with its wholly owned significant operating subsidiaries Palisades Collection, LLC, Palisades Acquisition XVI, LLC (“Palisades XVI”), Palisades Acquisition XIX, LLC (“Palisades XIX”), Palisades Acquisition XXIII, LLC (“Palisades XXIII”), VATIV Recovery Solutions LLC (“VATIV”), ASFI Pegasus Holdings, LLC (“APH”), Fund Pegasus, LLC (“Fund Pegasus”), GAR Disability Advocates, LLC (“GAR Disability Advocates”), Five Star Veterans Disability, LLC (“Five Star”), EMIRIC, LLC (“EMIRIC”), Simia Capital, LLC (“Simia”), Sylvave, LLC (“Sylvave”) (formerly known as Pegasus Funding, LLC (“Pegasus”)), Practical Funding LLC (“Practical Funding”), 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 the Company's wholly owned subsidiaries Sylvave, Simia and Practical Funding, social security disability advocacy through the Company's wholly owned subsidiaries GAR Disability Advocates and Five Star and the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged off receivables, and semi-performing receivables.

For the current year period from October 1, 2017 to January 12, 2018, Pegasus was 80% owned, but not controlled, and accounted for under the equity method. On January 12, 2018 (“Date of Acquisition”), the Company acquired the remaining 20% minority shareholder's interest, and a controlling financial interest, in Pegasus, changed its name to Sylvave and now currently owns 100% of Sylvave. Commencing on the Date of Acquisition, the Company consolidated the financial results of this entity.

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

As a result of the sale of CBC all periods presented in the Company's consolidated financial statements account for CBC as a discontinued operation. This determination resulted in the reclassification of the historical 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 2 - Discontinued Operations.

Consumer receivables

This segment is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, charged off receivables. 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 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

This segment is comprised of purchased interests in personal injury claims from claimants who are a party to a personal injury claim. The Company 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 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. The Company historically funded personal injury claims in Simia and Sylvave. The Company formed a new wholly owned subsidiary, Practical Funding on March 16, 2018 to continue in the personal injury claims funding business. To date, Practical Funding has not funded any advances on personal injury claims.

Simia commenced operations in January 2017, and conducts its business solely in the United States. Simia obtained its business from external brokers and internal sales professionals soliciting attorneys and law firms who represent claimants who have personal injury claims. Business was also obtained from its website and through attorneys. The Company accounted for its investment in Sylvave under the equity method of accounting through January 12, 2018, for subsequent periods the Company includes the financial results of Sylvave in its consolidated statement of operations. Simia and Sylvave are not funding any new advances, but continue to collect on outstanding personal claim advances in the ordinary course.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

***[1] The Company (Continued):***

***Social security disability advocacy***

This segment consists of advocacy groups representing individuals throughout the United States in their claims for social security disability and supplemental social security income benefits from the Social Security and Veterans Administration. It relies upon Search Engine Optimization (“SEO”) to bring awareness to its intended market.

***[2] Basis of Presentation:***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, and are prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and industry practices. All intercompany accounts have been eliminated in consolidation.

***[3] Liquidity:***

At September 30, 2018, the Company had \$6.3 million in cash and cash equivalents, as well as \$38.1 million in level 1 securities that are classified as available for sale, on hand and no debt. In addition, the Company had working capital of \$84 million at September 30, 2018.

We believe that our available cash resources and expected cash inflows from operations will be sufficient to fund operations for the next twelve months.

***[4] Use of estimates:***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. With respect to income recognition the Company takes into consideration the relative credit quality of the underlying receivables constituting the portfolio acquired, the strategy involved to maximize the collections thereof, the time required to implement the collection strategy as well as other factors to estimate the anticipated cash flows. Actual results could differ from those estimates including management’s estimates of future cash flows and the resultant allocation of collections between principal and interest resulting there from. Downward revisions to estimated cash flows will result in impairments.

***[5] Concentration of Credit Risk – Cash, Cash Equivalents and Restricted Cash:***

The Company considers all highly liquid investments with a maturity 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 four banks that exceeded the balance insured by the FDIC by approximately \$1.1 million at September 30, 2018. Additionally, two foreign banks with an aggregate balance of \$1.4 million are not FDIC insured. The Company had \$0.5 million of restricted cash at September 30, 2017, which was classified within assets related to discontinued operations on the consolidated balance sheet. The Company does not believe it is exposed to any significant credit risk due to concentration of cash.

***[6] Available-for-Sale Investments:***

Investments that the Company intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on available-for-sale securities are determined using the specific-identification method.

Declines in the fair value of individual available-for-sale securities below their respective costs that are other than temporary will result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether another-than-temporary impairment has occurred include: a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

**[7] 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 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. The goodwill of the Company consists of \$1.4 million from the purchase of VATIV.

**[8] Income recognition, Impairments and Accretible yield adjustments:**

*Income Recognition*

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

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

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

***[8] Income recognition, Impairments and Accretable yield adjustments (Continued):***

*Impairments and accretable yield adjustments*

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. The Company believes it has significant experience in acquiring certain distressed consumer receivable portfolios at a significant discount to the amount actually owed by underlying customers. The Company invests in these portfolios only after both qualitative and quantitative analyses of the underlying receivables are performed and a calculated purchase price is paid so that it believes its estimated cash flow offers an adequate return on acquisition costs after servicing expenses. Additionally, when considering larger portfolio purchases of accounts, or portfolios from issuers with whom the Company has limited experience, it has the added benefit of soliciting its third party collection agencies and attorneys for their input on liquidation rates and, at times, incorporates such input into the estimates it uses for its expected cash flows, and the Company's ability to recover their cost basis.

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

During the fiscal year 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.

***[9] Equity method investments:***

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

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 years ended September 30, 2018 and 2017.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

***[10] 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.

***[11] 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 expects to continue to purchase portfolios and utilize third party collection agencies and attorney networks.

***[12] Furniture and equipment:***

Furniture, equipment and software are stated at cost, less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (3 to 7 years). An accelerated depreciation method is used for tax purposes.

***[13] Income taxes:***

Deferred federal and state taxes arise from (i) recognition of finance income collected for tax purposes, but not yet recognized for financial reporting; (ii) provision for impairments/credit losses, all resulting in timing differences between financial accounting and tax reporting; (iii) amortization of intangibles resulting in timing differences between financial accounting and tax reporting; (iv) stock based compensation; and (v) partnership investments.

***[14] 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 Company records 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 September 30, 2018, 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.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

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

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

***[15] 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.

***[16] Net income (loss) per share:***

Basic per share data is determined by dividing net income (loss) by the weighted average shares outstanding during the period. Diluted per share data is computed by dividing net income (loss) by the weighted average shares outstanding, assuming all dilutive potential common shares were issued. The assumed proceeds from the exercise of dilutive options are calculated using the treasury stock method based on the average market price for the period.

***[17] Stock-based compensation:***

The Company accounts for stock-based employee compensation under FASB ASC 718, Compensation - Stock Compensation, ("ASC 718"). ASC 718 requires that compensation expense associated with stock options and vesting of restricted stock awards be recognized in the statement of operations.

***[18] Reclassification:***

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 income or stockholders' equity.

***[19] Foreign Currency Translation:***

Most of the Company's operations use their local currency as their functional currency. Financial statements of subsidiaries are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for revenues, expenses, gains and losses. Translation adjustments for subsidiaries whose local currency is their functional currency are recorded as a component of accumulated other comprehensive income (loss) within equity. Transaction gains and losses resulting from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized as incurred in the accompanying consolidated statements of operations.

***[20] Impact of Recently Issued Accounting Standards:***

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.

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**  
*September 30, 2018 and 2017*

**NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

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

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

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

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

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

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



ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):**

*[20] Impact of Recently Issued Accounting Standards (continued):*

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

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

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

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

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

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

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**  
*September 30, 2018 and 2017*

**NOTE 2 - 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 \$1.0 million and \$0.8 million 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 \$0.4 million in cash. An aggregate of 123,304 shares of restricted stock were issued as part of the transaction.

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

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

On December 13, 2017, the Company entered into a Purchase Agreement with CBC Holdings LLC, a Delaware limited liability company (the "Buyer"). Under the Purchase Agreement, the Company sold all of the issued and outstanding equity capital of CBC for an aggregate purchase price of approximately \$10.3 million. Of the aggregate purchase price, approximately \$4.5 million was paid in cash, and \$5.8 million was paid under a promissory note at an annual interest rate of 7% to be paid quarterly to the Company and secured by a first priority security interest in and lien on such Buyer's affiliates' rights to certain servicing fees. See Note 9 - Note Receivable. The remaining amount of the aggregate purchase price was paid as reimbursement of certain invoices of CBC. The Company recognized a loss of approximately \$2.4 million on the above sale of CBC as of September 30, 2017.

As a result of the sale of CBC all 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 historical 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 September 30, 2018, the Company had no assets or liabilities designated as discontinued operations. As of September 30, 2017, the components of the Company designated as discontinued operations had assets and liabilities of \$92.2 million and \$81.8 million, respectively. For the years ended September 30, 2018 and 2017, the Company designated as discontinued operations reported loss, net of income tax benefit of \$0.0 million and \$3.4 million, respectively, of \$0.1 million and \$4.6 million, respectively.

The major components of assets and liabilities of the discontinued operations are as follows:

|  | <u>September 30,</u> |                      |
|--|----------------------|----------------------|
|  | <u>2018</u>          | <u>2017</u>          |
| <b>ASSETS</b>  |                      |                      |
| Cash and cash equivalents  | \$ —                 | \$ 1,617,000 (1)     |
| Restricted cash  | —                    | 499,000              |
| Structured settlements   | —                    | 86,971,000           |
| Furniture and equipment (net of accumulated depreciation of \$111,000 at September 30, 2017) | —                    | 34,000               |
| Goodwill   | —                    | —                    |
| Other assets   | —                    | 3,114,000            |
| <b>Total assets related to discontinued operations</b>                                       | <b>\$ —</b>          | <b>\$ 92,235,000</b> |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>   |                      |                      |
| Other debt - CBC   | \$ —                 | \$ 78,935,000        |
| Other liabilities  | —                    | 2,816,000            |
| <b>Total liabilities related to discontinued operations</b>                                  | <b>—</b>             | <b>\$ 81,751,000</b> |

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

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017**NOTE 2 - DISCONTINUED OPERATIONS (CONTINUED):**

The following table presents the operating results, for the years ended September 30, 2018 and 2017, for the components of the Company designated as discontinued operations:

|  | 2018               | 2017                  |
|--|--------------------|-----------------------|
| Revenues:  |                    |                       |
| Unrealized gain on structured settlements                | \$ 244,000         | \$ 4,326,000          |
| Interest income on structured settlements                | 2,005,000          | 8,224,000             |
| Loss on sale of structured settlements                   | —                  | (5,353,000)           |
| Total revenues   | 2,249,000          | 7,197,000             |
| Other income   | 11,000             | 58,000                |
|  | <u>2,260,000</u>   | <u>7,255,000</u>      |
| Expenses:  |                    |                       |
| General and administrative expenses                      | 1,560,000          | 9,954,000             |
| Interest expense   | 824,000            | 3,927,000             |
| Impairment   | —                  | 1,405,000             |
|  | <u>2,384,000</u>   | <u>15,286,000</u>     |
| Loss from discontinued operations before income tax      | (124,000)          | (8,031,000)           |
| Income tax benefit from discontinued operations          | (44,000)           | (3,411,000)           |
| Net loss from discontinued operations, net of income tax | <u>\$ (80,000)</u> | <u>\$ (4,620,000)</u> |

Prior to its sale, we, through CBC purchased periodic payments under structured settlements and annuity policies from individuals in exchange for a lump sum payment. The Company elected to carry the structured settlements at fair value. Unearned income on structured settlements is recognized as interest income using the effective interest method over the life of the related structured settlement. Changes in fair value are recorded in unrealized gain (loss) on structured settlements in the Company's statements of operations. Unrealized gains on structured settlements is comprised of both unrealized gains resulting from fair market valuation at the date of acquisition of the structured settlements and the subsequent fair value adjustments resulting from the change in the discount rate. Of the \$0.2 million of unrealized gains recognized in the fiscal year ended September 30, 2018, approximately \$0.2 million is due to day one gains on new structured settlements financed during the period. There were no other changes in assumptions during the period. Of the \$4.3 million of unrealized gains recognized in the fiscal year ended September 30, 2017, approximately \$6.9 million is due to day one gains on new structured settlements financed during the period, \$0.2 million due to a change in the discount rate, offset by a decrease of \$2.1 million in realized gains recognized as realized interest income on structured settlements during the period and a fair value adjustment of \$0.7 million. There were no other changes in assumptions during the period.

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

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

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

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

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

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 2 - DISCONTINUED OPERATIONS (CONTINUED):**

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.

Structured settlements consist of the following as of September 30, 2018 and 2017:

|                             | September 30, 2018 | September 30, 2017   |
|-----------------------------|--------------------|----------------------|
| Maturity (1) (2)            | \$ —               | \$ 139,107,000       |
| Unearned income             | —                  | (52,136,000)         |
| Structured settlements, net | <u>\$ —</u>        | <u>\$ 86,971,000</u> |

- (1) The maturity value represents the aggregate unpaid principal balance at September 30, 2018 and 2017.
- (2) There is approximately \$0.3 million of structured settlements that are past due, or in non-accrual status at September 30, 2017.

Encumbrances on structured settlements as of September 30, 2018 and 2017 are as follows:

|   | Interest Rate | September 30, 2018 | September 30, 2017   |
|---|---------------|--------------------|----------------------|
| Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025     | 8.75%         | \$ —               | \$ 1,607,000         |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026   | 7.25%         | —                  | 3,612,000            |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032    | 7.125%        | —                  | 3,891,000            |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2037 | 5.39%         | —                  | 17,390,000           |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until March 2034    | 5.07%         | —                  | 13,389,000           |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2043 | 4.85%         | —                  | 13,001,000           |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until January 2069  | 5.00%         | —                  | 17,456,000           |
| \$25,000,000 revolving line of credit   | 4.25%         | —                  | 8,589,000            |
| Encumbered structured settlements   |               | —                  | 78,935,000           |
| Structured settlements not encumbered   |               | —                  | 8,036,000            |
| Total structured settlements  |               | <u>\$ —</u>        | <u>\$ 86,971,000</u> |

**ASTA FUNDING, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements  
September 30, 2018 and 2017****NOTE 2 - DISCONTINUED OPERATIONS (CONTINUED):**

The Company assumed \$25.9 million of debt related to the CBC acquisition on December 31, 2013, including a \$12.5 million line of credit with an interest rate floor of 5.5%. Between March 27, 2014 and September 29, 2014, CBC entered into three amendments (Sixth Amendment through Eighth Amendment), resulting in the line of credit increasing to \$22.0 million and the interest rate floor reduced to 4.75%. On March 11, 2015, CBC entered into the Ninth Amendment. This amendment, effective March 1, 2015, extended the maturity date on its credit line from February 28, 2015 to March 1, 2017. Additionally, the credit line was increased from \$22.0 million to \$25.0 million and the interest rate floor was decreased from 4.75% to 4.1%. Other terms and conditions were materially unchanged. In March 2017, the credit line was extended to April 28, 2017. On April 28, 2017, CBC entered into the Tenth Amendment, extending the credit line maturity date to June 30, 2017. On July 27, 2017 CBC entered into the Eleventh Amendment, extending the credit line maturity date to June 30, 2019.

On November 26, 2014, CBC completed its fourth private placement, backed by structured settlement and fixed annuity payments. CBC issued, through its subsidiary, BBR IV, LLC, approximately \$21.8 million of fixed rate asset-backed notes with a yield of 5.4%. On September 25, 2015, CBC completed its fifth private placement, backed by structured settlements 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 September 30, 2017, the remaining debt amounted to \$78.9 million, which consisted of \$8.6 million drawdown from a line of credit from an institutional source and \$70.3 million notes issued by entities 100%-owned and consolidated by CBC. These entities are bankruptcy-remote entities created to issue notes secured by structured settlements. During December 2017, the debt associated with CBC was sold along with CBC's other assets and liabilities.

CBC leased its facility in Conshocken, PA. The lease was an operating lease, and the Company incurred related rent expense in the amount of \$163,000, for the year ended September 30, 2017. This lease was transferred to the buyer of CBC in December 2017, and the Company was released from all future obligations under the lease.

**NOTE 3 - AVAILABLE - FOR - SALE INVESTMENTS**

Investments classified as available-for-sale at September 30, 2018 and 2017 consist of the following:

|      | <u>Amortized<br/>Cost</u> | <u>Unrealized<br/>Gains</u> | <u>Unrealized<br/>Losses</u> | <u>Fair Value</u> |
|------|---------------------------|-----------------------------|------------------------------|-------------------|
| 2018 | \$ 38,069,000             | \$ 1,000                    | \$ (16,000)                  | \$ 38,054,000     |
| 2017 | \$ 5,500,000              | \$ 11,000                   | \$ —                         | \$ 5,511,000      |

The available-for-sale investments, excluding U.S. treasury bills, do not have any contractual maturities. The Company did not sell any investments during the year ended September 30, 2018. The Company sold six investments during the year ended September 30, 2017, with an aggregate realized loss of \$1.0 million. Additionally, the Company received \$0.2 million in capital gains distributions during fiscal year 2017.

At September 30, 2018, the Company had three investments in mutual funds, in addition to investments in U.S. Treasury Bills of \$30.5 million which are carried at fair value, and are deemed to be level 1 assets, none of which were in an unrealized loss position that had existed for 12 months or more. At September 30, 2017 there was one investment, which was in unrealized gain position. Based on the evaluation of the available evidence at that time, including changes in market rates and credit rating information, management believed that any decline in fair value for these instruments would be temporary. In addition, management had the ability but did not believe it would be required to sell those investment securities for a period of time sufficient to allow for an anticipated recovery or maturity. Should the impairment of any of those 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 were 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).

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017**NOTE 4 - CONSUMER RECEIVABLES ACQUIRED FOR LIQUIDATION:**

Accounts acquired for liquidation are stated at cost 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.

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

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

The Company aggregates portfolios of receivables acquired sharing specific common characteristics which were acquired within a given quarter. In addition, the Company uses a variety of qualitative and quantitative factors to estimate collections and the timing thereof. The Company obtains and utilizes, as appropriate, input, including but not limited to, monthly collection projections and liquidation rates, from third party collection agencies and attorneys, as further evidentiary matter, to assist in evaluating and developing collection strategies and in evaluating and modeling the expected cash flows for a given portfolio. For the year ended September 30, 2018, the Company impaired one domestic and two international portfolios which resulted in a charge to expense of \$0.1 million and \$0.2 million, respectively. For the year ended September 30, 2017, the Company impaired one domestic and four international portfolios which resulted in a charge to expense of \$0.1 million and \$1.0 million, respectively.

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

|  | <b>For the Year Ended September 30,</b> |                     |
|--|---|---------------------|
|  | <b>2018</b>                             | <b>2017</b>         |
| Balance, beginning of period   | \$ 6,841,000                            | \$ 13,427,000       |
| Acquisitions of receivable portfolio   | —                                       | 2,213,000           |
| Net cash collections from collection of consumer receivables acquired for liquidation              | (18,551,000)                            | (23,331,000)        |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (3,000)                                 | (197,000)           |
| Impairment   | (310,000)                               | (1,129,000)         |
| Effect of foreign currency translation   | (91,000)                                | (62,000)            |
| Finance income recognized  | 15,863,000                              | 15,920,000          |
| <b>Balance, end of period</b>  | <b>\$ 3,749,000</b>                     | <b>\$ 6,841,000</b> |
| Finance income as a percentage of collections  | 85.5%                                   | 67.7%               |

**ASTA FUNDING, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements  
September 30, 2018 and 2017****NOTE 4 - CONSUMER RECEIVABLES ACQUIRED FOR LIQUIDATION (CONTINUED):**

During the year ended September 30, 2018, the Company did not purchase any portfolios. During the year ended September 30, 2017, the Company purchased \$35.0 million in face value receivables at a cost of \$2.2 million.

As of September 30, 2018, the Company held consumer receivables acquired for liquidation from Peru and Colombia of \$2.0 million and \$1.3 million, respectively. The total amount of foreign consumer receivables acquired for liquidation was \$3.3 million, or 88.7% of the total consumer receivables held of \$3.7 million at September 30, 2018. Of the total consumer receivables 3 individual portfolios comprise 20%, 11% and 11% of the overall asset balance at September 30, 2018

As of September 30, 2017, the Company held consumer receivables acquired for liquidation from Peru and Colombia of \$3.3 million and \$2.9 million, respectively. The total amount of foreign consumer receivables acquired for liquidation was \$6.2 million, or 89.9% of the total consumer receivables held of \$6.8 million at September 30, 2017. Of the total consumer receivables 3 individual portfolios comprise 18%, 10% and 10% of the overall asset balance at September 30, 2017.

As of September 30, 2018 and 2017, 5.9% and 5.0% of the Company's total assets were related to its international operation, respectively. For the years ended September 30, 2018 and 2017, 3.6% and 2.6% of the Company's total revenue related to its international operation, respectively.

The following table summarizes collections received by the Company's third-party collection agencies and attorneys, less commissions and direct costs for the years ended September 30, 2018 and 2017, respectively.

|                               | <b>2018</b>          | <b>2017</b>          |
|-------------------------------|----------------------|----------------------|
| Gross collections(1)          | \$ 35,512,000        | \$ 42,456,000        |
| Less: commissions and fees(2) | 16,958,000           | 18,928,000           |
| Net collections               | <u>\$ 18,554,000</u> | <u>\$ 23,528,000</u> |

- (1) Gross collections include collections from third-party collection agencies and attorneys, collections from in-house efforts and collections represented by account sales.
- (2) 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 who also received a 3% fee on gross collections received by the Company in connection with the related portfolio purchase. The fee is charged for asset location, skip tracing and ultimately suing debtors in connection with this portfolio purchase.

**NOTE 5 – EQUITY METHOD INVESTMENTS*****Acquisition of 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 had an 80% non-controlling interest in the joint venture from the date of formation through January 12, 2018. 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 while accounted for as an equity method investment, earned \$5.1 million in interest and fees for the three months ended June 30, 2017, and earned \$0.8 million and \$9.8 million in interest and fees for the period from October 1, 2017 to January 12, 2018, compared to the nine months ended June 30, 2017, respectively. The Company had a net equity method investment in personal injury claims of \$50.5 million on September 30, 2017 and \$52.7 million immediately prior to acquisition, which included loans due to Asta of \$32.7 million and \$31.7 million, respectively, settled in conjunction with the acquisition.

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

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017**NOTE 5 – EQUITY METHOD INVESTMENTS (CONTINUED):**

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

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

The Company filed for arbitration with the American Arbitration Association ("AAA") against Pegasus in April 2017 for breaches in the Operating Agreement and Term Sheet. On April 18, 2017, the Company was granted an Emergent Award restraining the cash in Pegasus, until a formal arbitration panel was confirmed and could review the case.

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

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

Additionally, on January 12, 2018, ASFI Pegasus Holdings, LLC ("ASFI"), a Delaware limited liability company and a subsidiary of Asta Funding, Inc. (the "Company" or "Asta"), a Delaware corporation, entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Pegasus Legal Funding, LLC, a Delaware limited liability company (the "Seller"). Under the Purchase Agreement, ASFI bought the Seller's ownership interests of Pegasus Funding, LLC ("Pegasus"), which was 20% of the issued and outstanding limited liability company interests of Pegasus, for an aggregate purchase price of \$1.8 million. As a result of the execution of the Purchase Agreement, ASFI became the owner of 100% of the limited liability company interests of Pegasus, and recognized a loss on acquisition of \$1.4 million, which is recorded in the Company's consolidated financial statements. Immediately on acquisition, the Company changed the name from Pegasus to Sylvave.

The fair values of the assets acquired and liabilities assumed at the acquisition date are as follows:

|  | <b>Fair Value</b>    |
|--|----------------------|
| Cash                                     | \$ 5,748,000         |
| Personal injury claim advances portfolio | 14,571,000           |
| Accounts payable and accrued expenses    | (664,000)            |
| <b>Total net assets acquired</b>         | <b>\$ 19,655,000</b> |

As a result of the purchase of the Seller's 20% interest in Pegasus on January 12, 2018 under the Purchase Agreement, beginning on January 13, 2018, the Company will consolidate the financial statements of Sylvave.



## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017**NOTE 5 – EQUITY METHOD INVESTMENTS (CONTINUED):**

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

|  | <b>Condensed Statement of Operations<br/>Information</b> |                     |
|--|--|---------------------|
|  | <b>2018</b>  | <b>2017</b>         |
| Personal injury claims income          | \$ 671,000   | \$ 11,554,000       |
| Operating expenses                     | (386,000)  | 5,780,000           |
| Income from operations                 | <u>\$ 1,057,000</u>                                      | <u>\$ 5,774,000</u> |
| Earnings from equity method investment | <u>\$ 845,000</u>  | <u>\$ 4,619,000</u> |

|                                      | <b>Condensed Balance Sheet Information</b> |                           |
|--------------------------------------|--|---------------------------|
|                                      | <b>September 30, 2018</b>                  | <b>September 30, 2017</b> |
| <b>Current assets</b>                |  |                           |
| Cash                                 | \$ —                                       | \$ 35,631,000(1)          |
| Investment in personal injury claims | —  | 16,855,000                |
| Other assets                         | —  | 109,000                   |
| Total Assets                         | <u>\$ —</u>                                | <u>\$ 52,595,000</u>      |
| <b>Current liabilities</b>           |  |                           |
| Non-current liabilities              | \$ —                                       | \$ 31,677,000             |
| Equity                               | —  | 18,966,000                |
| Total Liabilities and Equity         | <u>\$ —</u>                                | <u>\$ 52,595,000</u>      |

(1) Included in cash is \$35.4 million in restricted cash. The restriction was been put in place during the Company's arbitration with PLF.

**Serlefin**

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

Additionally, the Company and Serlefin jointly purchase international consumer debt portfolios under a purchase agreement. The Company and Serlefin purchase the portfolios on a pro-rata basis of 80% and 20%, respectively. The purchased portfolios are transferred to an administrative and payment trust, where the Company and Serlefin are trustees. Serlefin provides collection services to the trust, and receives a performance fee determined by the parties for each loan portfolio acquired. Serlefin received approximately \$0.4 million and \$0.6 million in performance fees for the years ended September 30, 2018 and 2017, respectively.

The carrying value of the investment in Serlefin Peru was \$0.2 million as of September 30, 2018 and September 30, 2017. The Company has included the carrying value of this investment in other assets on its consolidated balance sheets. The cumulative net loss from our investment in Serlefin Peru through September 30, 2018 was approximately \$0.2 million, and was not significant to the Company's consolidated statement of operations.

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

## NOTE 6 - PERSONAL INJURY CLAIMS FUNDING

*Simia and Sylvave*

On November 11, 2016, the Company formed Simia, a wholly owned subsidiary, to continue its personal injury claims funding business following the Company's decision not to renew its joint venture with PLF. Simia commenced operation in January 2017, and conducts its business solely in the United States. As of September 30, 2018, Simia had a personal injury claims portfolio of \$2.4 million, and recognized revenue for the year then ended of \$0.4 million. As of September 30, 2017, Simia had a personal injury claims portfolio of \$3.4 million, and recognized revenue for the year then ended of \$0.4 million.

As noted in Note 5 - Equity Method Investments, effective January 12, 2018, the Company now accounts for Sylvave, its wholly owned subsidiary, on a consolidated basis. Simia and Sylvave remain in operation to continue to collect on their outstanding personal injury claim portfolios, but will not be funding any new advances to claimants.

*Practical Funding*

The Company formed a new wholly owned subsidiary, Practical Funding on March 16, 2018 to continue in the personal injury claims funding business. To date, Practical Funding has not funded any advances on personal injury claims.

The following tables summarize the changes in the balance sheet account of personal injury claim portfolios held by Simia and Sylvave for the following periods:

|  | <b>For the Year Ended September 30,</b> |                     |
|--|---|---------------------|
|  | <b>2018</b>                             | <b>2017</b>         |
| Balance, beginning of period                         | \$ 3,704,000                            | \$ —                |
| Acquisition of personal injury funding portfolio (1) | 14,571,000                              | —                   |
| Personal claim advances                              | 60,000                                  | 4,077,000           |
| Provision for losses                                 | (516,000)                               | (7,000)             |
| (Write offs) recoveries                              | 17,000                                  | (15,000)            |
| Personal injury claims income                        | 1,084,000                               | 434,000             |
| Personal injury claims receipts                      | (8,175,000)                             | (785,000)           |
| Balance, end of period                               | <u>\$ 10,745,000</u>                    | <u>\$ 3,704,000</u> |

(1) Fully acquired through the acquisition of Pegasus.

The Company recognized personal injury claims income of \$1.1 million and \$0.4 million for the years ended September 30, 2018, respectively. The Company has recorded a net reserve against its investment in personal injury claims of \$7.1 million and \$7,000 as of September 30, 2018 and 2017, respectively.

## NOTE 7 - MATRIMONIAL CLAIMS

On May 8, 2012, EMIRIC entered into a joint venture with California-based Balance Point Divorce Funding, LLC ("BP Divorce Funding") to create the operating subsidiary BP Case Management, LLC ("BPCM"). BPCM is 60% owned by the Company and 40% owned by BP Divorce Funding. BPCM provides non-recourse funding to a spouse in a matrimonial action. 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. On April 1, 2017, BP Divorce Funding defaulted on this agreement, and as such, the loan balance of approximately \$1.5 million was deemed uncollectible and was written off to general and administrative expenses on the consolidated statement of operations during the year ended September 30, 2017.

**ASTA FUNDING, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements  
September 30, 2018 and 2017****NOTE 7 - MATRIMONIAL CLAIMS (CONTINUED):**

As of September 30, 2018 and 2017, BPCM had fully reserved against its invested amount of \$2.5 million, in cases managed by this Venture. A net loss of approximately \$4.0 million was recognized during the year ended September 30, 2017, when the remaining assets were fully impaired. There was no income recognized for the fiscal years ended September 30, 2018 and 2017.

**NOTE 8 - FURNITURE AND EQUIPMENT**

Furniture and equipment as of September 30, 2018 and 2017 consist of the following:

|  | <u>2018</u>       | <u>2017</u>       |
|--|-------------------|-------------------|
| Furniture                                      | \$ 273,000        | \$ 273,000        |
| Equipment                                      | 252,000           | 241,000           |
| Software                                       | <u>1,396,000</u>  | <u>1,369,000</u>  |
|  | 1,921,000         | 1,883,000         |
| Less accumulated depreciation and amortization | <u>1,821,000</u>  | <u>1,759,000</u>  |
|  | <u>\$ 100,000</u> | <u>\$ 124,000</u> |

Depreciation and amortization expense for the years ended September 30, 2018 and 2017 was \$62,000, and \$97,000, respectively.

**NOTE 9 - NOTE RECEIVABLE**

Pursuant to Purchase Agreement, dated as of December 13, 2017, between the Purchaser and CBC, CBC sold to the Purchaser all of the issued and outstanding equity capital of CBC for \$10.3 million. In conjunction with this sale the Company received \$4.5 million in cash, and a Promissory Note (the "Note") for \$5.8 million from the Purchaser. The Note bears interest at 7% per annum, payable in quarterly installments of principle and interest through December 13, 2020, and is secured pursuant to a Security Agreement (the "Security Agreement") with an affiliate of the Purchaser. Under the Security Agreement the Company has a first priority security interest and lien on all servicing fees received by the affiliate. As of September 30, 2018, the Purchaser is current on all its obligations under the Note, and the principle amount outstanding on this Note is \$4.3 million. For the year ended September 30, 2018, the Company recorded \$0.3 million in interest income, which has been classified as other income in the Company's consolidated statement of operations, associated with this note. See Note 2 – Discontinued Operations.

**NOTE 10 - SETTLEMENTS**

In August 2014, the Company filed a lawsuit in Delaware state court against a third party servicer arising from the third party servicer's failure to pay the Company certain amounts that are due the Company under a servicing agreement. The third party servicer filed a counterclaim in the Delaware action alleging that the Company owes certain amounts to the third party servicer for court costs pursuant to an alleged arrangement between the companies. On or about July 12, 2018, the parties agreed to settle the action pursuant to a settlement agreement and release, which provides for, among other things, the payment by the third party servicer of \$4.4 million to the Company pursuant to an agreed upon schedule with a lump sum payment to be made at the third anniversary of the agreement.

These fee based settlements are required to total \$2.4 million and \$4.4 million by the second and third anniversaries, respectively. To the extent that these fee based settlement fees are less than these amounts, the servicer is required to make lump sum true-up payments.

The Company determined the fair value of this settlement using (i) historical collection history to estimate the fee based settlement fees that are expected to be received each month from the servicer; (ii) the contractual true-up dates, discussed above, in order to estimate the anticipated true-up payments that will be received from the servicer on the second and third anniversaries; and (iii) an imputed interest rate of 8.5%.

As of September 30, 2018, the Company has a settlement receivable due from this third party servicer of \$3.3 million. During fiscal year 2018, the Company received \$0.6 million in payments from this third party servicer. For the year ended September 30, 2018, the Company recorded a gain on settlement of \$3.4 million, and \$0.1 million in interest income, which is included in other income on the Company's consolidated statement of operations.

Additionally, the Company also recorded a gain on settlement of \$0.6 million from a third party financial institution associated with the Company's prior purchase of a consumer debt portfolio.

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

## NOTE 11 - 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 Bank of Montreal ("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 \$2.9 million included a voluntary prepayment of \$1.9 million provided from funds of the Company. Accordingly, Palisades XVI was entitled to receive \$16.9 million of future collections from the Portfolio Purchase before BMO would be entitled to receive any payments with respect to its Income Interest.

During the month of June 2016, the Company received the balance of the \$16.9 million, and, as of September 30, 2018 and 2017, the Company recorded a liability to BMO of approximately \$117,000 and \$148,000, respectively. The funds were subsequently remitted to BMO in October 2018 and 2017, respectively. The liability to BMO is recorded when actual collections are received.

*Bank Hapoalim B.M. ("Bank Hapoalim") Line of Credit*

On May 2, 2014, the Company obtained a \$20 million line of credit facility from Bank Hapoalim, pursuant to a Loan Agreement (the "Loan Agreement") among the Company and its subsidiary, Palisades Collection, LLC, as borrowers ("the Borrowers"), and Bank Hapoalim, as agent and lender. The Loan Agreement provides for a \$20.0 million committed line of credit and an accordion feature providing an increase in the line of credit of up to \$30 million, at the discretion of the lenders. The facility was for a term of three years at an interest rate of either LIBOR plus 275 basis points or prime, at the Company's option. The Loan Agreement included covenants that 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 included (a) the reduction of the interest rate to LIBOR plus 225 basis points; (b) a decrease in the Net Equity requirement by \$50 million, to \$100 million and (c) modified the Net Loss requirement from a quarterly to an annual basis. All other terms of the original agreement remained in effect. The Company borrowed \$9.6 million in February 2017 against the facility. There was a \$10.0 million aggregate balance on deposit at Bank Hapoalim which served as collateral for the line of credit, and was reflected as restricted cash. On April 28, 2017, the Company renewed the line of credit facility with the new maturity date of August 2, 2017, under the existing terms and conditions. On August 2, 2017, the \$9.6 million line of credit expired and the Company satisfied the debt with cash that was held in deposit as collateral with the bank. As of September 30, 2018 and 2017, there was no outstanding facility.

## NOTE 12 - OTHER LIABILITIES

Other liabilities as of September 30, 2018 and 2017 are as follows:

|   | 2018         | 2017         |
|---|--------------|--------------|
| Accounts payable and accrued expenses   | \$ 2,281,000 | \$ 1,835,000 |
| Lawsuit reserve (see Note 15 - Commitments and Contingencies - <i>Legal Matters</i> ) | —            | 3,145,000    |
| Total other liabilities   | \$ 2,281,000 | \$ 4,980,000 |

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

NOTE 13 - INCOME TAXES

The components of the provision for income taxes for the years ended September 30, 2018 and 2017 are as follows:

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| Current:  |                     |                     |
| Federal   | \$ 3,709,000        | \$ (5,065,000)      |
| State   | —                   | —                   |
|   | <u>3,709,000</u>    | <u>(5,065,000)</u>  |
| Deferred:   |                     |                     |
| Federal   | 1,525,000           | 2,322,000           |
| State   | 224,000             | 409,000             |
|   | <u>1,749,000</u>    | <u>2,731,000</u>    |
| Sub-total   | 5,458,000           | (2,334,000)         |
| Less: income tax benefit on discontinued operations | (44,000)            | (3,411,000)         |
| Provision for income taxes                          | <u>\$ 5,502,000</u> | <u>\$ 1,077,000</u> |

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law in the United States. The Tax Act significantly revises corporate income tax law by, among other things, lowering the corporate income tax rates from 35% to 21%. Under GAAP, deferred taxes must be adjusted for enacted changes in tax laws or rates during the period in which new tax legislation is enacted. During the year ended September 30, 2018, tax expense of approximately \$4.4 million was recorded, representing the revaluation of deferred tax assets and liabilities as a result of the lower corporate tax rate established by the Tax Act. As of September 30, 2018, the Company has completed the accounting for the tax effects of the enactment of the Tax Act.

The difference between the statutory federal income tax rate on the Company's pre-tax income and the Company's effective income tax rate is summarized for the years ended September 30, 2018 and 2017 as follows:

|  | 2018         | 2017         |
|--|--------------|--------------|
| Statutory federal income tax rate          | 24.5%        | 35.0%        |
| State income tax, net of federal benefit   | 2.3          | (2.7)        |
| Permanent difference in municipal interest | (1.1)        | 1.3          |
| Permanent difference other                 | —            | (4.1)        |
| Change in valuation allowance              | (12.1)       | (14.0)       |
| Impact of the Tax Act (1)                  | 46.3         | —            |
| Other                                      | (2.5)        | (0.3)        |
| Effective income tax rate                  | <u>57.4%</u> | <u>15.2%</u> |

(1) The revaluation of the Company's deferred tax assets and liabilities due to the lower corporate tax rate established by the Tax Act resulted in \$4.4 million of tax expense during the year ended September 30, 2018.

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

## NOTE 13 - INCOME TAXES (CONTINUED):

The Company recognized a net deferred tax asset of \$10,940,000 and \$12,696,000 as of September 30, 2018 and 2017, respectively. The components are as follows:

|  | September 30,<br>2018 | September 30,<br>2017 |
|--|-----------------------|-----------------------|
| Impairments/bad debt reserves  | \$ 328,000            | \$ 4,380,000          |
| Revenue recognition pertaining to the cost over estimated collections method | 6,312,000             | 8,572,000             |
| State tax net operating loss carry forward                                   | 7,421,000             | 9,603,000             |
| Stock based compensation   | 2,367,000             | 3,520,000             |
| Unrealized gain on structured settlements                                    | —                     | (5,187,000)           |
| Capital loss carry forward   | 1,724,000             | 2,597,000             |
| Foreign currency   | 404,000               | 472,000               |
| Depreciation, amortization and other   | 215,000               | 193,000               |
|  | <u>18,771,000</u>     | <u>24,150,000</u>     |
| Deferred income taxes  | 18,771,000            | 24,150,000            |
| Deferred tax valuation allowance   | <u>(7,831,000)</u>    | <u>(11,454,000)</u>   |
| Deferred income taxes  | <u>\$ 10,940,000</u>  | <u>\$ 12,696,000</u>  |

The Company files consolidated Federal and state income tax returns. Substantially all of the Company's subsidiaries are single member limited liability companies and, therefore, do not file separate tax returns. Majority and minority owned subsidiaries file separate partnership tax returns. The expiration date for state net operating loss ("NOL") carry forwards (from September 30, 2009) is September 30, 2029. The New Jersey NOL carry forward balance as of September 30, 2018 is approximately \$73.2 million. In addition, the Company has New York State and City NOL of approximately \$16.5 million and \$3.5 million as of September 30, 2018, respectively. The Company has generated approximately \$2.2 million of foreign NOL's, all of which are fully reserved with a valuation allowance, due to cumulative losses in those jurisdictions. The Company has a federal capital loss carry forward of \$6.1 million expiring in 2022 that has been fully reserved.

The Company accounts for income taxes using the asset and liability method which requires the recognition of deferred tax assets and, if applicable, deferred tax liabilities, for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and, if applicable, liabilities. Additionally, the Company would adjust deferred taxes to reflect estimated tax rate changes, if applicable. The Company conducts periodic evaluations to determine whether it is more likely than not that some or all of its deferred tax assets will be realized. Among the factors considered in this evaluation are estimates of future earnings, the future reversal of temporary differences and the impact of tax planning strategies that the Company can implement, if warranted. The Company is required to provide a valuation allowance for any portion of our deferred tax assets that, more likely than not, will not be realized at September 30, 2018. Based on this evaluation, the Company has recorded a deferred tax asset valuation allowance on their state NOL's and capital loss carry forwards of approximately \$7.8 million as of September 30, 2018 as compared to \$11.5 million reported on September 30, 2017. Although the carry forward period for state income tax purposes is up to twenty years, given the economic conditions, such economic environment could limit growth over a reasonable time period to realize the deferred tax asset. The Company determined the time period allowance for carry forward is outside a reasonable period to forecast full realization of the deferred tax asset, therefore recognized the deferred tax asset valuation allowance. The Company continually monitors forecast information to ensure the valuation allowance is at the appropriate value. As required by FASB ASC 740, Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company's amended federal tax return for the year ended September 30, 2014 and 2015 is currently being audited by the Internal Revenue Service. The tax returns for the 2016 fiscal year are subject to examination. The Company does not have any uncertain tax positions.

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

## NOTE 14 - NET INCOME PER SHARE:

The following table presents the computation of basic and diluted per share data for the fiscal years ended September 30, 2018 and 2017:

|   | 2018         | 2017            |
|---|--------------|-----------------|
| Income (loss) from continuing operations                            | \$ 4,137,000 | \$ (8,382,000)  |
| Loss from discontinued operations                                   | (80,000)     | (4,620,000)     |
| Net income (loss)   | \$ 4,057,000 | \$ (13,002,000) |
| Basic earnings (loss) per common share from continuing operations   | \$ 0.62      | \$ (0.97)       |
| Basic loss per common share from discontinued operations            | (0.01)       | (0.53)          |
| Basic earnings (loss) per share                                     | \$ 0.61      | \$ (1.50)       |
| Diluted earnings (loss) per common share from continuing operations | \$ 0.62      | \$ (0.97)       |
| Diluted loss per common share from discontinuing operations         | (0.01)       | (0.53)          |
| Diluted earnings (loss) per share                                   | \$ 0.61      | \$ (1.50)       |
| Weighted average number of common shares outstanding:               |              |                 |
| Basic   | 6,662,600    | 8,692,668       |
| Dilutive effect of stock options                                    | 2,241        | —               |
| Diluted   | 6,664,841    | 8,692,668       |

## NOTE 15 - COMMITMENTS AND CONTINGENCIES

*Leases*

The Company leases its facilities in (i) Englewood Cliffs, New Jersey, (ii) Houston, Texas, and (iii) Louisville, Kentucky. The leases are operating leases, and the Company incurred related rent expense in the amounts of \$324,000, and \$360,000 during the years ended September 30, 2018 and 2017, respectively. The future minimum lease payments are as follows:

|      | Year Ending<br>September 30, |
|------|------------------------------|
| 2019 | \$ 265,000                   |
| 2020 | 224,000                      |
|      | \$ 489,000                   |

The Company's lease of its Louisville, Kentucky facility expires in December 2018.

*Employment Agreement*

On March 10, 2016, the Company entered into an employment agreement with an executive of the Company. Under this Agreement, he will receive a base salary of \$275,000, subject to annual increases, and will be eligible to receive cash and non-cash bonuses. The Agreement has an 18 month non-compete and non-solicitation provision and has a one ( 1 ) year term, and the term will be extended by one year on each anniversary date of the Agreement.

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

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

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**  
*September 30, 2018 and 2017*

**NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONTINUED):**

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

***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, 2017, 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. On January 23, 2018, the Company paid \$2.3 million as a global settlement in conjunction with the putative 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.

The Company was a defendant in a lawsuit filed in Montana state court alleging fraud and abuse of process arising from the Company’s business relationship with an entity that finances divorce litigation proceedings. On November 24, 2017, the Company paid \$0.8 million as a settlement in conjunction with the lawsuit filed against the Company in Montana state court alleging, fraud and abuse of process arising from the Company’s business relationship with an entity that finances divorce proceedings. As of September 30, 2017, the \$0.8 million settlement was accrued for in the Company’s consolidated balance sheet.

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. The Company is not involved in any other material litigation in which we are a defendant.

**NOTE 16 - CONCENTRATIONS**

At September 30, 2018, approximately 31% of the Company’s portfolio face value was serviced by 5 collection organizations. The Company has servicing agreements in place with these 5 collection organizations, as well as all of the Company’s other third party collection agencies and attorneys that cover standard contingency fees and servicing of the accounts. While the 5 collection organizations represent only 31% of the Company’s portfolio face value, it does represent approximately 87% of the Company’s portfolio face value at all third party collection agencies and attorneys.



**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**  
*September 30, 2018 and 2017*

**NOTE 16 – CONCENTRATIONS (CONTINUED):**

At September 30, 2017, approximately 35% of the Company's portfolio face value was serviced by 5 collection organizations. The Company has servicing agreements in place with these 5 collection organizations, as well as all of the Company's other third party collection agencies and attorneys that cover standard contingency fees and servicing of the accounts. While the 5 collection organizations represent only 35% of the Company's portfolio face value, it does represent approximately 90% of the Company's portfolio face value at all third party collection agencies and attorneys. In the current year the Company has three consumer receivable portfolios that comprise over 10% of asset balance (20%, 11% and 11%), and one portfolio which generated greater than 10%, at 24% of asset balance.

**NOTE 17 - STOCK OPTION PLANS**

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

On February 7, 2012, the Board of Directors 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 replaces the Equity Compensation Plan (as defined below).

The 2012 Plan provides the Company with 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, in addition to the granting of stock options.

The Company authorized 2,000,000 shares of Common Stock for issuance under the 2012 Plan. As of September 30, 2018, the Company has granted 540,800 options and 245,625 shares of restricted stock since inception of the 2012 Plan. Additionally, 109,768 options have been cancelled during that time period, leaving 1,323,343 shares available as of September 30, 2018. As of September 30, 2018, approximately 60 of the Company's employees were eligible to participate in the 2012 Plan.

***Equity Compensation Plan***

On December 1, 2005, the board of directors 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 allows 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 additional awards could be issued under this plan.

***2002 Stock Option Plan***

On March 5, 2002, the board of directors adopted the Company's 2002 Stock Option Plan (the "2002 Plan"), which was approved by the Company's stockholders 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 for issuance under the 2002 Plan. As of March 5, 2012, no additional awards could be issued under this plan.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

NOTE 17 - STOCK OPTION PLANS (CONTINUED):

*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 income statement rather than a disclosure in the notes to the Company’s consolidated financial statements.

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

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

*Summary Of The Plan*

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

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

|  | Year Ended September 30, |                                 |                |                                 |
|--|--------------------------|---------------------------------|----------------|---------------------------------|
|  | 2018                     |                                 | 2017           |                                 |
|  | Shares                   | Weighted Average Exercise Price | Shares         | Weighted Average Exercise Price |
| Outstanding options at the beginning of year | 880,567                  | \$ 8.05                         | 949,667        | \$ 8.47                         |
| Options granted                              | —                        | —                               | 56,600         | 6.55                            |
| Options forfeited/cancelled                  | (90,100)                 | 8.11                            | (125,700)      | 10.59                           |
| Options exercised                            | (61,600)                 | 6.48                            | —              | —                               |
| Outstanding options at the end of year       | <u>728,867</u>           | \$ 8.17                         | <u>880,567</u> | \$ 8.05                         |
| Exercisable options at the end of year       | <u>710,694</u>           | \$ 8.18                         | <u>796,962</u> | \$ 8.14                         |

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 17 - STOCK OPTION PLANS (CONTINUED):**

*Summary Of The Plan (Continued):*

The following table summarizes information about the plans' outstanding options as of September 30, 2018:

| Range of Exercise Price | Options Outstanding |  |                                 | Options Exercisable |                                 |  |
|-------------------------|---------------------|--|---------------------------------|---------------------|---------------------------------|--|
|                         | Number Outstanding  | Weighted Average Remaining Contractual Life (In Years) | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |  |
| \$2.8751 - \$5.7500     | 1,200               | 0.6  | \$ 2.95                         | 1,200               | \$ 2.95                         |  |
| \$5.7501 - \$8.6250     | 618,167             | 3.7  | 7.97                            | 599,994             | 7.97                            |  |
| \$8.6251 - \$11.5000    | 109,500             | 4.3  | 9.37                            | 109,500             | 9.37                            |  |
|                         | <u>728,867</u>      | 3.8  | \$ 8.17                         | <u>710,694</u>      | \$ 8.18                         |  |

The Company recognized \$106,000 and \$58,000 of compensation expense related to stock options, for the fiscal years ended September 30, 2018 and 2017 respectively. As of September 30, 2018, there was \$7,000 of unrecognized compensation cost related to unvested stock options. The weighted average remaining period over which such costs are expected to be recognized is 0.2 years.

The intrinsic value of the outstanding and exercisable options as of September 30, 2018 was approximately \$1,200 and \$1,200 respectively. The intrinsic value of the options exercised during fiscal year 2018 was approximately \$265,000. There were no options exercised during the fiscal year 2017. The fair value of the options exercised during the fiscal year ended September 30, 2018 was \$664,000. The proceeds from the exercise of stock options during the fiscal years ended September 30, 2018 were approximately \$399,000. The weighted average remaining contractual life of exercisable options as of September 30, 2018 is 3.8 years. The fair value of the stock options that vested during the 2018 and 2017 fiscal years was approximately \$258,000 and \$685,000, respectively. The fair value of options granted during the fiscal year ended September 30, 2017 was approximately \$371,000. There were no options granted during the year ended September 30, 2018.

The Company did not grant any restricted stock awards during the years ended September 30, 2018 and 2017. As of September 30, 2018 and 2017, there was no unrecognized compensation cost related to restricted stock awards.

**NOTE 18 - STOCKHOLDERS' EQUITY**

The Company has 30,000,000 authorized preferred shares with a par value of \$0.01 per share. The Board of Directors are authorized to divide the authorized shares of Preferred Stock into one or more series, each of which shall be so designated as to distinguish the shares thereof from the shares of all other series and classes.

There were no shares of preferred stock issued and outstanding as of September 30, 2018 and 2017.

Dividends are declared at the discretion of the Board of Directors and depend upon the Company's financial condition, operating results, capital requirements and other factors that the Board of Directors deems relevant. In addition, agreements with the Company's lenders may, from time to time, restrict the ability to pay dividends. As of September 30, 2018, there were no such restrictions, as there were no lending agreements in place.

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 \$35.4 million.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 18 - STOCKHOLDERS' EQUITY (CONTINUED):**

*Stockholder Rights Agreement*

On May 5, 2017, the Board of the Company adopted a stockholder rights plan (the "Rights Agreement"), pursuant to which the Company declared a dividend of one right (a "Right") for each of the Company's issued and outstanding shares of common stock. The dividend was declared to the stockholders of record at the close of business on May 15, 2017. Each Right entitled 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 became 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 were 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 would be made so that each holder of a Right will thereafter have had 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 had the right to 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 became an Acquiring Person, the Company could 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 was set to expire on June 1, 2018, or such later date as may have been established by the Board as long as any such extension is approved by a vote of the stockholders of the Company by June 1, 2018. The Company concluded any value associated with the Right given to shareholders as a dividend was deemed de minimus.

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

**NOTE 19 - RETIREMENT PLAN**

The Company maintains a 401(k) Retirement Plan covering all of its eligible employees. Matching contributions made by the employees to the plan are made at the discretion of the board of directors each plan year. Contributions for the years ended September 30, 2018 and 2017 were \$127,000 and \$139,000, respectively.

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

## NOTE 20 - FAIR VALUE OF FINANCIAL MEASUREMENTS AND DISCLOSURES:

*Disclosures about Fair Value of Financial Instruments*

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

|   | September 30, 2018 |              | September 30, 2017 |            |
|---|--------------------|--------------|--------------------|------------|
|   | Carrying Amount    | Fair Value   | Carrying Amount    | Fair Value |
| <b>Financial assets</b>                                 |                    |              |                    |            |
| Cash equivalents (Level 1)                              | \$ 1,786,000       | \$ 1,786,000 | \$ 68,000          | \$ 68,000  |
| Available-for-sale investments (Level 1)                | 38,054,000         | 38,054,000   | 5,511,000          | 5,511,000  |
| Consumer receivables acquired for liquidation (Level 3) | 3,749,000          | 27,574,000   | 6,841,000          | 32,603,000 |

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

|                                  | September 30, 2017 |               |
|----------------------------------|--------------------|---------------|
|                                  | Carrying Amount    | Fair Value    |
| <b>Financial asset</b>           |                    |               |
| Structured settlements (Level 3) | \$ 86,971,000      | \$ 86,971,000 |

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 and U.S. treasury bills that are valued based on quoted prices in active markets. The U.S. treasury bills have been classified as available for sale by the Company, as they are deemed to be short term investments, and can be liquidated as needed by the Company.

The Company's available-for-sale investments are classified as Level 1 financial instruments based on the classifications described above. The Company did not have any transfers into (out of) Level 1 investments during the fiscal year ended September 30, 2017. The Company had no Level 2 or Level 3 available-for-sale investments during the fiscal year ended September 30, 2017.

**Consumer receivables acquired for liquidation** - The Company computed the fair value of the consumer receivables acquired for liquidation using its proprietary forecasting model. The Company's forecasting model utilizes a discounted cash flow analysis. The Company's cash flows are an estimate of collections for consumer receivables based on variables fully described in Note 4 - Consumer Receivables Acquired for Liquidation. These cash flows are discounted to determine the fair value.

**Structured settlements (included in discontinued operations)** - The Company determined the fair value based on the discounted forecasted future collections of the structured settlements. Unrealized gains on structured settlements is comprised of both unrealized gains resulting from fair market valuation at the date of acquisition of the structured settlements and the subsequent fair value adjustments resulting from the change in the discount rate. The \$0.2 million of unrealized gains recognized in the fiscal year ended September 30, 2018, are due to day one gains. Of the \$4.3 million of unrealized gains recognized in the fiscal year ended September 30, 2017, approximately \$6.9 million is due to day one gains on new structured settlements financed during the period, \$0.2 million due to a change in the discount rate, offset by a decrease of \$2.1 million in realized gains recognized as realized interest income on structured settlements during the period and fair value adjustment of \$0.7 million.

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.

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017**NOTE 20 - FAIR VALUE OF FINANCIAL MEASUREMENTS AND DISCLOSURES (CONTINUED):***Disclosures about Fair Value of Financial Instruments (Continued):*

The changes in structured settlements at fair value using significant unobservable inputs (Level 3) during the year ended September 30, 2018 were as follows:

|  |               |
|--|---------------|
| Balance at September 30, 2017  | \$ 86,971,000 |
| Structured settlements sold in conjunction with sale of CBC on December 13, 2017 | (86,971,000)  |
| Structured settlements as of September 30, 2018                                  | <u>\$ —</u>   |

Realized and unrealized gains and losses on structured settlements included in earnings in the accompanying consolidated statements of operations for the year ended September 30, 2018 are reported in the following revenue categories:

|   |                   |
|---|-------------------|
| Total gains included in the year ended September 30, 2018                         | <u>\$ 244,000</u> |
| Change in unrealized gains (losses) relating to assets held at September 30, 2018 | <u>\$ —</u>       |

**NOTE 21 - RELATED PARTY TRANSACTIONS**

On September 17, 2015, the Company and Piccolo agreed to terms to a new two-year, \$80,000 contract, pursuant to which Piccolo would provide consulting services. The compensation was to be paid quarterly. The consulting agreement with Piccolo terminated on September 30, 2017, and was not renewed. During fiscal 2018, the Company did not pay Piccolo any amounts under this agreement. For the year ended September 30, 2017, the Company paid Piccolo \$80,000 for such services.

In addition, A. L. Piccolo & Co., Inc. ("ALP"), which is also owned by Louis Piccolo, received a fee from Pegasus, prior to acquisition, which was calculated based on amounts loaned to Pegasus by Fund Pegasus up to maximum of \$700,000. The fee was payable over nine 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 was payable by PLF and its affiliates. For the years ended September 30, 2018 and 2017, Pegasus paid ALP \$33,000 and \$133,000, which includes fees and interest paid during the period. As of September 30, 2018 and 2017, the Company owed Piccolo \$0 and \$66,000, respectively, which was recorded in other liabilities on the Company's consolidated balance sheet at September 30, 2017.

In June 2015, CBC entered into an asset purchase agreement with Fortress Funding, LLC ("Fortress") to acquire an interest in certain tangible and intangible assets of Fortress, which included customer lists, equipment and other intellectual property. In consideration for these assets CBC agreed to pay Fortress \$0.5 million, as well as up to an additional \$1.2 million based on conversion of customers from the acquired lists obtained in the transaction. Fortress is owned by Michelle Silverman, the wife of Ryan Silverman, who in connection with the agreement was offered employment as General Counsel of CBC.

For the years ended September 30, 2018 and 2017, the Company made payments of \$0 and \$203,000, respectively, to Fortress. As of September 30, 2018 and 2017, the Company had no liability due to Fortress. Subsequent to the sale of CBC, on December 13, 2017, Fortress is no longer considered a related party.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 22 - SEGMENT REPORTING**

The Company operates through strategic business units that are aggregated into three reportable segments: Consumer receivables, personal injury claims and Social security disability advocacy. 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. Recently, the Company's efforts have been in the international areas (mainly South America), as we have curtailed our active purchasing of consumer receivables in the United States. The Company holds consumers receivable acquired for liquidation in both Colombia and Peru of approximately \$3.3 million. The business conducts its activities primarily under the name Palisades Collection, LLC.
- *Personal injury claims* - This segment is comprised of purchased interests in personal injury claims from claimants who are a party in personal injury litigation or claim. The Company 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 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. The Company historically funded personal injury claims in Simia and Sylvave. The Company formed a new wholly owned subsidiary, Practical Funding on March 16, 2018 to continue in the personal injury claims funding business. To date, Practical Funding has not funded any advances on personal injury claims.

Simia commenced operations in January 2017, and conducts its business solely in the United States. Simia obtained its business from external brokers and internal sales professionals soliciting attorneys and law firms who represent claimants who have personal injury claims. Business was also obtained from its website and through attorneys. The Company accounted for its investment in Sylvave under the equity method of accounting through January 12, 2018, for subsequent periods the Company includes the financial results of Sylvave in its consolidated statement of operations. Simia and Sylvave are not funding any new advances, but continue to collect on outstanding personal injury claim advances in the ordinary course.

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

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

## ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

## NOTE 22 - SEGMENT REPORTING (CONTINUED)

The following table shows results for continuing operations by reporting segment for the years ended September 30, 2018 and 2017.

| (Dollars in millions)                    | Consumer<br>Receivables | Social security<br>disability<br>advocacy | Personal<br>Injury<br>Claims (2) | Corporate (3) | Total   |
|--|-------------------------|---|----------------------------------|---------------|---------|
| Fiscal Year Ended September 30,<br>2018: |                         |   |                                  |               |         |
| Revenues                                 | \$ 15.9                 | \$ 4.6                                    | \$ 1.1                           | \$ -          | \$ 21.6 |
| Other income (5)                         | 4.0                     | -   | -                                | 0.5           | 4.5     |
| Segment profit (loss)                    | 17.8                    | 1.1                                       | 1.1                              | (10.4)        | 9.6     |
| Segment Assets (1)                       | 12.4                    | 1.0                                       | 11.9                             | 61.0          | 86.3    |
| 2017:                                    |                         |   |                                  |               |         |
| Revenues                                 | 15.9                    | 5.1                                       | 0.4                              | -             | 21.4    |
| Other income                             | -                       | -   | -                                | (0.1)         | (0.1)   |
| Segment profit (loss)                    | 12.5                    | (1.7)                                     | 4.1                              | (22.2)        | (7.3)   |
| Segment Assets (1) (4)                   | 20.4                    | 3.9                                       | 55.0                             | 122.2         | 201.5   |

The Company does not have any intersegment revenue transactions.

- (1) Includes other amounts in other line items on the consolidated balance sheet.
- (2) The Company recorded Pegasus as an equity investment in its consolidated financial statements through January 12, 2018. Commencing on January 13, 2018, Sylvave is consolidated in the Company's financial statements. For segment 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 \$92.8 million of assets related to discontinued operations as of September 30, 2017.
- (5) Included in other income is approximately \$4.0 million in gain on settlements. See Note 10 - Settlements.



ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2018 and 2017

**NOTE 23 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Accumulated other comprehensive income (loss) consists of:

|  | Year Ended September 30,                          |   |           |   |   |            |
|--|---|---|-----------|---|---|------------|
|  | 2018  |   |           | 2017  |   |            |
|  | Unrealized<br>gain on<br>marketable<br>securities | Foreign<br>currency<br>translation, net | Total     | Unrealized<br>gain on<br>marketable<br>securities | Foreign<br>currency<br>translation, net | Total      |
| Beginning Balance  | \$ 7,000  | \$ 11,000                               | \$ 18,000 | \$ 624,000  | \$ 179,000                              | \$ 803,000 |
| Change in unrealized gains (losses) on foreign currency translation, net | -   | 34,000                                  | 34,000    | -   | (168,000)                               | (168,000)  |
| Change in unrealized gains (losses) on marketable securities             | (17,000)  | -                                       | (17,000)  | (10,000)  | -                                       | (10,000)   |
| Amount reclassified from accumulated other comprehensive income          | -   | -                                       | -         | (607,000)   | -                                       | (607,000)  |
| Net current-period other comprehensive income                            | (17,000)  | 34,000                                  | 17,000    | (617,000)   | (168,000)                               | (785,000)  |
| Ending balance   | \$ (10,000)                                       | \$ 45,000                               | \$ 35,000 | \$ 7,000  | \$ 11,000                               | \$ 18,000  |

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASTA FUNDING, INC.

By: /s/ Gary Stern  
Gary Stern  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: December 21, 2018

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| <b>Signature</b>                                  | <b>Title</b>  | <b>Date</b>       |
|---|---|-------------------|
| <u>/s/ Gary Stern</u><br>Gary Stern               | Chairman of the Board, President, and Chief Executive Officer                   | December 21, 2018 |
| <u>/s/ Bruce R. Foster</u><br>Bruce R. Foster     | Chief Financial Officer<br>(Principal Financial Officer and Accounting Officer) | December 21, 2018 |
| <u>/s/ David Slackman</u><br>David Slackman       | Director  | December 21, 2018 |
| <u>/s/ Louis A. Piccolo</u><br>Louis A. Piccolo   | Director  | December 21, 2018 |
| <u>/s/ Mark Levenfus</u><br>Mark Levenfus         | Director  | December 21, 2018 |
| <u>/s/ Timothy H. Bishop</u><br>Timothy H. Bishop | Director  | December 21, 2018 |

## Subsidiary Companies

| <b>Name</b>                         | <b>Jurisdiction<br/>Under<br/>Which<br/>Organized</b> | <b>Percentage<br/>Owned</b> |
|-------------------------------------|---|-----------------------------|
| Asta Funding, Inc.                  | Delaware  |                             |
| Asta Funding Acquisition I, LLC     | Delaware  | 100%                        |
| Asta Funding Acquisition II, LLC    | Delaware  | 100%                        |
| Asta Commercial, LLC                | Delaware  | 100%                        |
| Asta Funding.com, LLC               | Delaware  | 100%                        |
| Palisades Acquisition I, LLC        | Delaware  | 100%                        |
| Palisades Acquisition II, LLC       | Delaware  | 100%                        |
| Palisades Acquisition IV, LLC       | Delaware  | 100%                        |
| CBC Settlement Funding, LLC         | Delaware  | 100%                        |
| Computer Finance, LLC               | Delaware  | 100%                        |
| Palisades Collection, LLC           | Delaware  | 100%                        |
| Palisades Acquisition VIII, LLC     | Delaware  | 100%                        |
| Option Card, LLC                    | Colorado  | 100%                        |
| Palisades Acquisition IX, LLC       | Delaware  | 100%                        |
| VATIV Recovery Solutions LLC        | Texas   | 100%                        |
| Palisades Acquisition X, LLC        | Delaware  | 100%                        |
| Cliffs Portfolio Acquisition I, LLC | Delaware  | 100%                        |
| Sylvan Acquisition I, LLC           | Delaware  | 100%                        |
| Palisades Acquisition XI LLC        | Delaware  | 100%                        |
| Palisades Acquisition XII LLC       | Delaware  | 100%                        |
| Palisades Acquisition XIII LLC      | Delaware  | 100%                        |
| Palisades Acquisition XIV LLC       | Delaware  | 100%                        |
| Palisades Acquisition XV LLC        | Delaware  | 100%                        |
| Palisades Acquisition XVI LLC       | Delaware  | 100%                        |
| Palisades Acquisition XVII LLC      | Delaware  | 100%                        |
| Palisades Acquisition XVIII LLC     | Delaware  | 100%                        |
| LBLINY, LLC                         | Delaware  | 100%                        |
| Prestiga Funding, LLC               | Delaware  | 100%                        |
| ASFI Litigation Holdings LLC        | Delaware  | 100%                        |
| ASFI Pegasus Holdings, LLC          | Delaware  | 100%                        |
| Sylvave, LLC                        | Delaware  | 100%                        |
| GAR Disability Advocates, LLC       | Delaware  | 100%                        |
| EMIRIC LLC                          | Delaware  | 100%                        |
| Snappy Rent, LLC                    | Delaware  | 100%                        |
| Palisades Acquisition XIX, LLC      | Delaware  | 100%                        |
| Palisades Acquisition XXII, LLC     | Delaware  | 100%                        |
| Palisades Acquisition XXIII, LLC    | Delaware  | 100%                        |
| Palisades XXIV SpA                  | Delaware  | 100%                        |
| Simia Capital, LLC                  | Delaware  | 100%                        |
| Blue Bell Receivables I, LLC        | Delaware  | 100%                        |
| Blue Bell Receivables II, LLC       | Delaware  | 100%                        |
| Blue Bell Receivables III, LLC      | Delaware  | 100%                        |
| Blue Bell Receivables IV, LLC       | Delaware  | 100%                        |
| Blue Bell Receivables V, LLC        | Delaware  | 100%                        |
| Blue Bell Receivables VI, LLC       | Delaware  | 100%                        |
| Five Star Veterans Disability, LLC  | Delaware  | 100%                        |

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements of Asta Funding, Inc. on Form S-8 (Nos. 333-185175, 333-142201, 333-99911, and 333-38836) of our report dated December 21, 2018, on our audits of the consolidated financial statements as of September 30, 2018 and 2017 and for each of the years then ended, which report is included in this Annual Report on Form 10-K to be filed on or about December 21, 2018.

/s/ EisnerAmper LLP

EISNERAMPER LLP  
Iselin, New Jersey  
December 21, 2018

## CERTIFICATION

I, Gary Stem, certify that:

1. I have reviewed this annual report on Form 10-K of Asta Funding, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gary Stem

\_\_\_\_\_  
Gary Stem  
Chairman of the Board, President and Chief Executive Officer  
(Principal Executive Officer)

Date: December 21, 2018

A signed original of this written statement required by Section 302 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff per request.

## CERTIFICATION

I, Bruce R. Foster, certify that:

1. I have reviewed this annual report on Form 10-K of Asta Funding, Inc.:

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Bruce R. Foster

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

Date: December 21, 2018

A signed original of this written statement required by Section 302 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff per request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Asta Funding, Inc. (the "Company") on Form 10-K for the year ended September 30, 2018 as filed with the Securities and Exchange Commission (the "Report"), I, Gary Stern, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

/s/ Gary Stern  
\_\_\_\_\_  
Gary Stern  
President and Chief Executive Officer  
(Principal Executive Officer)  
Dated: December 21, 2018

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the 10-K as a separate disclosure statement.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Asta Funding, Inc. (the "Company") on Form 10-K for the year ended September 30, 2018 as filed with the Securities and Exchange Commission (the "Report"), I, Bruce R. Foster, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

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

Dated: December 21, 2018

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the 10-K as a separate disclosure statement.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff per request.