ASTA FUNDING INC
Form 10-Q
August 09, 2016
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2016**

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

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

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

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

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

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company |

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

As of August 5, 2016, the registrant had 11,846,724 common shares outstanding.

**ASTA FUNDING, INC. AND SUBSIDIARIES**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

(rounded to the nearest thousand, except share data)

| | (Unaudited) June 30, 2016 | September 30, 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $17,111,000 | $24,315,000 |
| Available for sale investments | 56,744,000 | 59,727,000 |
| Consumer receivables acquired for liquidation (at net realizable value) | 14,540,000 | 15,608,000 |
| Structured settlements | 79,884,000 | 64,635,000 |
| Investment in personal injury claims | 43,684,000 | 36,668,000 |
| Other investments, net | 3,426,000 | 4,239,000 |
| Due from third party collection agencies and attorneys | 1,081,000 | 1,422,000 |
| Prepaid and income taxes receivable | 4,680,000 | 6,744,000 |
| Furniture and equipment, net | 219,000 | 480,000 |
| Deferred income taxes | 12,270,000 | 12,279,000 |
| Goodwill | 2,770,000 | 2,770,000 |
| Other assets | 9,370,000 | 8,485,000 |
| Total assets | $245,779,000 | $237,372,000 |
| **LIABILITIES** | | |
| Other debt – CBC (including non-recourse notes payable of $44.4 million at June 30, 2016 and $47.0 million at September 30, 2015) | $62,667,000 | $51,611,000 |
| Other liabilities | 6,622,000 | 4,441,000 |
| Total liabilities | 69,289,000 | 56,052,000 |
| Commitments and contingencies | | |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock, $.01 par value; authorized 5,000,000 shares; issued and outstanding — none | — | — |
| Common stock, $.01 par value, authorized 30,000,000 shares; issued 13,297,508 at June 30, 2016 and 13,061,673 at September 30, 2015; and outstanding 11,837,224 at June 30, 2016 and 12,859,873 at September 30, 2015 | 133,000 | 131,000 |
| Additional paid-in capital | 66,575,000 | 65,011,000 |

| | | |
|---|---|---|
| Retained earnings | 123,782,000 | 120,611,000 |
| Accumulated other comprehensive loss | (173,000 ) | (1,685,000 ) |
| Treasury stock (at cost) 1,460,284 shares at June 30, 2016 and 201,800 shares at September 30, 2015 | (12,925,000 ) | (1,751,000 ) |
| Non-controlling interest | (902,000 ) | (997,000 ) |
| Total stockholders' equity | 176,490,000 | 181,320,000 |
| Total liabilities and stockholders' equity | $245,779,000 | $237,372,000 |

See Notes to Consolidated Financial Statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Consolidated Statements of Operations**

**(Unaudited)**

(rounded to the nearest thousand, except share data)

| | **Three Months Ended June 30, 2016** | **Three Months Ended June 30, 2015** | **Nine Months Ended June 30, 2016** | **Nine Months Ended June 30, 2015** |
|---|---|---|---|---|
| Revenues: | | | | |
| Finance income, net | $4,612,000 | $5,156,000 | $14,668,000 | $15,688,000 |
| Personal injury claims income | 9,838,000 | 1,729,000 | 14,769,000 | 6,084,000 |
| Unrealized gain on structured settlements | 1,422,000 | 1,239,000 | 4,586,000 | 4,260,000 |
| Interest income on structured settlements | 1,765,000 | 1,356,000 | 4,473,000 | 3,314,000 |
| Disability fee income | 1,169,000 | 552,000 | 2,700,000 | 911,000 |
| Total revenues | 18,806,000 | 10,032,000 | 41,196,000 | 30,257,000 |
| Other income — includes ($32,000) and ($159,000) during the three month periods ended June 30, 2016 and 2015, respectively, and ($63,000) and ($120,000) during the nine month periods ended June 30, 2016 and 2015, respectively, of accumulated other comprehensive income reclassification for unrealized net gains / (losses) on available for sale securities | 215,000 | 185,000 | 1,108,000 | 1,216,000 |
| | 19,021,000 | 10,217,000 | 42,304,000 | 31,473,000 |
| Expenses: | | | | |
| General and administrative | 10,591,000 | 9,177,000 | 32,039,000 | 27,793,000 |
| Interest | 832,000 | 632,000 | 2,348,000 | 1,710,000 |
| Impairment of consumer receivables | — | — | 124,000 | — |
| | 11,423,000 | 9,809,000 | 34,511,000 | 29,503,000 |
| Income before income tax | 7,598,000 | 408,000 | 7,793,000 | 1,970,000 |
| Income tax expense — includes tax expense benefit of ($13,000) and ($64,000) during the three month periods ended June 30, 2016 and 2015, respectively and ($24,000) and ($27,000) during the nine month periods ended June 30, 2016 and 2015, respectively, of accumulated other comprehensive income reclassifications for unrealized net gains / (losses) on available for sale securities | 2,853,000 | 155,000 | 2,461,000 | 901,000 |
| Net income | 4,745,000 | 253,000 | 5,332,000 | 1,069,000 |
| Less: net income attributable to non-controlling interests | 1,549,000 | 92,000 | 2,161,000 | 193,000 |

| | | | | |
|---|---|---|---|---|
| Net income attributable to Asta Funding, Inc. | $3,196,000 | $161,000 | $3,171,000 | $876,000 |
| Net income per share attributable to Asta Funding, Inc.: | | | | |
| Basic | $0.27 | $0.01 | $0.26 | $0.07 |
| Diluted | $0.26 | $0.01 | $0.26 | $0.07 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 11,897,139 | 13,060,839 | 12,023,156 | 13,044,905 |
| Diluted | 12,433,424 | 13,313,406 | 12,294,073 | 13,311,776 |

See Notes to Consolidated Financial Statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income (Loss)**

**June 30, 2016 and 2015**

**(Unaudited)**

(rounded to the nearest thousand)

| | **Three Months Ended June 30, 2016** | **Three Months Ended June 30, 2015** | **Nine Months Ended June 30, 2016** | **Nine Months Ended June 30, 2015** |
|---|---|---|---|---|
| Comprehensive income is as follows: | | | | |
| Net income | $4,745,000 | $253,000 | $5,332,000 | $1,069,000 |
| Net unrealized securities (loss)/gain, net of tax (expense)/benefit of ($364,000) and $61,000 during the three month periods ended June 30, 2016 and 2015, respectively, and ($647,000) and $213,000 during the nine month periods ended June 30, 2016 and 2015, respectively. | 543,000 | (310,000) | 1,046,000 | (547,000) |
| Reclassification adjustments for securities sold, net of tax benefit of $13,000 and $36,000 during the three month periods ended June 30, 2016 and 2015, and $24,000 and $27,000 during the nine month periods ended June 30, 2016 and 2015, respectively. | (19,000) | (123,000) | (39,000) | (93,000) |
| Foreign currency translation, net of tax benefit of $93,000 and $0 during the three month periods ended June 30, 2016 and 2015, respectively, and $650,000 and $0 during the nine month periods ended June 30, 2016 and 2015, respectively. | 9,000 | — | 505,000 | — |
| Other comprehensive income (loss) | 533,000 | (433,000) | 1,512,000 | (640,000) |
| Total comprehensive income (loss) | $5,278,000 | $(180,000) | $6,844,000 | $429,000 |

See Notes to Consolidated Financial Statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Consolidated Statement of Stockholders' Equity**

**(Unaudited)**

(rounded to the nearest thousand, except share data)

| | **Common Stock** | | **Additional** | | **Accumulated Other** | | **Non-** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **Issued Shares** | **Amount** | **Paid-in Capital** | **Retained Earnings** | **Comprehensive Loss** | **Treasury Stock** | **Controlling Interests** | **Stockhol Equity** |
| **Balance, September 30, 2015** | 13,061,673 | $131,000 | $65,011,000 | $120,611,000 | $(1,685,000) | $(1,751,000) | $(997,000) | $181,320 |
| Exercise of options | 107,531 | 1,000 | 871,000 | | | | | 872,000 |
| Stock based compensation expense | — | — | 567,000 | — | — | — | — | 567,000 |
| Restricted stock | 5,000 | — | — | — | — | — | — | — |
| Net income | — | — | — | 3,171,000 | — | — | 2,161,000 | 5,332,0 |
| Unrealized gain on marketable securities, net | — | — | — | — | 1,007,000 | — | — | 1,007,0 |
| Purchase of treasury stock | — | — | — | — | — | (11,174,000) | — | (11,174 |
| Foreign currency translation, net | — | — | — | — | 505,000 | — | — | 505,000 |
| Purchase of subsidiary shares from non-controlling interest | — | — | (873,000) | — | — | — | (927,000) | (1,800,0 |
| Issuance of restricted stock to purchase subsidiary shares from non-controlling interest | 123,304 | 1,000 | 999,000 | — | — | — | — | 1,000,0 |
| Distributions to non-controlling interest | — | — | — | — | — | — | (1,139,000) | (1,139,0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Balance, June 30, 2016** | 13,297,508 | $133,000 | $66,575,000 | $123,782,000 | $(173,000) | $(12,925,000) | $(902,000) | $176,49 |

| | Common Stock | | Additional Paid-in | Retained | Accumulated Other Comprehensive | Non-Controlling | Total Stockholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Income (Loss) | Interests | Equity |
| **Balance, September 30, 2014** | 12,985,839 | $130,000 | $63,102,000 | $118,595,000 | $ 142,000 | $(713,000) | $181,256,000 |
| Exercise of options | 60,000 | — | 469,000 | — | — | — | 469,000 |
| Stock based compensation expense | — | — | 1,136,000 | — | — | — | 1,136,000 |
| Restricted stock | 15,000 | — | — | — | — | — | — |
| Net income | — | — | — | 876,000 | — | 193,000 | 1,069,000 |
| Unrealized gain on marketable securities, net | — | — | — | — | (640,000) | — | (640,000) |
| Distributions to non-controlling interest | — | — | — | — | — | (754,000) | (754,000) |
| **Balance, June 30, 2015** | 13,060,839 | $130,000 | $64,707,000 | $119,471,000 | $ (498,000) | $(1,274,000) | $182,536,000 |

See Notes to Consolidated Financial Statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**(Unaudited)**

(rounded to the nearest thousand)

| | Nine Months Ended | |
|---|---|---|
| | **June 30, 2016** | **June 30, 2015** |
| **Cash flows from operating activities:** | | |
| Net income | $5,332,000 | $1,069,000 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 442,000 | 459,000 |
| Deferred income taxes | (662,000) | (485,000) |
| Impairment of consumer receivables acquired for liquidation | 124,000 | — |
| Stock based compensation | 567,000 | 1,136,000 |
| Loss on sale of available-for-sale securities | 63,000 | 120,000 |
| Structured settlements – accrued interest | (3,907,000) | (3,055,000) |
| Structured settlements – gains | (4,586,000) | (4,260,000) |
| Unrealized gain on other investments | (246,000) | (296,000) |
| Unrealized foreign exchange loss on other investments | 59,000 | 884,000 |
| Reserve for loss on other investments | 1,000,000 | — |
| Operating lease adjustment | 21,000 | — |
| Changes in: | | |
| Prepaid and income taxes receivable | 2,064,000 | 430,000 |
| Due from third party collection agencies and attorneys | 341,000 | 38,000 |
| Other assets | (964,000) | (1,681,000) |
| Income taxes payable | — | 523,000 |
| Other liabilities | 2,686,000 | 372,000 |
| Net cash provided by (used in) operating activities | 2,334,000 | (4,746,000) |
| **Cash flows from investing activities:** | | |
| Purchase of consumer receivables acquired for liquidation | (6,470,000) | (2,009,000) |
| Principal collected on receivables acquired for liquidation | 7,414,000 | 12,567,000 |
| Principal collected on receivables accounts represented by account sales | — | 2,000 |
| Purchase of available-for-sale securities | (11,704,000) | (17,564,000) |
| Proceeds from sale of available-for-sale securities | 16,302,000 | 13,677,000 |
| Purchase of other investments | — | (5,000,000) |
| Purchase of non-controlling interest | (800,000) | — |
| Investments in personal injury claims – advances | (27,689,000) | (18,270,000) |
| Investments in personal injury claims – receipts | 20,673,000 | 13,467,000 |
| Capital expenditures | (123,000) | (138,000) |
| Investments in structured settlements – advances | (12,264,000) | (10,782,000) |
| Investments in structured settlements – receipts | 5,508,000 | 3,609,000 |

| | | |
|---|---|---|
| Net cash used in investing activities | (9,153,000 ) | (10,441,000) |
| **Cash flows from financing activities:** | | |
| Proceeds from exercise of stock options | 872,000 | 469,000 |
| Purchase of treasury stock | (11,174,000) | — |
| Distribution to non-controlling interest | (1,139,000 ) | (754,000 ) |
| Borrowings of other debt – CBC | 14,431,000 | 33,923,000 |
| Repayment of other debt – CBC | (3,375,000 ) | (19,514,000) |
| Net cash (used in) provided by financing activities | (385,000 ) | 14,124,000 |
| **Net decrease in cash and cash equivalents** | (7,204,000 ) | (1,063,000 ) |
| Cash and cash equivalents at beginning of period | 24,315,000 | 28,710,000 |
| **Cash and cash equivalents at end of period** | $17,111,000 | $27,647,000 |
| **Supplemental disclosure of cash flow information** : | | |
| Cash paid for: Interest | $2,353,000 | 1,736,000 |
| **Supplemental disclosure of non-cash flow investing activities** : | | |
| Issuance of restricted stock to purchase subsidiary shares from non-controlling interest | $1,000,000 | $— |

See Notes to Consolidated Financial Statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Business***

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC ("Palisades XVI"), VATIV Recovery Solutions LLC ("VATIV"), ASFI Pegasus Holdings, LLC ("APH"), Fund Pegasus, LLC ("Fund Pegasus"), GAR Disability Advocates, LLC ("GAR Disability Advocates"), CBC Settlement Funding, LLC ("CBC") and other subsidiaries, not all wholly owned (the "Company," "we" or "us"), is engaged in several business segments in the financial services industry including structured settlements through our wholly owned subsidiary CBC, funding of personal injury claims, through our 80% owned subsidiary Pegasus Funding, LLC ("Pegasus"), social security and disability advocates through our wholly owned subsidiary GAR Disability Advocates and the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged off receivables, and semi-performing receivables.

*Consumer receivables*

The Company started out in the consumer receivables business in 1994. Recently, our effort has been in the international areas (mainly South America), as we have curtailed our active purchasing of consumer receivables in the United States. We define consumer receivables as primary charged-off, semi-performing and distressed depending on their collectability. We acquire these consumer receivables at substantial discounts to their face values, based on the characteristics of the underlying accounts of each portfolio.

*Personal injury claims*

Pegasus conducts its business solely in the United States. Pegasus obtains its business from external brokers and internal sales professionals soliciting individuals with personal injury claims. Business is also obtained from the Pegasus website and through attorneys.

*Structured settlements*

CBC purchases 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, and its securitized debt, issued through its Blue Bell Receivables ("BBR") subsidiaries.

*Social security benefit advocacy*

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

***Basis of Presentation***

The consolidated balance sheet as of June 30, 2016, the consolidated statements of operations for the three and nine month periods ended June 30, 2016 and 2015, the consolidated statements of comprehensive income (loss) for the three and nine month periods ended June 30, 2016 and 2015, the consolidated statements of stockholders' equity as of and for the nine months ended June 30, 2016 and 2015, and the consolidated statements of cash flows for the nine month periods ended June 30, 2016 and 2015, are unaudited. The September 30, 2015 financial information included in this report was derived from our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position at June 30, 2016, the results of operations for the three and nine month periods ended June 30, 2016 and 2015 and cash flows for the nine month periods ended June 30, 2016 and 2015 have been made. The results of operations for the three and nine month periods ended June 30, 2016 and 2015 are not necessarily indicative of the operating results for any other interim period or the full fiscal year.

Palisades XVI is a variable interest entity ("VIE"). Asta Funding, Inc. is considered the primary beneficiary because it has the power to direct the significant activities of the VIE via its ownership and service contract. Palisades XVI holds the Great Seneca portfolio, a $300 million portfolio purchased in March 2007 (the "Portfolio Purchase"), which, as of June 30, 2016, had a value of $5.4 million.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Basis of Presentation*** *(continued)*

Blue Bell Receivables I, LLC (“BBR I”), Blue Bell Receivables II, LLC (“BBR II”), Blue Bell Receivables III, LLC (“BBR III”), Blue Bell Receivables IV, LLC (“BBR IV”) and Blue Bell Receivables V, LLC (“BBR V”), collectively the “Blue Bell Entities”, are VIEs. CBC is considered the primary beneficiary because it has the power to direct the significant activities of the VIEs via its ownership and service contract. It also has the rights to receive benefits from the collections that exceed the payments to the note holders. The Blue Bell Entities hold structured settlements of $79.9 million and the non-recourse notes payable of $44.4 million as of June 30, 2016.

The accompanying unaudited consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and therefore do not include all information and note disclosures required under generally accepted accounting principles. The Company suggests that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2015 filed with the Securities and Exchange Commission.

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

***Concentration of Credit Risk – Cash***

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

Cash balances are maintained at various depository institutions and are insured by the Federal Deposit Insurance Corporation (“FDIC”). The Company had cash balances with 4 banks at June 30, 2016 that exceeded the balance insured by the FDIC by approximately $13.0 million. The Company does not believe it is exposed to any significant credit risk due to concentration of cash.

**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 is currently evaluating the impact this update will have on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which amends the consolidation requirements in ASC 810. This update is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. We are currently reviewing this ASU to determine if it will have an impact on our consolidated financial statements.

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Basis of Presentation*** *(continued)*

**Recent Accounting Pronouncements** *(continued)*

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. The Company is currently evaluating the impact this update will have on its consolidated financial statements.

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

In March 2016, the FASB issued 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.

**Note 2—Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Investments classified as available-for-sale at June 30, 2016 and September 30, 2015, consist of the following:

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| June 30, 2016 | $55,408,000 | $1,341,000 | $(5,000) | $56,744,000 |
| September 30, 2015 | $60,069,000 | $98,000 | $(440,000) | $59,727,000 |

The available-for-sale investments do not have any contractual maturities. The Company sold three investments during the nine months ended June 30, 2016, with a realized loss of $63,000. The Company received $47,000 in capital gains distributions during the nine months ended June 30, 2016. For the nine months ended June 30, 2015, the Company sold four investments with a realized loss of $120,000 and also received $234,000 in capital gains distributions during that period. The Company recorded an aggregate realized loss of $16,000 and gain of $114,000 related to its available-for-sale securities for the nine months ended June 30, 2016 and 2015, respectively. The Company sold one investment for the three months ended June 30, 2016 with a realized loss of $32,000. For the three months ended June 30, 2015, the Company sold one investment with a realized loss of $159,000.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

At June 30, 2016, there were six investments, one of which was in an unrealized loss position that had existed for 12 months or more. All of these securities are considered to be acceptable credit risks. Based on the evaluation of the available evidence, including recent changes in market rates and credit rating information, management believes the aggregate decline in fair value for these instruments is temporary. In addition, management has the ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery or maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

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

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

Accounts acquired for liquidation are stated at their net estimated realizable value and consist primarily of defaulted consumer loans of individuals primarily throughout the United States.

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

- the interest method; or

- the cost recovery method.

The Company accounts for certain of its investments in finance 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. 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 in 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 has extensive liquidating experience in the field of distressed credit card receivables, telecommunication receivables, consumer loan receivables, retail installment contracts, consumer receivables, and auto deficiency receivables.

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

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

| | **For the Three Months Ended June 30,** | |
|---|---|---|
| | **2016** | **2015** |
| Balance, beginning of period | $16,784,000 | $22,178,000 |
| Acquisitions of receivable portfolios | 329,000 | 388,000 |
| Net cash collections from collection of consumer receivables acquired for liquidation | (7,095,000) | (8,762,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (83,000) | (76,000) |
| Effect of foreign currency translation | (7,000) | — |
| Finance income recognized | 4,612,000 | 5,156,000 |
| Balance, end of period | $14,540,000 | $18,884,000 |
| Finance income as a percentage of collections | 64.3% | 58.3% |

| | **For the Nine Months Ended June 30,** | |
|---|---|---|
| | **2016** | **2015** |
| Balance, beginning of period | $15,608,000 | $29,444,000 |
| Acquisitions of receivable portfolios | 6,470,000 | 2,009,000 |
| Net cash collections from collection of consumer receivables acquired for liquidation | (21,869,000) | (28,178,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (83,000) | (79,000) |
| Impairment | (124,000) | — |
| Effect of foreign currency translation | (130,000) | — |
| Finance income recognized | 14,668,000 | 15,688,000 |
| Balance, end of period | $14,540,000 | $18,884,000 |
| Finance income as a percentage of collections | 66.8% | 55.5% |

During the three and nine month periods ended June 30, 2016, the Company purchased $2.2 million and $123.2 million, respectively, of face value portfolios at a cost of $0.3 million and $6.5 million, respectively. During the three and nine month periods ended June 30, 2015, the Company purchased $3.6 million and $28.0 million, respectively, of face value portfolios, at a cost of $0.4 million and $2.0 million, respectively.

The following table summarizes collections received by the Company's third-party collection agencies and attorneys, less commissions and direct costs, for the three and nine month periods ended June 30, 2016 and 2015, respectively.

| | **For the Three Months Ended June 30,** | | **For the Nine Months Ended June 30,** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Gross collections (1) | $11,097,000 | $13,917,000 | 33,965,000 | 43,697,000 |
| Commissions and fees (2) | 3,919,000 | 5,079,000 | 12,013,000 | 15,440,000 |
| Net collections | $7,178,000 | $8,838,000 | $21,952,000 | $28,257,000 |

(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 and fees are the contractual commission earned by third party collection agencies and attorneys, and direct costs associated with the collection effort, generally court costs. Includes a 3% fee charged by a servicer on gross collections received by the Company in connection with the Portfolio Purchase. Such arrangement was consummated in December 2007. The fee is charged for asset location, skip tracing and ultimately suing debtors in connection with this portfolio purchase.

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 5—Acquisition of CBC**

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 $1,000,000 and $800,000 in cash. Each of the two original principals received 61,652 shares of restricted stock at an agreed upon market price of $8.11 and $400,000 in cash. An aggregate of 123,304 shares of restricted stock were issued as part of the transaction. These shares are subject to a one year lock-up period in which the holders cannot sell the shares. In addition, the shares are subject to certain sales restrictions following the initial lock-up period. (see Note 15 – Stock Based Compensation).

On January 1, 2016, the Company renewed the expiring two-year employment agreements of the two CBC principals for additional one-year terms (see Note 11 – Commitments and Contingencies).

Net income attributable to Asta Funding, Inc., as reported, for the nine month period ended June 30, 2016 was $3,171,000. Had the Company owned 100% of CBC for the entire reporting period, net income attributable to Asta Funding, Inc. would have been $3,327,000. Net income attributable to Asta Funding Inc., as reported, for the nine month period ended June 30, 2015 was $876,000. Had the Company owned 100% of CBC for the entire period, net income attributable to Asta Funding, Inc. would have been $1,162,000. Net income attributable to Asta Funding Inc., as reported, for the three month period ended June 30, 2015 was $161,000. Had the Company owned 100% of CBC for the entire period, net income attributable to Asta Funding, Inc., would have been $269,000.

**Note 6—Structured Settlements (At Fair Value)**

CBC purchases 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 $4.6 million of unrealized gains recognized in the nine month period ended June 30, 2016, approximately $5.8 million is due to day one gains on new structured settlements financed during the period, offset by a decrease of $1.2 million in realized gains recognized as realized interest income on structured settlements during the period. There were no other changes in assumptions during the period.

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

The purchased personal injury structured settlements result in payments over time through an annuity policy. Most of the annuities acquired involve guaranteed payments with specific defined ending dates. CBC also 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 are not a material portion of assets at June 30, 2016 and revenue for the three and nine month periods ended June 30, 2016.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 6—Structured Settlements (At Fair Value)** *(continued)*

Structured settlements consist of the following as of June 30, 2016 and September 30, 2015:

| | June 30, 2016 | September 30, 2015 |
|---|---|---|
| Maturity (1) (2) | $124,279,000 | $99,135,000 |
| Unearned income | (44,395,000 ) | (34,500,000) |
| Net collections | $79,884,000 | $64,635,000 |

(1) The maturity value represents the aggregate unpaid principal balance at June 30, 2016 and September 30, 2015.
(2) There are no amounts of structured settlements that are past due, or in nonaccrual status at June 30, 2016 and September 30, 2015.

Encumbrances on structured settlements as of June 30, 2016 and September 30, 2015 are as follows:

| | June 30, 2016 | September 30, 2015 |
|---|---|---|
| Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025 (3) | $1,918,000 | $2,270,000 |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026 (3) | 4,369,000 | 4,713,000 |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032 (3) | 4,128,000 | 4,497,000 |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2037 (3) | 19,173,000 | 20,147,000 |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until March 2034 (3) | 14,773,000 | 15,361,000 |
| $25,000,000 revolving line of credit (3) | 18,306,000 | 4,623,000 |

| | | |
|---|---|---|
| Encumbered structured settlements | 62,667,000 | 51,611,000 |
| Structured settlements not encumbered | 17,217,000 | 13,024,000 |
| Total structured settlements | $79,884,000 | $64,635,000 |

(3) See Note 10 – Other Debt – CBC

At June 30, 2016, the expected cash flows of structured settlements based on maturity value are as follows:

| | |
|---|---|
| September 30, 2016 (3 months) | $2,273,000 |
| September 30, 2017 | 9,237,000 |
| September 30, 2018 | 7,589,000 |
| September 30, 2019 | 7,670,000 |
| September 30, 2020 | 7,038,000 |
| Thereafter | 90,472,000 |
| Total | $124,279,000 |

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

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**(Unaudited)**

**Note 7—Litigation Funding**

***Personal Injury Claims***

On December 28, 2011, the Company entered into a joint venture with Pegasus Legal Funding, LLC ("PLF") in the operating subsidiary of Pegasus. 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 claim. The Company, through Pegasus, earned $14.8 million and $9.8 million in interest and fees during the nine and three month periods ending June 30, 2016, respectively, compared to $6.1 million and $1.7 million, respectively, during the nine and three month periods ending June 30, 2015. The Company had a net invested balance of $43.7 million and $36.7 million on June 30, 2016 and September 30, 2015, respectively. Pegasus records reserves for bad debts, which, at June 30, 2016 and 2015, amounted to $7.0 million and $5.0 million, as follows:

| | **Three Months Ended June 30, 2016** | **Three Months Ended June 30, 2015** | **Nine Months Ended June 30, 2016** | **Nine Months Ended June 30, 2015** |
|---|---|---|---|---|
| Balance at beginning of period | $6,175,000 | $4,446,000 | $5,459,000 | $2,474,000 |
| Provisions for losses | 1,087,000 | 690,000 | 2,223,000 | 3,011,000 |
| Write offs | (268,000 ) | (121,000 ) | (688,000 ) | (470,000 ) |
| Balance at end of period | $6,994,000 | $5,015,000 | $6,994,000 | $5,015,000 |

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

On May 18, 2012, the Company formed BP Case Management, LLC ("BPCM"), a joint venture with California-based Balance Point Divorce Funding, LLC ("BP Divorce Funding"). A BPCM agreement provides non-recourse funding to a spouse in a matrimonial action. Through a revised agreement, the Company provides a $1.5 million revolving line of credit to partially fund BP Divorce Funding's operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. In September 2014, the agreement was revised to extend the term of the loan to August 2016, increase the line from $1.0 million to $1.5 million and include a personal guarantee of the principal of BP Divorce Funding. The loan balance at June 30, 2016, was approximately $1.4 million. The revolving line of credit is collateralized by BP Divorce Funding's profit share in BPCM and other assets. As of June 30, 2016, the Company's investment in cases through BPCM was approximately $3.1 million. There was no income recognized for the nine months ended June 30, 2016 and 2015.

**Note 8—Furniture & Equipment**

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

| | **June 30, 2016** | **September 30, 2015** |
|---|---|---|
| Furniture | $417,000 | $414,000 |
| Equipment | 202,000 | 3,622,000 |
| Software | 1,330,000 | 1,210,000 |
| Leasehold improvements | — | 99,000 |
| | 1,949,000 | 5,345,000 |
| Less accumulated depreciation | 1,730,000 | 4,865,000 |
| Balance, end of period | $219,000 | $480,000 |

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 9—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 Settlement Agreement discussed below.

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. BMO also agreed that if and when BMO receives the next $15 million of collections from the Portfolio Purchase or from voluntary prepayments by Asta Funding, Inc., less certain credits for payments made prior to the consummation of the Settlement Agreement (the "Remaining Amount"), Palisades XVI and its affiliates would be automatically released from liability in connection with the RFA (subject to customary exceptions). A condition to the release was Palisade XVI's agreement to grant BMO, as of the time of the payment of the Remaining Amount, the right to receive 30% of net collections from the Portfolio Purchase once Palisades XVI has received from future net collections, the sum of $15 million plus voluntary prepayments included in the payment of the Remaining Amount (the "Income Interest"). On June 3, 2014, Palisades XVI paid the Remaining Amount. The final principal payment of $2,901,199 included a voluntary prepayment of $1,866,036 provided from funds of the Company. Accordingly, Palisades XVI will be 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. As of June 30, 2016, the Company recorded a liability to BMO of approximately $109,000, which represents 30% of the net collections after $16.9 million collections were received. The funds were subsequently remitted to BMO on July 11, 2016. The liability to BMO is only 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 is for a term of three years at an interest rate of either LIBOR plus 275 basis points or prime, at the Company's option. The Loan Agreement includes covenants that require the Company to maintain a minimum net worth of $150 million and pay an unused line fee. The facility is secured pursuant to a Security Agreement among the parties to the Loan Agreement, with property of the Borrowers serving as collateral. On March 30, 2016, the Company signed the First Amendment to the Loan Agreement (the "First Amendment") with Bank Hapoalim which amended certain terms of their banking arrangement. The First Amendment includes (a) the reduction of the interest rate to LIBOR plus 225 basis points; (b) a decrease in the Net Equity requirement by $50 million, to $100 million and (c) modifies the No Net Loss requirement from a quarterly to an annual basis. All other terms of the original agreement remain in effect. The Company has not borrowed against the facility and no amounts were outstanding as of June 30, 2016.

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**Note 10—Other Debt—CBC**

The Company assumed $25.9 million of debt related to the CBC acquisition (see Note 5) 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. On November 26, 2014, CBC completed its fourth private placement, backed by structured settlement and fixed annuity payments. CBC issued, through its subsidiary, BBR IV, LLC, approximately $21.8 million of fixed rate asset-backed notes with a yield of 5.4%. On September 25, 2015, CBC completed its fifth private placement, backed by structured settlement and fixed annuity payments. CBC issued, through its subsidiary, BBR V, LLC, approximately $16.6 million of fixed rate asset-backed notes with a yield of 5.1%. On July 8, 2016, CBC completed its sixth private placement, backed by structured settlements and fixed annuity payments. (see Note 21 – Subsequent Events).

As of June 30, 2016, the remaining debt amounted to $62.7 million, which consisted of $18.3 million drawdown from a line of credit from an institutional source and $44.4 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. The following table details the CBC debt at June 30, 2016 and September 30, 2015:

| | Interest Rate | | June 30, 2016 | September 30, 2015 |
|---|---|---|---|---|
| Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025 | 8.75 | % | $1,918,000 | $2,270,000 |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026 | 7.25 | % | 4,369,000 | 4,713,000 |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032 | 7.125 | % | 4,128,000 | 4,497,000 |
| Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2037 | 5.39 | % | 19,173,000 | 20,147,000 |

| | | | | |
|---|---|---|---|---|
| Notes payable secured by settlement receivables with principal and interest outstanding payable until March 2034 | 5.07 | % | 14,773,000 | 15,361,000 |
| Subtotal notes payable | | | 44,361,000 | 46,988,000 |
| $25,000,000 revolving line of credit expiring on March 1, 2017 | 4.1 | % | 18,306,000 | 4,623,000 |
| Total debt – CBC | | | $62,667,000 | $51,611,000 |

**Note 11—Commitments and Contingencies**

***Employment Agreements***

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 automatically extended by one year on each anniversary date of the Agreement.

On January 1, 2016, the Company renewed the expiring two-year employment agreements of the two CBC principals for additional one-year terms. The new agreements provide each of the two CBC principals with a base salary of $250,000. Other terms remain unchanged from the original agreements, including:

Sixty day notification required by either party to terminate the employment agreement; and

Standard non-compete clause during the term of the employment agreement and for two years thereafter (see Note 5—Acquisition of CBC).

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 11—Commitments and Contingencies** *(continued)*

***Leases***

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

***Legal Matters***

In June 2015, a punitive 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 Practice Act and Racketeer Influenced and Corrupt Organization 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 are contemplating the filing of another punitive 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 current settlement demand from plaintiffs is $4 million and the current counteroffer from the Company and its third-party law firm servicer is $3.875 million (which would be split equally between the Company and the law firm servicer). The Company and law firm servicer have also offered, as part of the current counteroffer, to cease collection activity on the affected accounts.

Accordingly, the Company set up a reserve for settlement costs of $2.0 million during the three months ended March 31, 2016, which was included in general and administrative expenses in the Company's statement of operations. The Company reassessed the situation as of June 30, 2016 and deemed that no change was necessary at that time.

In the ordinary course of the Company's business, it is involved in numerous legal proceedings. The Company regularly initiates collection lawsuits, using its network of third party law firms, against consumers. Also, consumers occasionally initiate litigation against the Company, in which they allege that the Company has violated a federal or state law in the process of collecting their account. The Company does not believe that these ordinary course matters are material to its business and financial condition. As of the date of this Form 10-Q, the Company is not involved in any other material litigation in which it is a defendant.

**Note 12—Income Recognition, Impairments, and Commissions and Fees**

***Income Recognition***

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

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

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

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 12—Income Recognition, Impairments, and Commissions and Fees** *(continued)*

***Income Recognition*** *(continued)*

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

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

CBC purchases 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 operations.

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

***Impairments***

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

In October 2014, the Company invested $5.0 million in Class A shares of the Topaz MP Fixed Income Fund ("Topaz Fund"), a closed end fund. The Topaz Fund invests indirectly in various portfolios of Non-Performing Small Consumer Loans. The objective of the fund is to obtain a fixed return cash flow representing interest on the invested capital. According to the investment memorandum of the fund, the Topaz Fund proposed to make semi-annual distributions of 14% annual compounded interest on June and December of each year. The December 2015 distribution, scheduled to be paid in February was not received by the Company. The Company received a letter from the fund's General Partner on April 12, 2016, explaining that the December distribution was not made due to the negative performance of the fund for the period June to December 2015.

For the nine months ended June 30, 2016, the Company recorded an impairment loss on this investment of $1.0 million, which is included in general and administrative expenses in the consolidated statements of operations. The carrying value of this investment amounted to $3,426,000 at June 30, 2016.

***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.

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 13—Income Taxes**

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.

Deferred federal and state taxes principally arise from (i) recognition of finance income collected for tax purposes, but not yet recognized for financial reporting; (ii) provision for impairments/credit losses; and (iii) stock based compensation expense for stock option grants and restricted stock awards recorded in the statement of operations for which no cash distribution has been made. Other components consist of state net operating loss ("NOL") carryforwards, which expire in September 2029. The New Jersey NOL carryforward balance as of June 30, 2016 was approximately $90.5 million. The provision for income tax expense for the three month periods ended June 30, 2016 and 2015 was $2,853,000 and $155,000, respectively. The provision for income tax expense for the nine month periods ended June 30, 2016 and 2015 was $2,461,000 and $901,000, respectively.

The corporate federal income tax returns of the Company for 2014 and 2015 are subject to examination by the Internal Revenue Service ("IRS") generally for three years after they are filed. The state income tax returns and other state filings of the Company are subject to examination by the state taxing authorities, for various periods, generally up to four years after they are filed.

Interest and penalties arising from uncertain tax positions are presented as a component of income taxes. $624,000 of interest was recognized in the Company's consolidated financial statements for 2015. On July 16, 2015, the Company made a payment to the IRS of approximately $13 million in anticipation of the conclusion of an examination by the IRS and in accordance with the notice of proposed adjustment, for the fiscal years September 30, 2009 through September 30, 2013. The adjustment is the result of a change in the accounting method for income tax purposes. Apart from the change in accounting method for income tax purposes, there were no disallowances or adjustments to other items of income, deductions, and credits to the tax returns under examination. The payment does not include approximately $624,000 of interest related to the tax year of the IRS adjustment, September 30, 2013, which has been accrued as of July 15, 2015, and was classified in the income tax line of the statements of operations. The Company has amended its federal tax return for the fiscal year ended September 30, 2014, to reflect the new accounting method for tax purposes. There is no state and local tax liability as a result of the federal tax examination; however the New

Jersey state NOL was adjusted to reflect the current year and revised previous year’s results. On December 1, 2015, the Company received notification that the Congressional Joint Committee on Taxation completed its consideration on the income tax returns and took no exception to the conclusions reached by the IRS.

The Company does not have any uncertain tax positions.

As a result of the IRS examination, the Company has amended its state tax returns for the same periods.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 14—Net Income per Share**

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

The following table presents the computation of basic and diluted per share data for the three months ended June 30, 2016 and 2015:

| | **Three Months Ended June 30, 2016** | | | **Three Months Ended June 30, 2015** | | |
|---|---|---|---|---|---|---|
| | **Net Income** | **Weighted Average Shares** | **Per Share Amount** | **Net Income** | **Weighted Average Shares** | **Per Share Amount** |
| Basic | $3,196,000 | 11,897,139 | $ 0.27 | $161,000 | 13,060,839 | $ 0.01 |
| Effect of Dilutive Stock | | 536,285 | (0.01) | | 252,567 | — |
| Diluted | $3,196,000 | 12,433,424 | $ 0.26 | $161,000 | 13,313,406 | $ 0.01 |

The following table presents the computation of basic and diluted per share data for the nine months ended June 30, 2016 and 2015:

| | **Nine Months Ended June 30, 2016** | | | **Nine Months Ended June 30, 2015** | | |
|---|---|---|---|---|---|---|
| | **Net Income** | **Weighted Average Shares** | **Per Share Amount** | **Net Income** | **Weighted Average Shares** | **Per Share Amount** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Basic | $3,171,000 | 12,023,156 | $ 0.26 | $876,000 | 13,044,905 | $ 0.07 |
| Effect of Dilutive Stock | | 270,917 | — | | 266,871 | — |
| Diluted | $3,171,000 | 12,294,073 | $ 0.26 | $876,000 | 13,311,776 | $ 0.07 |

For the three months ended June 30, 2016, 56,007 options at a weighted average exercise price of $12.55 were not included in the diluted earnings per share calculation as they were antidilutive.

For the nine months ended June 30, 2016, 186,082 options at a weighted average exercise price of $10.88 were not included in the diluted earnings per share calculation as they were antidilutive.

For the three months ended June 30, 2015, 442,500 options at a weighted average exercise price of $9.51 were not included in the diluted earnings per share calculation as they were antidilutive.

For the nine months ended June 30, 2015, 413,387 options at a weighted average exercise price of $9.59 were not included in the diluted earnings per share calculation as they were antidilutive.

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 15—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 statement of operations, rather than a disclosure in the notes to the Company's consolidated financial statements.

In February 2015, the Compensation Committee of the Board of Directors of the Company ("Compensation Committee") granted 45,400 options to employees of the Company. The exercise price of these options, issued on February 23, 2015, was at the market price on that date. The options generally vest in three equal annual installments and are accounted for as one graded vesting award. The weighted average assumptions used in the option pricing model were as follows:

| | |
|---|---|
| Risk-free interest rate | 0.12% |
| Expected term (years) | 5.9 |
| Expected volatility | 32.7% |
| Dividend yield | 0.00% |

On December 16, 2015, the Compensation Committee granted 67,100 stock options to non-officer employees of the Company, of which 9,100 options vested immediately and the remaining 58,000 stock options vest in three equal annual installments and accounted for as one graded vesting award. The exercise price of these options was at the market price on that date. The weighted average assumptions used in the option pricing model were as follows:

| | |
|---|---|
| Risk-free interest rate | 0.24% |
| Expected term (years) | 6.25 |
| Expected volatility | 23.4% |
| Dividend yield | 0.00% |

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

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

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**(Unaudited)**

**Note 16—Stock Option Plans**

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

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

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

The Company authorized 2,000,000 shares of Common Stock for issuance under the 2012 Plan. Under the 2012 Plan, the Company has granted options to purchase an aggregate of 484,200 shares, an award of 245,625 shares of restricted stock, and has cancelled 53,200 options, leaving 1,323,375 shares available as of June 30, 2016. As of June 30, 2016, approximately 112 of the Company's employees were able 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 allowed the Company flexibility with respect to equity awards by also providing for grants of stock awards (i.e. restricted or unrestricted), stock purchase rights and stock appreciation rights.

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

***2002 Stock Option Plan***

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

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

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

**Summary of the Plans**

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

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 16—Stock Option Plans** *(continued)*

The following table summarizes stock option transactions under the 2012 Plan, the 2002 Plan, and the Equity Compensation Plan:

| | Nine Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Number Of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding options at the beginning of period | 1,043,566 | $ 8.47 | 1,403,259 | $ 10.78 |
| Options granted | 67,100 | 7.93 | 45,400 | 8.37 |
| Options exercised | (107,531 ) | 8.11 | (60,000 ) | 7.83 |
| Options forfeited/cancelled | (8,300 ) | 8.14 | (344,259 ) | 17.99 |
| Outstanding options at the end of period | 994,835 | $ 8.47 | 1,044,400 | $ 8.47 |
| Exercisable options at the end of period | 874,826 | $ 8.51 | 861,725 | $ 8.41 |

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Number Of Shares | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
| Outstanding options at the beginning of period | 1,094,867 | $ 8.45 | 1,044,400 | $ 8.47 |
| Options granted | — | — | — | — |
| Options exercised | (100,032 ) | 8.24 | — | — |
| Options forfeited/cancelled | — | — | — | — |
| Outstanding options at the end of period | 994,835 | $ 8.47 | 1,044,400 | $ 8.47 |
| Exercisable options at the end of period | 874,826 | $ 8.51 | 861,725 | $ 8.41 |

The following table summarizes information about the 2012 Plan, 2002 Plan, and the Equity Compensation Plan outstanding options as of June 30, 2016:

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| | Number of Shares Outstanding | Weighted Remaining Contractual Life (in Years) | Weighted Average Exercise Price | Number of Shares Exercisable | Weighted Average Exercise Price |
| $2.8751 -$5.7500 | 3,900 | 2.8 | $ 2.95 | 3,900 | $ 2.95 |
| $5.7501 -$8.6250 | 827,934 | 5.7 | 7.97 | 707,925 | 7.93 |
| $8.6251 -$11.5000 | 148,001 | 6.6 | 9.39 | 148,001 | 9.39 |
| $11.5000-$28.7500 | 15,000 | 0.5 | 28.75 | 15,000 | 28.75 |
| | 994,835 | 5.7 | $ 8.47 | 874,826 | $ 8.51 |

The Company recognized $453,000 and $126,000 of compensation expense related to the stock option grants during the nine and three month periods ended June 30, 2016, respectively. The Company recognized $858,000 and $202,000 of compensation expense related to the stock option grants during the nine and three month periods ended June 30, 2015, respectively. As of June 30, 2016, there was $269,000 of unrecognized compensation cost related to stock option awards. The weighted average period over which such costs are expected to be recognized is 1.1 years.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 16—Stock Option Plans** *(continued)*

The intrinsic value of the outstanding and exercisable options as of June 30, 2016 was approximately $2,359,000 and $2,075,000, respectively. The weighted average remaining contractual life of exercisable options is 5.4 years. The intrinsic and fair value of the stock options exercised during the nine month periods ended June 30, 2016 was approximately $241,000 and $1,137,000, respectively. The intrinsic and fair value of the stock options exercised during the three month periods ended June 30, 2016 was approximately $221,000 and $1,057,000, respectively. The intrinsic and fair value of options exercised during the nine month period ended June 30, 2015 was approximately $76,000 and $525,000, respectively. There were no options exercised in the three month period ended June 30, 2015. The fair value of the stock options that vested during the nine and three month periods ended June 30, 2016 was approximately $1,368,000 and $120,000, respectively. The fair value of the stock options that vested during the nine and three month periods ended June 30, 2015 was approximately $3,145,000 and $95,000, respectively. The fair value of the options granted during the nine and three month periods ended June 30, 2016 was approximately $709,000 and $0, respectively. The fair value of the options granted during the nine and three month periods ended June 30, 2015 was approximately $405,000 and $0, respectively.

The following table summarizes information about restricted stock transactions:

| | **Nine Months Ended June 30,** | | | |
|---|---|---|---|---|
| | **2016** | | **2015** | |
| | **Number of Shares** | **Weighted Average Grant Date Fair Value** | **Number of Shares** | **Weighted Average Grant Date Fair Value** |
| Unvested at the beginning of period | 44,107 | $ 9.28 | 68,214 | $ 9.57 |
| Awards granted | 128,304 | 7.89 | 15,000 | 8.30 |
| Vested | (39,107 ) | 9.57 | (34,107) | 9.57 |
| Forfeited | — | — | — | — |
| Unvested at the end of period | 133,304 | $ 7.92 | 49,107 | $ 9.18 |

| | Three Months Ended June 30, 2016 | | 2015 | |
|---|---|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value | Number of Shares | Weighted Average Grant Date Fair Value |
| Unvested at the beginning of period | 138,304 | $ 7.92 | 49,107 | $ 9.18 |
| Awards granted | — | — | — | — |
| Vested | (5,000 ) | — | — | — |
| Forfeited | — | — | — | |
| Unvested at the end of period | 133,304 | $ 7.92 | 49,107 | $ 9.18 |

The Company recognized $114,000 and $13,000 of compensation expense related to the restricted stock awards during the nine and three month periods ended June 30, 2016, respectively. The Company recognized $278,000 and $93,000 of compensation expense related to the restricted stock awards during the nine and three month periods ended June 30, 2015, respectively. As of June 30, 2016, there was $81,000 of unrecognized compensation cost related to restricted stock awards. The weighted average remaining period over which such costs are recognized is 1.7 years. An aggregate of 5,000 shares of restricted stock was granted during the first nine months of fiscal year 2016, all of which were granted to a non-officer employee. The fair value of the restricted rewards granted during both the nine and three month periods ended June 30, 2015 was $125,000. The fair value of the awards vested during the nine month periods ended June 30, 2016 and 2015 was $326,000 in both periods.

The Company recognized an aggregate total of $567,000 and $139,000 in compensation expense for the nine and three month periods ended June 30, 2016, respectively, for the stock options and restricted stock grants. The Company recognized an aggregate total of $1,136,000 and $295,000 in compensation expense for the nine and three month periods ended June 30, 2015, respectively, for the stock options and restricted stock grants. As of June 30, 2016, there was a total of $350,000 of unrecognized compensation cost related to unvested stock options and restricted stock grants. The method used to calculate stock based compensation is the straight line pro-rated method.

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 17—Stockholders' Equity**

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 June 30, 2016, there were no such restrictions. No dividends were declared during the nine and three month periods ended June 30, 2016 and 2015.

On August 11, 2015, the Board of Directors approved the repurchase of up to $15,000,000 of the Company's common stock and authorized management of the Company to enter into the Shares Repurchase Plan under Sections 10b-18 and 10(b)5-1 of the Securities and Exchange Act ("the Shares Repurchase Plan"). The Shares Repurchase Plan was to have been effective to December 31, 2015. On December 17, 2015 the Board of Directors approved the extension of the Plan to March 31, 2016 and reset the maximum to an additional $15 million in repurchases. On March 17, 2016, having repurchased approximately $9.9 million of the Company's common stock, the Board of Directors approved further extension of the Plan to December 31, 2016 and reset the maximum to an additional $15 million in repurchases. On March 22, 2016, a Company shareholder commenced a tender offer on the Company's common stock. Per the provisions of the Shares Repurchase Plan, it terminated immediately, and no further purchases were permitted under the Shares Repurchase Plan. Through June 30, 2016, the Company purchased approximately 1,186,000 shares at an aggregate cost of approximately $10.1 million under the Shares Repurchase Plan. No shares were repurchased during the first nine months of fiscal year 2015.

On March 22, 2016, MPF InvestCo 4, LLC, a wholly owned subsidiary of The Mangrove Partners Master Fund, Ltd. ("Mangrove"), filed a Tender Offer Statement with the SEC, announcing the commencement of an unsolicited tender offer to acquire up to 3,000,000 shares of Asta common stock at price of $9.00 per share (the "Mangrove Offer"). The Mangrove Offer was sent to the holders of common stock of the Company. If the Offer were fully subscribed, the Mangrove Offer would represent approximately 25.0% of the issued and outstanding shares and would result in Mangrove owning an aggregate of approximately 5,102,427 shares, which would represent approximately 43.1% of outstanding shares, based on the 12,011,476 shares outstanding as of March 31, 2016.

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

On April 11, 2016, the Company commenced a Tender Offer to purchase of up to 3,000,000 shares of its common stock, pursuant to auction tenders at prices specified by the tendering shareholders of not greater than $10.25 per share nor less than $9.50 per share. The expiration date for the Company’s Tender Offer was May 12, 2016. On May 12, 2016, the Company repurchased 274,284 shares at a price of $10.25 per share, for an aggregate cost of $2,811,411.

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

On May 25, 2016, the Company entered into a Mutual Confidentiality Agreement (the “Agreement”) with Mangrove, pursuant to which Mangrove and the Company agreed to (1) provide certain Confidential Information (as defined below) to the other party to the Agreement and the other party’s representatives, (2) the confidentiality of the Confidential Information, and (3) certain restrictions on the activities of the parties to the Agreement.

As of June 30, 2016, Mangrove due to their ownership in the Company's common stock, which was acquired in a series of OTC transactions, was deemed to be a related party.

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**(Unaudited)**

**Note 17—Stockholders' Equity**

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

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

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 18—Fair Value of Financial Measurements and Disclosures**

***Disclosures about Fair Value of Financial Instruments***

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

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

| | June 30, 2016 | | September 30, 2015 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Cash and cash equivalents (Level 2) | $17,111,000 | $17,111,000 | $24,315,000 | $24,315,000 |
| Available-for-sale investments (Level 1) | 56,744,000 | 56,744,000 | 59,727,000 | 59,727,000 |
| Consumer receivables acquired for liquidation (Level 3) | 14,540,000 | 44,752,000 | 15,608,000 | 31,339,000 |
| Structured settlements (Level 3) | 79,884,000 | 79,884,000 | 64,635,000 | 64,635,000 |
| Other investments, net (1) | 3,426,000 | 3,426,000 | 4,239,000 | 4,239,000 |
| Financial liabilities | | | | |
| Other debt – CBC, revolving line of credit (Level 3) | 18,306,000 | 18,306,000 | 4,623,000 | 4,623,000 |
| Other debt – CBC, non-recourse notes payable with varying installments (Level 3) | 44,361,000 | 44,361,000 | 46,988,000 | 46,988,000 |

(1) The Company has elected to early adopt ASU 2015-07 and in accordance with ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair

value hierarchy to the amounts presented in the consolidated balance sheet.

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 and cash equivalents – The carrying amount of cash and cash equivalents approximates fair value.

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

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

Structured settlements – The Company determined the fair value based on the discounted forecasted future collections of the structured settlements. Unrealized gains 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 $4.6 million of unrealized gains recognized in the nine month period ended June 30, 2016, approximately $5.8 million is due to day one gains on new structured settlements financed during the period, offset by a decrease of $1.2 million in realized gains recognized as realized interest income on structured settlements during the period. There were no other changes in assumptions during the period.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

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**(Unaudited)**

**Note 18—Fair Value of Financial Measurements and Disclosures** *(continued)*

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

Other debt CBC, revolving line of credit – The Company determined the fair value based on similar instruments in the market.

Other debt CBC, notes payable with varying installments – The fair value at June 30, 2016 was based on the discounted forecasted future collections of the structured settlements.

***Fair Value Hierarchy***

The Company recorded its available-for-sale investments at estimated fair value on a recurring basis. The accompanying consolidated financial statements include estimated fair value information regarding its available-for-sale investments as of June 30, 2016, as required by FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

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

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

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

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

The Company's available-for-sale investments are classified as Level 1 financial instruments based on the classifications described above. The Company did not have transfers into or (out of) Level 1 investments during the nine month period ended June 30, 2016. The Company had no Level 2 or Level 3 available-for-sale investments during the first nine months of fiscal year 2016.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 18—Fair Value of Financial Measurements and Disclosures** *(continued)*

***Fair Value Hierarchy*** *(continued)*

The following table sets forth the Company's quantitative information about its Level 3 fair value measurements as of June 30, 2016:

| | Fair Value | Valuation Technique | Unobservable Input | Rate |
|---|---|---|---|---|
| Structured settlements at fair value | $79,884,000 | Discounted cash flow | Discount rate | 5.07% |

The changes in structured settlements at fair value using significant unobservable inputs (Level 3) during the nine months ended June 30, 2016 were as follows:

| | |
|---|---|
| Balance at September 30, 2015 | $64,635,000 |
| Total gains included in earnings | 4,586,000 |
| Purchases | 12,264,000 |
| Sales | — |
| Interest accreted | 3.907,000 |
| Payments received | (5,508,000 ) |
| Total | $79,884,000 |
| The amount of total gains for the nine months ended June 30, 2016 included in earnings attributable to the change in unrealized gains (losses) relating to assets held at June 30, 2016 | $4,586,000 |

Realized and unrealized gains and losses included in earnings in the accompanying consolidated statements of operations for the nine months ended June 30, 2016 are reported in the following revenue categories:

| | |
|---|---|
| Total gains (losses) included in the nine months ended June 30, 2016 | $4,586,000 |
| Change in unrealized gains (losses) relating to assets still held at June 30, 2016 | $4,586,000 |

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 19—Segment Reporting**

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

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

- *Personal injury claims* – Pegasus Funding, LLC, an 80% owned subsidiary, purchases interests in personal injury claims from claimants who are a party to personal injury litigation. Pegasus advances to each claimant funds on a non-recourse basis at an agreed upon interest rate, in anticipation of a future settlement. The interest in each claim purchased by Pegasus consists of the right to receive, from such claimant, part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant's claim.

- *Structured settlements* – CBC purchases periodic structured settlements and annuity policies from individuals in exchange for a lump sum payment.

- *GAR Disability Advocates* is a non-attorney advocacy group which represents individuals nationwide in their claims for social security disability and supplemental security income benefits from the Social Security Administration.

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

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 19—Segment Reporting**

The following table shows results by reporting segment for the three and nine month period ended June 30, 2016 and 2015.

| (Dollars in millions) | **Consumer Receivables** | **Personal Injury Claims** | **Structured Settlements** | **GAR Disability Advocates** | **Corporate** | **Total Company** |
|---|---|---|---|---|---|---|
| Three Months Ended June 30, 2016: | | | | | | |
| Revenues | $ 4.6 | $ 9.8 | $ 3.2 | $ 1.2 | $ — | $ 18.8 |
| Other income | — | — | — | — | 0.2 | 0.2 |
| Segment profit (loss) | 5.8 | 7.7 | 1.0 | (1.8) | (5.1) | 7.6 |
| 2015: | | | | | | |
| Revenues | 5.2 | 1.7 | 2.6 | 0.5 | — | 10.0 |
| Other income | — | — | — | — | 0.2 | 0.2 |
| Segment profit (loss)(1) | 3.2 | (0.3) | 0.5 | (1.4) | (1.6) | 0.4 |
| Nine Months Ended June 30, 2016: | | | | | | |
| Revenues | 14.7 | 14.8 | 9.0 | 2.7 | — | 41.2 |
| Other income | — | — | — | — | 1.1 | 1.1 |
| Segment profit (loss) | 10.6 | 10.0 | 2.4 | (6.3) | (8.9) | 7.8 |
| Segment Assets(2) | 19.4 | 45.3 | 76.4 | 1.6 | 103.1 | 245.8 |
| 2015: | | | | | | |
| Revenues | 15.7 | 6.1 | 7.6 | 0.9 | — | 30.3 |
| Other income | — | — | — | — | 1.2 | 1.2 |
| Segment profit (loss)(1) | 10.2 | (0.5) | 1.4 | (4.0) | (5.1) | 2.0 |
| Segment Assets(2) | 19.9 | 38.2 | 54.8 | 2.5 | 118.3 | 233.7 |

The Company does not have any intersegment revenue transactions and has reallocated expenses between segments.

(1) Third quarter of fiscal year 2015 was revised to reflect the proper period of recognizing the unrealized foreign exchange loss on other investments.

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

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 20—Related Party Transactions**

Piccolo Business Advisory (“Piccolo”), which is owned by Louis Piccolo, a director of the Company, provides consulting services which include, but are not limited to, analysis of proposed debt and equity transactions, due diligence and financial analysis and management consulting services. The Company paid Piccolo $20,000 and $60,000, respectively, for the three and nine months ended June 30, 2016. The Company made no payments to Piccolo during the three and nine months ended June 30, 2015.

In addition, A. L. Piccolo & Co., Inc. (“ALP”), which is also owned by Louis Piccolo, receives a fee from Pegasus which is calculated based on amounts loaned to Pegasus by Fund Pegasus up to maximum of $700,000. The fee is payable over six years including interest at 4% per annum from Pegasus during the term of the Pegasus Operating Agreement that expires December 28, 2016, and, thereafter, by PLF and its affiliates. For both the three and nine months ended June 30, 2016 and 2015, Pegasus paid ALP $33,000 and $100,000, respectively, which includes fees and interest paid during the periods. As of June 30, 2016, the Company owed Piccolo $224,000, which has been recorded in other liabilities on the Company’s consolidated balance sheet.

On July 1, 2015, Mr. Arthur Stern, former Chairman Emeritus of the Company, retired from the Board of Directors and became a consultant to the Company. As of April 30, 2016, the consulting agreement with Mr. Stern was terminated. For the three and nine months ended June 30, 2016, Mr. Stern was paid $13,000 and $88,000, respectively.

**Note 21—Subsequent Events**

On July 8, 2016, CBC completed its sixth private placement, backed by structured settlement and fixed annuity payments. CBC issued, through its subsidiary, BBR VI, LLC, approximately $14.8 million of fixed asset-backed notes, with a yield of 4.85% and a maturity date of January 15, 2057. The original loan balance at the time of closing was approximately $13.7 million (see Note 10 – Other Debt – CBC).

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

### Caution Regarding Forward Looking Statements

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

*We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors which could materially affect our results and our future performance include, without limitation, our ability to purchase defaulted consumer receivables at appropriate prices, changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables, our ability to employ and retain qualified employees, changes in the credit or capital markets, changes in interest rates, deterioration in economic conditions, negative press regarding the debt collection industry which may have a negative impact on a debtor's willingness to pay the debt we acquire, and statements of assumption underlying any of the foregoing, as well as other factors set forth under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015 and Item 1A of this Quarterly Report on Form 10-Q.*

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

### Overview

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC ("Palisades XVI"), VATIV Recovery Solutions LLC ("VATIV"), ASFI Pegasus Holdings, LLC ("APH"), Fund Pegasus, LLC ("Fund Pegasus"), GAR Disability Advocates, LLC ("GAR Disability Advocates"), CBC Settlement Funding, LLC ("CBC") and other subsidiaries, not all wholly owned (the "Company," "we" or "us"), is engaged in several business segments in the financial services industry including structured settlements, through our wholly owned subsidiary CBC, funding of personal injury claims, through our 80% owned subsidiary Pegasus Funding, LLC ("Pegasus"), social security and disability advocates, through our wholly owned subsidiary GAR Disability Advocates and the business of purchasing, servicing and managing for its own account, distressed consumer receivables, including charged off receivables, and semi-performing receivables. The Company started out in the consumer receivable business in 1994 as a subprime auto lender. The primary charged-off receivables are accounts that have been written-off by the originators and may have been previously serviced by collection agencies. Semi-performing receivables are accounts where the debtor is currently making partial or irregular monthly payments, but the accounts may have been written-off by the originators. Our more recent efforts in this area have been in the international arena, as we have discontinued our active purchasing of consumer receivables in the United States. We acquire these and other consumer receivable portfolios at substantial discounts to their face values. The discounts are based on the characteristics (issuer, account size, debtor location and age of debt) of the underlying accounts of each portfolio.

The Company owns 80% of Pegasus, which invests in funding personal injury claims. Pegasus provides funding for individuals in need of short term funds pending insurance settlements of their personal injury claims. The funds are recouped when the underlying insurance settlements are paid. The long periods of time taken by insurance companies to settle and pay such claims resulting from lengthy litigation and the court process is fueling the demand for such funding.

CBC invests in structured settlements and provides liquidity to consumers by purchasing certain deferred payment streams including, but not limited to, structured settlements and annuities. CBC generates business from direct marketing as well as through wholesale purchases from brokers or other third parties. CBC has its principal office in Conshohocken, PA. CBC primarily warehouses the receivables it originates and periodically resells or securitizes those assets on a pooled basis. The structured settlement marketplace is regulated by federal and state law, requiring that each transaction is reviewed and approved by court order.

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

The Company operates principally in the United States in four reportable business segments.

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**Financial Information About Operating Segments**

The Company operates through strategic business units that are aggregated into four reportable segments consisting of the following:

- *Consumer receivables* – segment is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged off and semi-performing receivables, primarily in the international sector. The charged-off receivables are accounts that have been written-off by the originators and may have been previously serviced by collection agencies. Semi-performing receivables are accounts where the debtor is currently making partial or irregular monthly payments, but the accounts may have been written-off by the originators. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. These receivables were acquired at substantial discounts to their face values. The discounts are based on the characteristics (issuer, account size, debtor location and age of debt) of the underlying accounts of each portfolio. Litigation related receivables are semi-performing investments whereby the Company is assigned the revenue stream from the proceeds received. The business conducts its activities primarily under the name Palisades Collection, LLC.

- *Personal injury claims* – Pegasus, an 80% owned subsidiary, purchases interests in personal injury claims from claimants who are a party to personal injury litigation. Pegasus advances to each claimant funds on a non-recourse basis at an agreed upon interest rate, in anticipation of a future settlement. The interest in each claim purchased by Pegasus consists of the right to receive, from such claimant, part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant's claim.

- *Structured settlements* – CBC purchases periodic structured settlements and annuity policies from individuals in exchange for a lump sum payment.

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

Three of the Company's business segments accounted for 10% or more of consolidated net revenue for the three and nine month periods ended June 30, 2016 and 2015. The following table summarizes total revenues by percentage from the four lines of business for the three and nine month periods ended June 30, 2016 and 2015:

| | Three Month Periods Ended June 30, | | Nine Month Periods Ended June 30, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Finance income (consumer receivables) | 24.5 % | 51.4 % | 35.6 % | 51.9 % |
| Personal injury claims | 52.3 % | 17.2 % | 35.8 % | 20.1 % |
| Structured settlements | 17.0 % | 25.9 % | 22.0 % | 25.0 % |
| GAR Disability Advocates | 6.2 % | 5.5 % | 6.6 % | 3.0 % |
| Total revenues | 100.0% | 100.0% | 100.0% | 100.0% |

The Company has no reportable segment information from international operations.

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**Financial Information About Operating Segments** *(continued)*

Information about the results of each of the Company's reportable segments for the three and nine month periods ended June 30, 2016 and 2015, reconciled to the consolidated results, is set forth below:

| (Dollars in millions) | Consumer Receivables | Personal Injury Claims | Structured Settlements | GAR Disability Advocates | Corporate | Total Company |
|---|---|---|---|---|---|---|
| Three Months Ended June 30, 2016: | | | | | | |
| Revenues | $ 4.6 | $ 9.8 | $ 3.2 | $ 1.2 | $ — | $ 18.8 |
| Other income | — | — | — | — | 0.2 | 0.2 |
| Segment profit (loss) | 5.8 | 7.7 | 1.0 | (1.8) | (5.1) | 7.6 |
| 2015: | | | | | | |
| Revenues | 5.2 | 1.7 | 2.6 | 0.5 | — | 10.0 |
| Other income | — | — | — | — | 0.2 | 0.2 |
| Segment profit (loss)(1) | 3.2 | (0.3) | 0.5 | (1.4) | (1.6) | 0.4 |
| Nine Months Ended June 30, 2016: | | | | | | |
| Revenues | 14.7 | 14.8 | 9.0 | 2.7 | — | 41.2 |
| Other income | — | — | — | — | 1.1 | 1.1 |
| Segment profit (loss) | 10.6 | 10.0 | 2.4 | (6.3) | (8.9) | 7.8 |
| Segment Assets(2) | 19.4 | 45.3 | 76.4 | 1.6 | 103.1 | 245.8 |
| 2015: | | | | | | |
| Revenues | 15.7 | 6.1 | 7.6 | 0.9 | — | 30.3 |
| Other income | — | — | — | — | 1.2 | 1.2 |
| Segment profit (loss)(1) | 10.2 | (0.5) | 1.4 | (4.0) | (5.1) | 2.0 |
| Segment Assets(2) | 19.9 | 38.2 | 54.8 | 2.5 | 118.3 | 233.7 |

The Company does not have any intersegment revenue transactions and has reallocated expenses between segments.

(1) Third quarter of fiscal year 2015 was revised to reflect the proper period of recognizing the unrealized foreign exchange loss on other investments.

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

***Consumer Receivables***

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

- *charged-off receivables* — accounts that have been written-off by the originators and may have been previously serviced by collection agencies; and
- *semi-performing receivables* — accounts where the debtor is making partial or irregular monthly payments, but the accounts may have been written-off by the originators.

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

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

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

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***Litigation Funding Business***

On December 28, 2011, the Company purchased an 80% interest in Pegasus. Pegasus Legal Funding ("PLF") holds the other 20% interest. The Company is committed to loan up to $22.4 million per year to Pegasus for a term of five years, all of which is secured by the assets of Pegasus. These loans will provide financing for the personal injury litigation claims and operating expenses of Pegasus.

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

Pegasus's profits and losses are distributed at 80% to the Company and 20% to PLF. These distributions are made only after the repayment of Fund Pegasus' principal amount loaned, plus an amount equal to advances for overhead expenses. As of June 30, 2016, the Company's net investment in personal injury cases was approximately $43.7 million.

On May 18, 2012, BP Case Management, LLC ("Balance Point") was formed, a joint venture (the "Venture") with California-based Balance Point Divorce Funding, LLC ("Balance Point Management"). 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. Balance Point's profits and losses are distributed 60% to us and 40% to Balance Point Management, after the return of our investment on a case by case basis and after a 15% preferred return to us. Our 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 our 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 our 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 our priority to a 15% preferred return. As of June 30, 2016, we have invested $3.1 million in cases managed by the Venture.

In 2012, we provided a $1.0 million revolving line of credit to partially fund Balance Point Management'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 Balance Point management. The revolving line of credit is collateralized by Balance Point management's profits share in the venture and other assets. At June 30, 2016, the balance in the revolving line of credit was approximately $1.4 million.

***Structured Settlement Business***

On December 31, 2013, the Company acquired 80% ownership of CBC and its affiliate, CBC Management Services, LLC, for approximately $5.9 million. In addition, the Company agreed to provide financing to CBC of up to $5.0 million, amended to $7.5 million in March 2015. On December 31, 2015, the Company acquired the remaining 20% ownership of CBC for $1.8 million, through the issuance of restricted stock valued at $1.0 million and $800,000 in cash. Each of the two original principals received 61,652 shares of restricted stock at an agreed upon market price of $8.11 and $400,000 in cash. An aggregate of 123,304 shares of restricted stock were issued.

CBC purchases periodic payments under structured settlements and annuity policies from individuals in exchange for a lump sum payment. The operating principals of CBC, William J. Skyrm, Esq. and James Goodman, have over 30 years combined experience in the structured settlement industry.

CBC has a portfolio of structured settlements which is financed by approximately $62.7 million of debt, consisting of an $18.3 million line of credit with an institutional source and $44.4 million in notes issued by CBC to third party investors.

***Disability Advocacy Business***

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

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**Critical Accounting Policies**

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

- the interest method; or
- the cost recovery method.

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

The Company accounts for certain of its investments in finance receivables using the interest method under the guidance of FASB Accounting Standards Codification (“ASC”), Receivables — Loans and Debt Securities Acquired with Deteriorated Credit Quality, (“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. Due to the substantial reduction of portfolios reported under the interest method, and the inability to reasonably estimate cash collections required to account for those portfolios under the interest method, the Company concluded the cost recovery method is the appropriate accounting method under the circumstances.

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

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

The Company accounts for its investments in personal injury claims at an agreed upon interest rate, in anticipation of a future settlement. The interest purchased by Pegasus in each claim consists of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or 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.

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

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

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

**Results of Operations**

**Nine Months Ended June 30, 2016, Compared to the Nine Months Ended June 30, 2015**

*Finance income*. For the nine months ended June 30, 2016, finance income decreased $1.0 million, or 6.5%, to $14.7 million from $15.7 million for the nine months ended June 30, 2015. For the nine months ended June 30, 2016 and 2015, the Company purchased $123.2 million and $28.0 million of face value portfolios at a cost of $6.5 million and $2.0 million, respectively. Net collections for the nine months ended June 30, 2016 decreased 22.3% to $22.0 million from $28.3 million for the nine months ended June 30, 2015. For the nine months ended June 30, 2016, gross collections decreased 22.3%, or $9.7 million, to $34.0 million from $43.7 million for the nine months ended June 30, 2015. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $3.4 million, or 22.2%, to $12.0 million for the nine months ended June 30, 2016 compared to $15.4 million for the nine months ended June 30, 2015. Commissions and fees for the nine months ended June 30, 2016 and 2015, remained consistent at 35.4% of gross collections.

*Personal injury claims income*. For the nine months ended June 30, 2016, personal injury claims income increased $8.7 million, or 142.8%, from $6.1 million in the prior year period to $14.8 million, as a result of additional interest income earned on its investment in personal injury claims. Additionally, investment in personal injury claims in fiscal year 2014 translated into more closed cases in the fiscal year 2016 period than the same prior year period (cases take an average of 18 months to mature).

*Structured settlement income.* Structured settlement income of $9.1 million includes $4.6 million of unrealized gains and $4.5 million of interest income for the nine months ended June 30, 2016. Structured settlement income of $7.6 million included $4.3 million of unrealized gains and $3.3 million of interest income for the nine months ended June 30, 2015. This increase in income is the result of increased investments in structured settlements in the current fiscal year. 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 $4.6 million of unrealized gains recognized for the nine months ended June 30, 2016, approximately $5.8 million is due to day one gains on new structured settlements financed during the period, offset by a decrease of $1.2 million in realized gains recognized as interest income on structured settlements during the period. There were no other changes in assumptions during the period.

*Disability fee income.* Disability fee income increased $1.8 million, or 200%, from $0.9 million for the nine months ended June 30, 2015 to $2.7 million for the nine months ended June 30, 2016, due to an increase in closed cases.

*Other income.* The following table summarizes other income for the nine months ended June 30, 2016 and 2015:

| | June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Interest and dividend income | $866,000 | $789,000 |
| Realized loss | (16,000) | 114,000 |
| Other | 258,000 | 313,000 |
| | $1,108,000 | $1,216,000 |

*General and administrative expenses.* For the nine months ended June 30, 2016, general and administrative expense increased $4.2 million, or 15.3%, to $32.0 million from $27.8 million for the nine months ended June 30, 2015, primarily attributable to expected settlement costs, $2.0 million, increased personnel costs, $2.8 million, primarily related to the growth of GAR Disability Advocates, reserve for loss on other investments, $1.0 million, and increased professional fees, $0.6 million, partially offset by foreign exchange gains, $0.9 million, decreased outside services costs, $0.7 million, and stock based compensation expense, $0.6 million.

*Interest expense*. For the nine months ended June 30, 2016, interest expense increased $0.6 million to $2.3 million from $1.7 million for the nine months ended June 30, 2015. The increased interest expense is attributable to the additional CBC debt raised in the prior fiscal year in support of the increased investment in structured settlements.

*Segment profit – Consumer Receivables*. Segment profit increased $0.4 million to $10.6 million for the nine months ended June 30, 2016 from $10.2 million for the nine months ended June 30, 2015. The improved results were attributable to decreased foreign exchange losses, $0.9 million, and other expenses, partially offset by a class action suit settlement of $2.0 million during the current period.

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*Segment profit (loss) – Personal Injury Claims*. Segment profit was $10.0 million for the nine months ended June 30, 2016 as compared to a ($0.5) million segment loss for the nine months ended June 30, 2015. The improved results are attributable to increased revenues, $8.7 million, decreased general and administrative expenses, $1.8 million, primarily bad debt expense, $0.8 million, and outside services, $0.8 million.

*Segment profit – Structured Settlements*. Segment profit was $2.4 million for the nine months ended June 30, 2016 compared to $1.4 million for the nine months ended June 30, 2015. The increase in profit was substantially attributed to increased revenues for the period.

*Segment loss – GAR Disability Advocates*. Segment loss was $6.3 million for the nine months ended June 30, 2016 as compared to a $4.0 million segment loss for the nine months ended June 30, 2015. GAR Disability Advocates is continuing to build the business and has increased costs associated with acquiring disability cases, marketing and servicing its clients in the current year compared to the prior year. These costs were comprised of increased personnel costs, $2.4 million, advertising, $0.8 million, and postage, $0.2 million, partially offset by increased revenues $1.8 million.

*Income tax expense*. Income tax expense, consisting of federal and state income taxes, for the nine months ended June 30, 2016, was $2.5 million as compared to $0.9 million for the nine months ended June 30, 2015. The increase in income tax expense is attributed to the increase in taxable income for the nine months ended June 30, 2016. The state portion of the income tax provision for the first nine months of fiscal years 2016 and 2015 has been offset against state net operating loss carryforwards, and, as a result, no state taxes are currently payable.

*Net income.* As a result of the above, the Company had net income for the nine months ended June 30, 2016 and 2015 of $5.3 million, and $1.1 million, respectively.

*Income attributable to non-controlling interest.* The income attributable to non-controlling interest of $2.2 million is the portion of results attributable to Pegasus and CBC for the nine months ended June 30, 2016 as compared to $0.2 million for the nine months ended June 30, 2015.

*Net income attributable to Asta Funding, Inc.* Net income attributable to Asta Funding, Inc. was $3.2 million for the nine months ended June 30, 2016 as compared to net income of $0.9 million for the nine months ended June 30, 2015.

The following tables detail non-controlling interest for the nine months ended June 30, 2016 and 2015:

| | Nine Months Ended June 30, 2016 | | | Nine Months Ended June 30, 2015 | | |
|---|---|---|---|---|---|---|
| | **Pegasus Funding, LLC** | **CBC Settlement Funding, LLC** | **Total Non-Controlling Interests** | **Pegasus Funding, LLC** | **CBC Settlement Funding, LLC** | **Total Non-Controlling Interests** |
| Balance, beginning of period | $(1,768,000) | $771,000 | $ (997,000) | $(783,000) | $70,000 | $ (713,000) |
| Purchase of subsidiary shares from non-controlling interest | — | (927,000) | (927,000) | — | — | — |
| Income from non-controlling interest | 2,005,000 | 156,000 | 2,161,000 | (93,000) | 286,000 | 193,000 |
| Distributions to non-controlling interest | (1,139,000) | — | (1,139,000) | (754,000) | — | (754,000) |
| Balance, end of period | $(902,000) | $— | $ (902,000) | $(1,630,000) | $356,000 | $ (1,274,000) |

The non-controlling interests are related to Pegasus and CBC. The distribution to non-controlling interests is the distributions made to the 20% non-controlling interest owners of Pegasus. The distribution, based upon the profitability of the closed personal injury cases using the formula included in the operating agreement signed December 28, 2011, as revised, are calculated with a 20% deduction for overhead expenses of the Pegasus Funding operation unit and a 20% write off of the personal injury cases deemed to be lost. The 20% write off amount is deducted directly from the distribution amount. Distributions have been greater than the net income attributable to Asta Funding, primarily due to bad debt reserves reducing the net income attributable to Asta Funding, but not specifically factored into the formula to determine the distributions to non-controlling interest owners based on the operating agreement. Ultimately, this timing difference will reverse when personal injury cases are actually written-off. No distributions have been made to CBC. On December 31, 2015, the Company acquired the remaining 20% ownership of CBC for $1.8 million, through the issuance of restricted stock valued at $1.0 million and $800,000 in cash. Each of the two original principals received 61,652 shares of restricted stock at an agreed upon market price of $8.11 and $400,000 in cash. An aggregate of 123,304 shares of restricted stock was issued.

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**Three Months Ended June 30, 2016, Compared to the Three-Months Ended June 30, 2015**

*Finance income*. For the three months ended June 30, 2016, finance income decreased $0.6 million, or 10.6%, to $4.6 million from $5.2 million for the three months ended June 30, 2015. During the third quarter ended June 30, 2016 and 2015, the Company purchased $2.2 million and $3.6 million of face value portfolios at a cost of $0.3 million and $0.4 million, respectively. Net collections for the three months ended June 30, 2016 decreased 18.8% to $7.2 million from $8.8 million for the three months ended June 30, 2015. For the three months ended June 30, 2016 gross collections decreased 20.3% or $2.9 million to $11.1 million from $14.0 million for the three months ended June 30, 2015. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased to $3.9 million for the three months ended June 30, 2016 from $5.1 million for the three months ended June 30, 2015. Commissions and fees amounted to 35.3% of gross collections for the three months ended June 30, 2016, compared to 36.5% for the three months ended June 30, 2015 resulting from lower commissionable collections in the current year.

*Personal injury claims income*. For the three months ended June 30, 2016, personal injury claims income increased $8.1 million to $9.8 million from $1.7 million for the three months ended June 30, 2015, as a result of additional interest income earned on its investment in personal injury claims**.**

*Structured settlement income.* Structured settlement income of $3.2 million includes $1.4 million of unrealized gains and $1.8 million of interest income for the three months ended June 30, 2016. Structured settlement income of $2.6 million included $1.2 million of unrealized gains and $1.4 million of interest income for the three months ended June 30, 2015. This increase in income is the result of increased investments in structured settlements in the current year. 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 $1.4 million of unrealized gains recognized for the three months ended June 30, 2016, approximately $1.8 million is due to day one gains on new structured settlements financed during the period, offset by a decrease of $0.4 million in realized gains recognized as interest income on structured settlements during the period. There were no other changes in assumptions during the period.

*Disability Fee income.* Disability fee income increased $0.6 million, or 100%, to $1.2 million for the three months ended June 30, 2016 from $0.6 million for the three months ended June 30, 2015, due to an increase in closed cases.

*Other income.* The following table summarizes other income for the three months ended June 30, 2016 and 2015:

June 30,

| | 2016 | 2015 |
|---|---|---|
| Interest and dividend income | $199,000 | $375,000 |
| Realized gain (loss) | (32,000 ) | (159,000) |
| Other | 48,000 | (31,000 ) |
| | $215,000 | $185,000 |

*General and administrative expenses.* For the three months ended June 30, 2016, general and administrative expense increased $1.4 million, or 15.4 %, to $10.6 million from $9.2 million for the three months ended June 30, 2015, primarily due to an increase in bad debt expense, $0.4 million, and increased personnel costs; $1.0 million primarily related to the growth of GAR Disability Advocates.

*Interest expense*. For the three months ended June 30, 2016, interest expense increased $0.2 million to $0.8 million from $0.6 million for the three months ended June 30, 2015. The increased interest expense is a result of the additional CBC debt required to expand the investment in structured settlements.

*Segment profit – Consumer Receivables*. Segment profit increased $2.6 million to $5.8 million for the three months ended June 30, 2016 from $3.2 million for the three months ended June 30, 2015, as a result decreased expenses, $3.2 million, partially offset by decreased revenues $0.6 million.

*Segment profit (loss)– Personal Injury Claims*. Segment profit was $7.7 million for the three months ended June 30, 2016 as compared to a $0.3 segment loss for the three months ended June 30, 2015. The improved results are primarily attributable to higher revenues in the current year period, $8.1 million, attributed to interest income earned on its personal injury claims.

*Segment profit – Structured Settlements*. Segment profit was $1.0 million for the three months ended June 30, 2016 compared to $0.5 million for the three months ended June 30, 2015. The $0.5 million increase is a result of higher revenues derived from the increased investment in Structured Settlements.

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*Segment loss – GAR Disability Advocates*. The Segment loss was $1.8 million for the three months ended June 30, 2016 as compared to a $1.4 million segment loss for the three months ended June 30, 2015. GAR Disability Advocates is continuing to build the business through increased costs associated with marketing and servicing its clients in the current period compared to the prior year period. These expenses were attributable to increased payroll related costs, $0.6 million, advertising costs, 0.2 million, and other operating expenses, net, $0.2 million, partially offset by higher revenues in the current period, $0.6 million.

*Income tax expense*. Income tax expense, consisting of federal and state components, for three months ended June 30, 2016, was $2.9 million as compared to $0.3 million for the three months ended June 30, 2015.

*Net income.* As a result of the above, the Company had net income for the three months ended June 30, 2016 and 2015 of $4.7 million and $0.2 million, respectively.

*Income attributable to non-controlling interest.* The income attributable to non-controlling interest of $1.5 million is the portion attributable to Pegasus for the three months ended June 30, 2016 as compared to $92,000 for the three months ended June 30, 2015.

*Net income attributable to Asta Funding, Inc.* Net income attributable to Asta Funding, Inc. was $3.2 million for the three months ended June 30, 2016 as compared to net income of $0.2 million for the three months ended June 30, 2015.

The following table details non-controlling interest for the three months ended June, 2016 and 2015:

| | **Three Months Ended June 30, 2016** | | | **Three Months Ended June 30, 2015** | | |
|---|---|---|---|---|---|---|
| | **Pegasus Funding, LLC** | **CBC Settlement Funding, LLC** | **Total Non-Controlling Interests** | **Pegasus Funding, LLC** | **CBC Settlement Funding, LLC** | **Total Non-Controlling Interests** |
| Balance, beginning of period | $(2,101,000) | $ — | $ (2,101,000) | $(1,326,000) | $ 248,000 | $ (1,078,000) |
| Income from non-controlling interest | 1,549,000 | — | 1,549,000 | (16,000) | 108,000 | 92,000 |
| Distributions to non-controlling interest | (350,000) | — | (350,000) | (288,000) | — | (288,000) |
| Balance, end of period | $(902,000) | $ — | $ (902,000) | $(1,630,000) | $ 356,000 | $ (1,274,000) |

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**Liquidity and Capital Resources**

Our primary source of cash from operations is collections on the receivable portfolios we have acquired and the funds generated from the Pegasus and CBC business segments. Our primary uses of cash include repayments of debt, our purchases of consumer receivable portfolios, interest payments, costs involved in the collections of consumer receivables, funding of the GAR Disability Advocates operations, taxes and dividends, if approved. In the past, we relied significantly upon our lenders to provide the funds necessary for the purchase of consumer receivables acquired for liquidation.

*Receivables Financing Agreement ("RFA")*

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

On August 7, 2013, Palisades XVI, a 100% owned bankruptcy remote subsidiary, entered into a Settlement 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. BMO also agreed that if and when BMO were to receive the next $15 million of collections from the Portfolio Purchase (the "Remaining Amount"), less certain credits for payments made prior to the consummation of the Settlement Agreement, the Company would be entitled to recover from future net collections the $15 million prepayment that it funded. Thereafter, BMO would have the right to receive 30% of future net collections. Upon repayment of the Remaining Amount to BMO, the Company would be released from the remaining contractual obligation of the RFA and the Settlement Agreement.

On June 3, 2014, Palisades XVI 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 June 30, 2016, the Company recorded a liability to BMO of approximately $109,000 which represents 30% of the net collection after $16.9 million collections were received. The funds were subsequently remitted to BMO on July 11, 2016.

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

On May 2, 2014, the Company obtained a $20 million line of credit facility from Bank Hapoalim, pursuant to a Loan Agreement (the "Loan Agreement") among the Company and its subsidiary, Palisades Collection, LLC, as borrowers, and Bank Hapoalim, as agent and lender. The Loan Agreement provides for a $20.0 million committed line of credit and an accordion feature providing an increase in the line of credit of up to $30 million, at the discretion of the lenders. The facility is for a term of three years at an interest rate of either LIBOR plus 275 basis points or prime, at the Company's option. The Loan Agreement includes covenants that require the Company to maintain a minimum net worth of $150 million and pay an unused line fee. The facility is secured pursuant to a Security Agreement among the parties to the Loan Agreement. On March 30, 2016, the Company signed the First Amendment to the Loan Agreement (the "First Amendment") with Bank Hapoalim which amended certain terms of their banking arrangement. The First Amendment includes (a) the reduction of the interest rate to LIBOR plus 225 basis points; (b) a decrease in the Net Equity requirement by $50 million, to $100 million and (c) modifies the No Net Loss requirement from a quarterly to an annual basis. All other terms of the original agreement remain in effect. The Company has no outstanding balances against the facility as of June 30, 2016.

*Tender Offer of Company Common Shares*

On March 22, 2016, MPF InvestCo 4, LLC, a wholly owned subsidiary of The Mangrove Partners Master Fund, Ltd. ("Mangrove"), filed a Tender Offer Statement with the SEC, announcing the commencement of an unsolicited tender offer to acquire up to 3,000,000 shares of the Company's common stock at price of $9.00 per share (the "Mangrove Offer"). The Mangrove Offer was sent to the holders of common stock of the Company. If the Offer is fully subscribed, the Mangrove Offer would represent approximately 25.0% of the issued and outstanding shares and would result in Mangrove owning an aggregate of approximately 5,102,427 shares, which would have represented approximately 43.1% of issued and outstanding shares, based on the 11,837,224 shares, issued and outstanding as of March 31, 2016.

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

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On April 11, 2016, the Company commenced a Tender Offer to purchase of up to 3,000,000 shares of its common stock, pursuant to auction tenders at prices specified by the tendering shareholders of not greater than $10.25 per share nor less than $9.50 per share. The expiration date for the Company's Tender Offer was May 12, 2016. On that date, the Company repurchased 274,284 shares at a price of $10.25 per share, for an aggregate cost of $2,811,411.

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

On May 25, 2016, the Company entered into a Mutual Confidentiality Agreement (the "Agreement") with Mangrove Partners ("Mangrove"), pursuant to which Mangrove and the Company agreed to (1) provide certain Confidential Information (as defined below) to the other party to the Agreement and the other party's representatives, (2) the confidentiality of the Confidential Information, and (3) certain restrictions on the activities of the parties to the Agreement. The following summary of the Agreement does not purport to be complete and is qualified in its entirety by reference to the Agreement, a copy of which was previously filed on May 26, 2016, as Exhibit 10.1, to the Company's Current Report on Form 8-K.

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

Further, under the terms of the Agreement, Mangrove and the Company have agreed to certain restrictions during the Discussion Period (as defined in the Agreement) and the Extended Period, including that, unless consented to by the other party to the Agreement or required by applicable law, neither party will, and shall cause its affiliates and representatives not to, (i) commence any litigation against the other party, (ii) make any filing with the Securities and

Exchange Commission of proxy solicitation materials, preliminary proxy statement, definitive proxy statement or otherwise or call any annual or special meeting of stockholders of the Company, (iii) publicly refer to: (a) the Confidential Information or Discussion Information (as defined in the Agreement), (b) any annual or special meetings of stockholders of the Company or (c) any prior discussions between the parties, including in any filing with the Securities and Exchange Commission (including any proxy solicitation materials, preliminary proxy statement, definitive proxy statement or otherwise), in any press release or in any other written or oral disclosure to a third party, (iv) make any purchases of the Company’s securities, including, but not limited to, pursuant to any stock buyback plans, tender offers, open-market purchases, privately negotiated transactions or otherwise, (v) make any demand under Section 220 of the Delaware General Corporation Law, (vi) make or propose to make any amendments to the Company’s Certificate of Incorporation, as amended, or By-laws, as amended, (vii) adopt, renew, propose or otherwise enter into a Shareholder Rights Plan with respect to the Company’s securities, (viii) adopt or propose any changes to the Company’s capital structure or (ix) negotiate, discuss, enter into, propose or otherwise transact in any extraordinary transactions with respect to the Company, outside the ordinary course of business, including, but not limited to, any mergers, asset sales or asset purchases.

*Personal Injury Claims*

On December 28, 2011, we formed the Pegasus joint venture with PLF. Pegasus purchases interests in personal injury claims from claimants who are a party to personal injury litigation with the expectation of a settlement in the future. Pegasus advances to each claimant funds on a non-recourse basis at an agreed upon interest rate in anticipation of a future settlement. The interest purchased by Pegasus in each claim 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 profits from the joint venture are distributed based on the ownership percentage of the parties – The Company receives 80% and PLF receives 20%.

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*Divorce Funding*

On May 18, 2012, we formed BP Case Management, LLC (“BPCM”), a joint venture with California-based Balance Point Divorce Funding, LLC (“BP Divorce Funding”). BPCM provides non-recourse funding to a spouse in a matrimonial action. The Company provides a $1.4 million revolving line of credit to partially fund BP Divorce Funding’s operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. The term of the loan was to end in May 2014, but has been extended to August 2016. The revolving line of credit is collateralized by BP Divorce Funding’s profit share in BPCM and other assets.

*Structured Settlements*

On December 31, 2013, the Company acquired 80% ownership of CBC and its affiliate, CBC Management Services, LLC for approximately $5.9 million. The principals of CBC, William J. Skyrm, Esq. and James Goodman, each retained a 10% interest in CBC. In addition, the Company agreed to provide financing to CBC of up to $5 million, amended to $7.5 million in March 2015. Through the transaction we acquired structured settlements valued at $30.4 million and debt that totaled $23.4 million, consisting of $9.6 million of a revolving line of credit with a financial institution and $13.8 million of non-recourse notes issued by CBC’s subsidiaries. On December 31, 2015, the Company acquired the remaining 20% ownership of CBC for $1.8 million, through the issuance of restricted stock valued at $1.0 million and $0.8 million in cash. Each of the two principals received 61,652 shares of restricted stock at an agreed upon market price of $8.11 and $400,000 in cash. An aggregate of 123,304 shares of restricted stock were issued. As of June 30, 2016, CBC had structured settlements valued at $79.9 million and debt valued at $62.7 million, consisting of an $18.3 million line of credit and an aggregate of $44.4 million of non-recourse notes.

*Cash Flow*

At June 30, 2016, our cash decreased $7.2 million to $17.1 million from $24.3 million at September 30, 2015.

Net cash provided by operating activities was $2.3 million for the nine months ended June 30, 2016 compared to $4.7 million used in operating activities for the nine months ended June 30, 2015. Net cash used in investing activities was $9.2 million for the nine month period ended June 30, 2016 compared to $10.4 million for the nine months ended June 30, 2015. Net cash used in financing activities was $0.4 million for the nine month period ended June 30, 2016 as compared to cash provided by financing activities of $14.1 million for the nine month period ended June 30, 2015. The increased use in financing activities for the purchase of treasury stock in the current year period was partially offset by the decrease in net CBC borrowings in the current fiscal year.

Our cash requirements have been and will continue to be significant, and include external financing to operate various lines of business. Significant requirements include investment in personal injury claims, investment in structured settlements, costs involved in the collections of consumer receivables, repayment of CBC debt and investment in consumer receivable portfolios. In addition, dividends could be paid if approved by the Board of Directors. Recent acquisitions have been financed through cash flows from operating activities. We believe we will be less dependent on a credit facility (with the exception of CBC) in the short-term, as our cash balances will be sufficient to invest in personal injury claims, purchase portfolios and finance the early stages of the disability advocacy business. Structured settlements are financed through the use of a credit line, warehouse facility, and private placement financing.

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

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 June 30, 2016, we did not have any relationships with unconsolidated entities or financial partners, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

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**Additional Supplementary Information:**

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

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

**Recent Accounting Pronouncements**

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

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which amends the consolidation requirements in ASC 810. This update is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. We are currently reviewing this ASU to determine if it will have an impact on our consolidated financial statements.

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. The Company is currently evaluating the impact this update will have on its consolidated financial statements.

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

In March 2016, the FASB issued 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.

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

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign exchange rates and changes in corporate tax rates. At June 30, 2016, the debt associated with our acquisition of CBC, had a balance of approximately $62.7 million, consisting of $18.3 million through a line of credit, at a rate of LIBOR plus 3%, with a floor of 4.1%, from a financial institution, and $44.4 million of notes at varying rates, from 5.07% to 8.75%, issued by CBC's subsidiaries. At June 30, 2016, the LIBOR rate was 0.46505%. Thus, a 25 basis point change in the LIBOR rate would have had no impact on the line of credit interest expense, as the resulting rate (3.71505%) would still have been below the 4.1% floor. We do not currently invest in derivative financial or commodity instruments.

**Item 4. Controls and Procedures**

*a. Disclosure Controls and Procedures*

Based on criteria for effective internal control over financial reporting described in the standards promulgated by the Public Company Accounting Oversight Board and in the Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013"), we conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2015. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2016.

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

There have been certain improvements in our internal control over financial reporting during the nine months ended June 30, 2016. These changes have not materially affected, or are reasonably likely to affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

In June 2015, a punitive 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 Practice Act and Racketeer Influenced and Corrupt Organization 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 are contemplating the filing of another punitive 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 current settlement demand from plaintiffs is $4 million and the current counteroffer from the Company and its third-party law firm servicer is $3.875 million (which would be split equally between the Company and the law firm servicer). The Company and law firm servicer have also offered, as part of the current counteroffer, to cease collection activity on the affected accounts.

Accordingly, the Company set up a reserve for settlement costs of $2.0 million during the nine months ended June 30, 2016, which has been included in general and administrative expenses in the Company's consolidated statement of operations.

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. As of the date of this Form 10-Q, we are not involved in any other material litigation in which we are a defendant.

**Item 1A. Risk factors**

For a discussion of our potential risks and uncertainties, see the information previously disclosed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K, for the year ended September 30, 2015 filed with the SEC on December 14, 2015. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K.

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

**Purchases of Common Stock.**

The following table sets forth information regarding our repurchases or acquisitions of common stock during the three months ended June 30, 2016:

| **Period** | **Total Number of Shares (or Units) Purchased(1)** | **Average Price Paid per Share (or Unit)** | **Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs** | **Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)** |
|---|---|---|---|---|
| April 1, 2016 through April 30, 2016 | — | $ — | — | $ — |
| May 1, 2016 through May 31, 2016 | 274,284 | $ 10.25 | 274,284 | $ — |
| June 1, 2016 through June 30, 2016 | — | $ — | — | $ — |

(1) On March 31, 2016, the Company announced its intention to commence an issuer tender offer for 3,000,000 shares of its common stock pursuant to a “Dutch Auction” format at a price range of $9.50 to $10.25 per share. On April 11, 2016, the Company commenced a tender offer to purchase up to 3,000,000 shares of its common stock pursuant to auction tenders at prices specified by the tendering shareholders of not greater than $10.25 per share nor less than $9.50 per share (the “Tender Offer”). The expiration date for the Tender Offer was May 12, 2016. On that date, the Company repurchased 274,284 shares at a price of $10.25 per share, for an aggregate cost of $2,811,411.

(2) On August 17, 2015, our board of directors authorized the repurchase of up to $15.0 million of shares of our common stock through a non-discretionary stock repurchase plan under Sections 10-b18 and 10b5-1 of the Securities and Exchange Act (the “Plan”) to expire on December 31, 2015. On December 17, 2015, our board of directors approved an extension of the Plan to March 31, 2016 and reset the original $15.0 million repurchase level, as of the extension date. On March 17, 2016, our board of directors approved a further extension of the Plan to December 31, 2016 and reset the maximum to an additional $15 million in repurchases. On March 22, 2016, a Company shareholder commenced a tender offer on the Company’s common stock. Per the provisions of the Plan, it terminated immediately and no further purchases were permitted under the Plan.

**Item 3. Default Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

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**Item 6. Exhibits**

(a) Exhibits.

| | |
|---|---|
| 3.1 | Certificate of Incorporation. (1) |
| 3.2 | Amendment to Certificate of Incorporation. (2) |
| 3.3 | Amended and Restated Bylaws. (3) |
| 31.1 | Certification of the Registrant's Chief Executive Officer, Gary Stern, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Registrant's Chief Financial Officer, Bruce R. Foster, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Registrant's Chief Executive Officer, Gary Stern, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
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| 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 |

(1) The certificate of Incorporation of Asta Funding, Inc. was previously filed as Exhibit 3.1 to Asta Funding's Registration Statement on Form SB-2 (File No. 33-97212), but is being re-filed as an Exhibit to this Quarterly Report on Form 10-Q to make it available on the Electronic Data Gathering, Analysis and Retrieval website.

(2) Incorporated by reference to Exhibit 3.1(a) to Asta Funding's Quarterly Report on Form 10-Q filed on May 15, 2002.

(3) The Amended and Restated Bylaws reflect the bylaws of Asta Funding, Inc. previously filed as Exhibit 3.01 to Asta Funding's Current Report on Form 8-K filed on October 31, 2007, as amended by the amendment to the bylaws of Asta Funding, Inc. previously filed as Exhibit 3.2 to Asta Funding's Current Report on Form 8-K filed on August 24, 2012.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| | **ASTA FUNDING, INC.** |
| | (Registrant) |
| Date: August 9, 2016 | By: /s/ Gary Stern<br>Gary Stern, President, Chief Executive Officer<br>(Principal Executive Officer) |
| Date: August 9, 2016 | By: /s/ Bruce R. Foster<br>Bruce R. Foster, Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer) |

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**EXHIBIT INDEX**

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