ASTA FUNDING INC
Form 10-Q
August 18, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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 x 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 x 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	x
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 x

As of August 14, 2014, the registrant had 12,985,739 common shares outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	June 30, 2014	September 30, 2013
ASSETS		
Cash and cash equivalents	$ 26,017,000	$ 35,179,000
Available for sale investments	70,205,000	58,035,000
Restricted cash		968,000
Consumer receivables acquired for liquidation (at net realizable value)	31,514,000	57,900,000
Structured settlements	35,892,000	
Investment in personal injury claims	31,733,000	35,758,000
Due from third party collection agencies and attorneys	1,138,000	1,169,000
Prepaid and income taxes receivable		1,496,000
Furniture and equipment, net	656,000	1,106,000
Deferred income taxes	8,894,000	10,443,000
Goodwill	2,770,000	1,410,000
Other assets	4,990,000	4,383,000
Total assets	$ 213,809,000	$ 207,847,000
LIABILITIES		
Non-recourse debt Bank of Montreal	$	$ 35,760,000
Other debt CBC (including non-recourse notes payable amounting to $13.0 million at June 30, 2014)	27,434,000	
Other liabilities	2,723,000	2,486,000
Income taxes payable	3,084,000	
Total liabilities	33,241,000	38,246,000
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 12,985,739 at June 30, 2014 and 14,917,977 at September 30, 2013; and outstanding	130,000	149,000

12,985,739 at June 30, 2014 and 12,974,239 at September 30, 2013		
Additional paid-in capital	62,648,000	79,104,000
Retained earnings	118,306,000	109,011,000
Accumulated other comprehensive income (loss)	22,000	(674,000)
Treasury stock (at cost), 0 shares at June 30, 2014 and 1,943,738 shares at September 30, 2013		(17,805,000)
Non-controlling interest	(538,000)	(184,000)
Total stockholders equity	180,568,000	169,601,000
Total liabilities and stockholders equity	$ 213,809,000	$ 207,847,000

See Notes to Condensed Consolidated Financial Statements

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ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Nine Months Ended June 30, 2014	Nine Months Ended June 30, 2013
Revenues:				
Finance income on consumer receivables, net	$ 6,652,000	$ 10,003,000	$ 20,556,000	$ 26,756,000
Personal injury claims income	1,779,000	2,287,000	5,724,000	4,921,000
Unrealized gain on structured settlements	620,000		1,440,000	
Interest income on structured settlements	786,000		1,501,000	
Total revenues	9,837,000	12,290,000	29,221,000	31,677,000
Forgiveness of non-recourse debt	26,101,000		26,101,000	
Other income (includes ($116,000) and $17,000 during the three month periods ended June 30, 2014 and 2013, and ($141,000) and $192,000 during the nine month periods ended June 30, 2014 and 2013, respectively, of accumulated other comprehensive income reclassification for unrealized net (losses) / gains on available for sale securities)	336,000	378,000	1,370,000	1,628,000
	36,274,000	12,668,000	56,692,000	33,305,000
Expenses:				
General and administrative	7,012,000	6,545,000	20,517,000	17,926,000
Interest	413,000	518,000	820,000	1,621,000
Impairments of consumer receivables acquired for liquidation	19,901,000	10,148,000	19,901,000	12,351,000
	27,326,000	17,211,000	41,238,000	31,898,000
Income (loss) before income tax expense (benefit)	8,948,000	(4,543,000)	15,454,000	1,407,000
Income tax expense (benefit) (includes tax (benefit) expense of ($47,000) and $5,000 during the three month periods ended June 30, 2014 and 2013, and ($57,000) and $76,000 during the nine month periods ended June 30, 2014 and 2013, respectively,	3,464,000	(1,859,000)	5,676,000	498,000

of accumulated other comprehensive income reclassifications for unrealized net (losses) gains on available for sale securities)				
Net income (loss)	5,484,000	(2,684,000)	9,778,000	909,000
Less: net income attributable to non-controlling interest	20,000	53,000	483,000	176,000
Net income (loss) attributable to Asta Funding, Inc.	$ 5,464,000	$ (2,737,000)	$ 9,295,000	$ 733,000
Net income (loss) per share attributable to Asta Funding, Inc.:				
Basic	$ 0.42	$ (0.21)	$ 0.72	$ 0.06
Diluted	$ 0.41	$ (0.21)	$ 0.70	$ 0.06
Weighted average number of common shares outstanding:				
Basic	12,984,882	12,954,455	12,979,472	12,946,521
Diluted	13,214,703	12,954,455	13,208,015	13,217,656

See Notes to Condensed Consolidated Financial Statements

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ASTA FUNDING, INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Nine Months Ended June 30, 2014	Nine Months Ended June 30, 2013
Comprehensive income (loss) is as follows:				
Net income (loss)	$ 5,484,000	$ (2,684,000)	$ 9,778,000	$ 909,000
Net unrealized securities gain / (loss), net of tax expense (benefit) of $263,000 and ($415,000), during the 3 month periods ended June 30, 2014 and 2013, respectively, and $511,000 and ($543,000) during the 9 month periods ended June 30, 2014 and 2013, respectively.	394,000	(631,000)	780,000	(822,000)
Reclassification adjustments for securities sold, net of tax (benefit) expense of ($47,000) and $5,000, during the 3 month periods ended June 30, 2014 and 2013, respectively, and ($57,000) and $76,000, during the 9 month periods ended June 30, 2014 and 2013, respectively.	(69,000)	(12,000)	(84,000)	(116,000)
Other comprehensive income (loss)	325,000	(643,000)	696,000	(938,000)
Total comprehensive income (loss)	$ 5,809,000	$ (3,327,000)	$ 10,474,000	$ (29,000)

See Notes to Condensed Consolidated Financial Statements

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ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders Equity

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock [1]	Non-Controlling Interest	Total Stockholders Equity
Balance, September 30, 2013	14,917,977	$ 149,000	$ 79,104,000	$ 109,011,000	$ (674,000)	($ 17,805,000)	$ (184,000)	$ 169,601,000
Exercise of options	11,500		40,000					40,000
Stock based compensation expense			1,290,000					1,290,000
Net income				9,295,000			483,000	9,778,000
Unrealized loss on marketable securities					696,000			696,000
Retirement of treasury stock	(1,943,738)	(19,000)	(17,786,000)			17,805,000		0
Distributions to non-controlling interest							(837,000)	(837,000)
Balance, June 30, 2014	12,985,739	$ 130,000	$ 62,648,000	$ 118,306,000	$ 22,000	$ 0	$ (538,000)	$ 180,568,000

[1] Treasury shares at September 30, 2013 totaled 1,943,738.

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock [1]	Non-Controlling Interest	Total Stockholders Equity
Balance, September 30, 2012	14,778,956	$ 148,000	$ 77,024,000	$ 107,303,000	$ 241,000	($ 16,226,000)	$ 31,000	$ 168,521,000
Exercise of options	29,500		103,000					103,000
			1,498,000					1,498,000

Stock based compensation expense								
Restricted stock	102,321	1,000	(1,000)					
Dividends				(1,030,000)				(1,030,000)
Purchase of treasury stock						(1,579,000)		(1,579,000)
Net income				733,000			176,000	909,000
Unrealized loss on marketable securities					(938,000)			(938,000)
Balance, June 30, 2013	14,910,777	$ 149,000	$ 78,624,000	$ 107,006,000	$ (697,000)	($ 17,805,000)	$ 207,000	$ 167,484,000

(1) Treasury shares are as follows: September 30, 2012, 1,772,038; Purchase of treasury stock, 171,700; June 30, 2013, 1,943,738.

See Notes to Condensed Consolidated Financial Statements

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ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended June 30, 2014	Nine Months Ended June 30, 2013
Cash flows from operating activities		
Net income	$ 9,778,000	$ 909,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	450,000	450,000
Deferred income taxes	1,095,000	85,000
Impairment of consumer receivables acquired for liquidation	19,901,000	12,351,000
Stock based compensation	1,290,000	1,498,000
Loss / (gain) on sale of available-for-sale securities	141,000	(192,000)
Structured settlements - accrued interest	(1,475,000)	
Structured settlements - gains	(1,440,000)	
Forgiveness of non-recourse debt	(26,101,000)	
Changes in:		
Prepaid and income taxes receivable	1,496,000	382,000
Due from third party collection agencies and attorneys	31,000	802,000
Other assets	(596,000)	(2,369,000)
Income taxes payable	3,084,000	
Other liabilities	(119,000)	(1,104,000)
Net cash provided by operating activities	7,535,000	12,812,000
Cash flows from investing activities		
Purchase of consumer receivables acquired for liquidation	(3,702,000)	(3,340,000)
Principal collected on receivables acquired for liquidation	10,186,000	14,850,000
Principal collected on receivables accounts represented by account sales	1,000	432,000
Purchase of available-for-sale securities	(19,845,000)	(29,907,000)
Proceeds from sale of available-for-sale securities	8,684,000	28,918,000
Proceeds from maturities of certificates of deposit		33,918,000
Cash paid for acquisition (net of cash acquired)	(5,588,000)	
Investments in personal injury claims advances	(16,392,000)	(22,863,000)
Investments in personal injury claims receipts	20,417,000	9,162,000
Investment in structured settlements advances	(4,696,000)	
Investments in structured settlements receipts	2,155,000	
Capital expenditures		(725,000)

Net cash (used in) provided by investing activities	(8,780,000)	30,445,000
Cash flows from financing activities		
Proceeds from exercise of stock options	40,000	103,000
Changes in restricted cash	968,000	21,000
Distribution to non-controlling interest	(837,000)	
Repayment of non-recourse debt	(9,659,000)	(7,213,000)
Borrowings of other debt	4,131,000	
Repayments of other debt	(2,560,000)	
Dividends paid		(1,290,000)
Purchase of treasury stock		(1,579,000)
Net cash used in financing activities	(7,917,000)	(9,958,000)
Net (decrease) increase in cash and cash equivalents	(9,162,000)	33,299,000
Cash and cash equivalents at beginning of period	35,179,000	4,953,000
Cash and cash equivalents at end of period	$ 26,017,000	$ 38,252,000
Supplemental disclosure of cash flow information :		
Cash paid for:		
Interest	$ 678,000	$ 1,645,000
Supplemental disclosures of non-cash investing and financing activities:		
Structured settlements	30,436,000	
Other debt CBC	23,363,000	
Retirement of treasury stock	17,805,000	

See Notes to Condensed Consolidated Financial Statements

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED 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 National Disability Advocates, LLC (GAR National Disability) (formerly known as AGR Disability Help Center, LLC) and other subsidiaries, not all wholly owned (collectively, the Company), is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged-off receivables, semi-performing receivables and performing receivables. 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. Performing receivables are accounts where the debtor is making regular monthly payments that may or may not have been delinquent in the past. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. A large portion of the Company s distressed consumer receivables are MasterCard®, Visa®, other credit card accounts, and telecommunication accounts which were charged-off by the issuers for non-payment. The Company acquires these portfolios at substantial discounts from their face values. The discounts are based on the characteristics (issuer, account size, debtor residence 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 Company owns 80% of Pegasus Funding, LLC (Pegasus), which invests in funding personal injury claims and 80% of CBC Settlement Funding, LLC (CBC), which invests in structured settlements (see Note 5: Acquisition of CBC).

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

Basis of Presentation

The condensed consolidated balance sheet as of June 30, 2014, the condensed consolidated statements of operations for the nine and three month periods ended June 30, 2014 and 2013, the condensed consolidated statements of comprehensive income (loss) for the nine and three month periods ended June 30, 2014 and 2013, the condensed consolidated statement of stockholders equity as of and for the nine months ended June 30, 2014 and 2013 and the condensed consolidated statements of cash flows for the nine month periods ended June 30, 2014 and 2013, are unaudited. The September 30, 2013 financial information included in this report has been extracted from our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position at June 30, 2014 and September 30, 2013, the results of operations for the nine and three month periods ended June 30, 2014 and 2013 and cash flows for the nine month periods ended June 30, 2014 and 2013 have been made. The results of operations for the nine and three month periods ended June 30, 2014 and 2013 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 of $21.6 million as of June 30, 2014. See Note 10-Debt, *Non-Recourse Debt-Bank of Montreal* for additional details.

Blue Bell Receivables I, LLC, Blue Bells Receivables II, LLC and Blue Bell Receivables III, LLC (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 $14.4 million and non-recourse notes payable of $13.0 million as of June 30, 2014.

The accompanying unaudited condensed 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, 2013 filed with the Securities and Exchange Commission.

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Basis of Presentation (*continued*)

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

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (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, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact this update will have on our consolidated financial statements as well as the expected adoption method.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this ASU require two accounting changes. First, the amendments in this ASU change the accounting for repurchase-to maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. This ASU also includes new disclosure requirements. The accounting changes in this Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited. The Company is currently reviewing this ASU to determine if it will have an impact on its consolidated financial statements.

Concentration of Credit Risk Cash

Cash balances are maintained at various high credit quality depository institutions and are insured by the Federal Deposit Insurance Corporation (FDIC). The Company believes it is not exposed to any significant credit risk for cash.

Reclassifications

Certain items in the three months and nine months ended June 30, 2013 condensed consolidated financial statements have been reclassified to conform to the current period s presentation, primarily related to certain balance sheet and statement of operations items.

Note 2 Principles of Consolidation

The condensed 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 Investments

Available-for-Sale

Investments classified as available-for-sale at June 30, 2014 and September 30, 2013, consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2014	$ 70,171,000	$ 292,000	$ (258,000)	$ 70,205,000
September 30, 2013	$ 59,151,000	$ 27,000	$ (1,143,000)	$ 58,035,000

The available-for-sale investments do not have any contractual maturities. The Company sold two investments during the first nine months of fiscal year 2014, with an aggregate realized loss of $141,000. In the first nine months of fiscal year 2013, the Company sold three investments with an aggregate realized gain of $192,000. The Company sold one investment during the three month period ended June 30, 2014, with a realized loss of $116,000. The Company sold one investment during the three month period ended June 30, 2013, with a realized gain of $17,000.

At June 30, 2014, there were seven investments, five of which were in a net unrealized loss position. 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.

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 4 Consumer Receivables Acquired for Liquidation

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

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

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

The Company accounts for its investment 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). 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.

Once a static pool is established for a quarter, individual accounts receivable were not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310 requires that the excess of the contractual cash flows over expected cash flows not be recognized as an adjustment of revenue or expense or on the balance sheet. ASC 310 initially freezes the internal rate of return, referred to as IRR, estimated when the accounts receivable are purchased, as the basis for subsequent impairment testing. Significant increases in actual or expected future cash flows may be recognized prospectively through an upward adjustment of the IRR over a portfolio s remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Rather than lowering the estimated IRR if the collection estimates are not received or projected to be received, the carrying value of a pool would be impaired, or written down to maintain the then current IRR. Under the interest method, income is recognized on the effective yield method based on the actual cash collected during a period and future estimated cash flows and timing of such collections and the portfolio s cost. Revenue arising from collections in excess of anticipated amounts attributable to temporary timing differences is deferred until such time as a review results in a change in the expected cash flows that is deemed permanent. The estimated future cash flows are reevaluated quarterly.

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 s extensive liquidating experience is in the field of distressed credit card receivables, telecommunication receivables, consumer loan receivables, retail installment contracts, consumer receivables, and auto deficiency receivables. The Company has used the interest method for accounting for asset acquisitions within these classes of receivables when it believed it could reasonably estimate the timing of the cash flows. In those situations where the Company diversifies its acquisitions into other asset classes and the Company does not possess the same expertise, or the Company cannot reasonably estimate the timing of the cash flows, the Company has utilized the cost recovery method of accounting for those portfolios of receivables. At June 30, 2014, the Company transferred its remaining balance of approximately \$5.5 million of the consumer receivables acquired for liquidation from the interest method to the cost recovery method, resulting in approximately \$31.5 million accounted for using the cost recovery method, of which approximately \$21.6 million is concentrated in one portfolio. The Company transferred the remaining balance to cost recovery method because it did not have a reasonable expectation about timing and amount of cash flows expected to be collected.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The Company aggregates portfolios of receivables acquired sharing specific common characteristics which were acquired within a given quarter. The Company has considered for aggregation portfolios of accounts, purchased within the same fiscal quarter, that generally meet the following characteristics:

- same issuer/originator;
- same underlying credit quality;
- similar geographic distribution of the accounts;
- similar age of the receivable; and
- same type of asset class (credit cards, telecommunication, etc.)

The Company uses a variety of qualitative and quantitative factors to estimate collections and the timing thereof. This analysis includes the following variables:

- the number of collection agencies previously attempting to collect the receivables in the portfolio;
- the average balance of the receivables, as higher balances might be more difficult to collect while low balances might not be cost effective to collect;
- the age of the receivables, as older receivables might be more difficult to collect or might be less cost effective. On the other hand, the passage of time, in certain circumstances, might result in higher collections due to changing life events of some individual debtors;

- past history of performance of similar assets;
- time since charge-off;
- payments made since charge-off;
- the credit originator and its credit guidelines;
- our ability to analyze accounts and resell accounts that meet our criteria for resale;
- the locations of the debtors, as there are better states to attempt to collect in and ultimately the Company has better predictability of the liquidations and the expected cash flows. Conversely, there are also states where the liquidation rates are not as favorable and that is factored into our cash flow analysis;
- financial condition of the seller
- jobs or property of the debtors found within portfolios. In the Company s business model, this is of particular importance as debtors with jobs or property are more likely to repay their obligation and conversely, debtors without jobs or property are less likely to repay their obligation; and
- the ability to obtain timely customer statements from the original issuer.

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 a 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 CONDENSED 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 Nine Months Ended June 30, 2014		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 8,071,000	$ 49,829,000	$ 57,900,000
Acquisition of receivable portfolios		3,702,000	3,702,000
Net cash collections from collection of consumer receivables acquired for liquidation	(19,957,000)	(10,782,000)	(30,739,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(4,000)		(4,000)
Impairment	(1,056,000)	(18,845,000)	(19,901,000)
Transfer to cost recovery	(5,461,000)	5,461,000	
Finance income recognized (1)	18,407,000	2,149,000	20,556,000
Balance, end of period	$ 0	$ 31,514,000	$ 31,514,000
Finance income as a percentage of collections	92.2%	19.9%	66.9%

(1) The following table summarizes finance income from fully amortized and non-fully amortized portfolios:

Fully amortized portfolios	$ 18,046,000	$ 2,149,000	$ 20,195,000
Non-fully amortized portfolios	361,000		361,000

Finance income recognized	$ 18,407,000	$ 2,149,000	$ 20,556,000

	For the Nine Months Ended June 30, 2013		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 12,326,000	$ 74,561,000	$ 86,887,000
Acquisition of receivable portfolios	3,340,000		3,340,000
Net cash collections from collection of consumer receivables acquired for liquidation	(26,901,000)	(13,113,000)	(40,014,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(987,000)	(1,037,000)	(2,024,000)
Impairment	(2,203,000)	(10,148,000)	(12,351,000)
Finance income recognized (1)	23,531,000	3,225,000	26,756,000
Balance, end of period	$ 9,106,000	$ 53,488,000	$ 62,594,000
Finance income as a percentage of collections	84.4%	22.8%	63.6%

(1) The following table summarizes finance income from fully amortized and non-fully amortized portfolios:

Fully amortized portfolios	$ 22,599,000	$ 3,225,000	$ 25,824,000
Non-fully amortized portfolios	932,000		932,000
Finance income recognized	$ 23,531,000	$ 3,225,000	$ 26,756,000

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	For the Three Months Ended June 30, 2014		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 6,970,000	$ 45,101,000	$ 52,071,000
Acquisition of receivable portfolio		2,733,000	2,733,000
Net cash collections from collection of consumer receivables acquired for liquidation	(6,348,000)	(3,691,000)	(10,039,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(2,000)		(2,000)
Impairment	(1,056,000)	(18,845,000)	(19,901,000)
Transfer to cost recovery	(5,461,000)	5,461,000	
Finance income recognized (1)	5,897,000	755,000	6,652,000
Balance, end of period	$ 0	$ 31,514,000	$ 31,514,000
Finance income as a percentage of collections	92.9%	20.5%	66.2%

(1) The following table summarizes finance income from fully amortized and non-fully amortized portfolios:

	Interest Method	Cost Recovery Method	Total
Fully amortized portfolios	$ 5,777,000	$ 755,000	$ 6,532,000
Non-fully amortized portfolios	120,000		120,000
Finance income recognized	$ 5,897,000	$ 755,000	$ 6,652,000

	For the Three Months Ended June 30, 2013		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 6,813,000	$ 68,011,000	$ 74,824,000
Acquisition of receivable portfolio	3,340,000		3,340,000
Net cash collections from collection of consumer receivables acquired for liquidation	(8,611,000)	(4,807,000)	(13,418,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(970,000)	(1,037,000)	(2,007,000)
Impairment		(10,148,000)	(10,148,000)
Finance income recognized (1)	8,534,000	1,469,000	10,003,000
Balance, end of period	$ 9,106,000	$ 53,488,000	$ 62,594,000
Finance income as a percentage of collections	89.1%	25.1%	64.8%

(1) The following table summarizes finance income from fully amortized and non-fully amortized portfolios:

Fully amortized portfolios	$ 8,280,000	$ 1,469,000	$ 9,749,000
Non-fully amortized portfolios	254,000		254,000
Finance income recognized	$ 8,534,000	$ 1,469,000	$ 10,003,000

All remaining interest method portfolios were transferred to cost recovery effective June 30, 2014. As of that date, the Company no longer recognizes deferred finance income.

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

Accretable yield represents the amount of finance income the Company can expect to generate over the remaining life of its existing portfolios based on estimated future net cash flows. Changes in accretable yield for the nine month and three month periods ended June 30, 2014 and 2013 are as follows:

	Nine Months Ended June 30, 2014	Nine Months Ended June 30, 2013
Balance at beginning of period	$ 1,116,000	$ 2,086,000
Finance income recognized on finance receivables, net	(18,407,000)	(23,531,000)
Additions representing expected revenue from purchases		983,000
Transfer to cost recovery	(500,000)	
Reclassifications from nonaccretable difference (1)	17,791,000	21,874,000
Balance at end of period	$ 0	$ 1,412,000

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Balance at beginning of period	$ 861,000	$ 942,000
Finance income recognized on finance receivables, net	(5,897,000)	(8,534,000)
Additions representing expected revenue from purchases		983,000
Transfer to cost recovery	(500,000)	
Reclassifications from nonaccretable difference (1)	5,536,000	8,021,000
Balance at end of period	$ 0	$ 1,412,000

(1) Includes portfolios that became zero basis during the period, removal of zero basis portfolios from the accretable yield calculation and other immaterial impairments and accretions based on the extension of certain collection curves.

During the nine and three month periods ended June 30, 2014, the Company purchased $53.0 million and $35.9 million, respectively, of face value portfolios, at a cost of $3.7 million and $2.7 million, respectively. During both the nine and three month periods ended June 30, 2013, the Company purchased $53.5 million of face value receivables at a cost of $3.3 million.

The following table summarizes collections on a gross basis as received by the Company s third-party collection agencies and attorneys, less commissions and direct costs for the nine and three month periods ended June 30, 2014 and 2013, respectively.

	For the Nine Months Ended June 30,	
	2014	**2013**
Gross collections (1)	$ 51,884,000	$ 66,371,000
Commissions and fees (2)	21,141,000	24,333,000
Net collections	$ 30,743,000	$ 42,038,000

	For the Three Months Ended June 30,	
	2014	**2013**
Gross collections (1)	$ 18,192,000	$ 23,432,000
Commissions and fees (2)	8,151,000	8,007,000
Net collections	$ 10,041,000	$ 15,425,000

(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 one portfolio. 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.

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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. In addition, the Company will provide financing to CBC of up to $5 million. The 20% non-controlling interests are held by two of the original owners of CBC. The fair value of non-controlling interests at the acquisition date was determined to be immaterial. The non-controlling interests will not be entitled to any distributions from CBC until the Company receives distributions of $2,337,190. The non-controlling interests are entitled to two of the five seats of CBC s Board of Managers and have the right to approve certain material transactions of CBC. The non-controlling interest owners are employed by CBC. If the employment is terminated, other than for cause, CBC could be required to purchase their membership interest in CBC. If the employment is terminated for any other reason, CBC has the right to purchase their non-controlling interests. The purchase price would be determined by a third party appraiser and is payable over a period of time. The fair value of the put right was determined to be $0 at December 31, 2013. No re-measurement is required at June 30, 2014 as it is not probable that the put option will become redeemable. The acquisition provides the Company with the opportunity to further diversify its portfolio.

CBC purchases periodic structured settlements and annuity policies from individuals in exchange for a lump sum payment. The Company accounted for this purchase in accordance with ASC Topic 805 Business Combinations . Under this guidance, an entity is required to recognize the assets acquired and liabilities assumed and the consideration given at their fair value on the acquisition date. The following table summarizes the fair value of the assets acquired and the liabilities assumed as of the December 31, 2013 acquisition date:

Cash	$ 351,000
Structured settlements	30,436,000
Other assets	11,000
Other liabilities	(356,000)
Other debt (see Note 11: Other debt CBC (including non-recourse notes payable amounting to $13.8 million)	(25,863,000)
Total identifiable net assets acquired	4,579,000
Goodwill (see Note 9: Goodwill)	1,360,000
Purchase Price	$ 5,939,000

As the transaction consummated on December 31, 2013, there were no actual operational results that were attributable to the Company in the first quarter of fiscal year 2014 and the comparable period of fiscal year 2013. Total revenues, as reported, for the nine months ended June 30, 2014, were $29,221,000. On a pro forma basis, total revenues for the nine months ended June 30, 2014 would have been $30,856,000. Net income attributable to Asta Funding, Inc., as reported, for the nine months ended June 30, 2014, was $9,295,000. On a pro forma basis, net income attributable to Asta Funding, Inc. for the nine months ended June 30, 2014 would have been $9,337,000. Total revenues, as reported, for the nine months ended June 30, 2013, were $31,677,000. On a pro forma basis, total revenues for the same prior year period would have been $35,417,000. Net income attributable to Asta Funding, Inc., as reported, for the nine months ended June 30, 2013 was $733,000. On a pro forma basis, net income attributable to Asta Funding, Inc. would have been $712,000 for the same prior year period. The Company, through CBC, earned $1.4 million and $2.9 million in settlement income during the three and nine month periods ended June 30, 2014. The Company had a net invested balance of $35.9 million in structured settlements as of June 30, 2014. The collections yielded a net loss attributable to non-controlling interest of $34,000 and $13,000 for the three and nine month periods, respectively, ended June 30, 2014.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 6 Structured Settlements

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.

Structured settlements consist of the following as of June 30, 2014:

Maturity value	$ 52,551,000
Unearned income	(16,659,000)
Net carrying value	$ 35,892,000

Encumbrances on structured settlements as of June 30, 2014 are:

Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025 (1)	$ 2,599,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026 (1)	5,498,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032 (1)	4,894,000
$15,000,000 revolving line of credit (1)	14,443,000
Encumbered structured settlements	27,434,000
Structured settlements not encumbered	8,458,000
Total structured settlements	$ 35,892,000

(1) See Note 11 Other Debt CBC

At June 30, 2014, the expected cash flows of structured settlements based on maturity value are as follows:

September 30, 2014 (three months remaining)	$ 1,101,000
September 30, 2015	4,309,000
September 30, 2016	4,469,000
September 30, 2017	3,977,000
September 30, 2018	3,187,000
Thereafter	35,508,000
Total	$ 52,551,000

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Note 7 Other Investments

Personal Injury Claims

Pegasus 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. The Company, through Pegasus, earned $1.7 million and $5.7 million, in interest and fees during the three and nine month periods ending June 30, 2014, respectively, compared to $2.3 million and $4.9 million, respectively, during the three and nine month periods ending June 30, 2013. The Company had a net invested balance of $31.7 million and $35.8 million on June 30, 2014 and September 30, 2013, respectively. The collections yielded net income attributable to non-controlling interest of $53,000 and $496,000 for the three and nine month periods ended June 30, 2014, respectively, compared to $53,000 and $176,000 for the three and nine month periods ended June 30, 2013, respectively. The reserve for bad debts is recorded based upon the historical trend for write off in the personal injury financing industry, the aging of the claims and other factors that could impact recoverability. Pegasus records reserves for bad debts, which, at June 30, 2014, amounted to $2.1 million as follows:

	Nine Months Ended June 30, 2014	Three Months Ended June 30, 2014
Balance at beginning of period	$ 2,248,000	$ 1,916,000
Provisions for losses	955,000	756,000
Write offs	(1,153,000)	(622,000)
Balance at end of period	$ 2,050,000	$ 2,050,000

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). BPCM provides non-recourse funding to a spouse in a matrimonial action. The Company provided a $1.0 million revolving line of credit to partially fund BP Divorce Funding s operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. The contract term has been extended an additional six months to October 2014. The revolving line of credit is collateralized by BP Divorce Funding s profit share in BPCM and other assets. As of June 30, 2014, the Company s investment in cases through BPCM was approximately $2.3 million, against which a $0.5 million reserve has been established. The investment in matrimonial cases was $1.6 million at September 30, 2013. There was no income recognized in the first nine months of fiscal years 2014 and 2013.

Note 8 Furniture & Equipment

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

	June 30, 2014	September 30, 2013
Furniture	$ 310,000	$ 310,000
Equipment	3,622,000	3,622,000
Software	1,211,000	1,211,000
Leasehold improvements	99,000	99,000
	5,242,000	5,242,000
Less accumulated depreciation	4,586,000	4,136,000
Balance, end of period	$ 656,000	$ 1,106,000

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Note 9 Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value of amounts assigned to assets acquired and liabilities assumed. Goodwill is reviewed for impairment if events or circumstances indicate that impairment may be present. Any excess in carrying value over the estimated fair value is recorded as impairment loss and charged to results of operations in the period such determination is made. For each of the nine and three month periods ended June 30, 2014 and 2013, management has determined that there was no impairment loss required to be recognized in the carrying value of goodwill.

The goodwill balances at September 30, 2013 and June 30, 2014 are as follows:

Balance, September 30, 2013	$ 1,410,000
Goodwill from acquisition (see Note 5: Acquisition of CBC)	1,360,000
Balance, June 30, 2014	$ 2,770,000

Note 10 Debt

Non-Recourse Debt Bank of Montreal (BMO)

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

On August 7, 2013, Palisades XVI, a 100% owned bankruptcy remote subsidiary, entered into a Settlement Agreement and Omnibus Amendment (the Settlement Agreement) with BMO as an amendment to the RFA. In consideration for a $15 million prepayment funded by the Company, BMO agreed to significantly reduce minimum monthly collection requirements and the interest rate. If and when BMO receives the next $15 million of collections from the Portfolio Purchase or from voluntary prepayments by Asta Funding, Inc., less certain credits for payments made prior to the consummation of the Settlement Agreement (the Remaining Amount), Palisades XVI and its affiliates would be automatically released from liability in connection with the RFA (subject to customary exceptions). A condition to the release was 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). The Company estimated the Income Interest to be between $0 and $1.4 million. However, the Company believes that no amount would be incurred because of the continued deterioration of collections from the Portfolio Purchase.

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.

With the payment of the Remaining Amount and upon completion of the documents granting the Palisades XVI Income Interest, including a written confirmation from BMO that the obligation has been paid in full, Palisades XVI has been released from further debt obligations from the RFA. The Company has recorded as other income, forgiveness of non-recourse debt, in the amount of approximately $26.1 million in the third quarter of fiscal year 2014.

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 (Security Agreement) among the parties to the Loan Agreement. As of June 30, 2014, the Company has not used this facility.

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Note 11 Other Debt CBC

The Company assumed $25.9 million of debt related to the CBC acquisition (see Note 5 Acquisition of CBC) on December 31, 2013. On the same date, the Company paid down $2.5 million of the debt. On March 27, 2014, CBC entered into an amendment whereby it increased its revolving line of credit from $12.5 million to $15.0 million, the interest rate floor was reduced from 5.5% to 4.75% and the commitment was extended to February 28, 2015. The amendment also included changes in carrier concentration ratios and removal of the personal guarantees of the general managers and non-controlling interest partners. As of June 30, 2014, the debt amounted to $27.4 million, which consists of a $14.4 million drawdown from a line of credit ($0.6 million available) from an institutional source and $13.0 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 other debt at June 30, 2014:

	Interest Rate	June 30, 2014 Balance
Notes payable with varying monthly installments:		
Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025	8.75%	$ 2,599,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026	7.25%	5,498,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032	7.125%	4,894,000
Subtotal notes payable		12,991,000
$15,000,000 revolving line of credit expiring on February 28, 2015	4.75%	14,443,000
Total debt CBC		$ 27,434,000

On July 15, 2014, CBC entered into an amendment whereby it increased its revolving line of credit from $15.0 million to $20.0 million and the maturity date was changed to December 31, 2014.

Note 12 Commitments and Contingencies

Employment Agreements

In January 2007, the Company entered into an employment agreement (the Employment Agreement) with Gary Stern, its Chairman, President and Chief Executive, which expired on December 31, 2009. This Employment Agreement was not renewed and Mr. Stern is continuing in his current roles at the discretion of the Board of Directors until a new agreement is signed. The Company intends to negotiate a new employment agreement with Mr. Stern during fiscal year 2014. The two CBC operating principals entered into renewable two-year employment contracts at the time of acquisition (see Note 5, Acquisition of CBC).

Leases

The Company leases its facilities in Englewood Cliffs, New Jersey, Houston, Texas, New York, New York and Conshohocken, Pennsylvania. Please refer to the Company s consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013, as filed with the Securities and Exchange Commission, for additional information. CBC is a party to a lease agreement for a facility located in Conshohocken, Pennsylvania. The lease expires in August 2014. CBC is not renewing the lease. Rather it is planning on relocating to a different (leased) facility within the same town.

Litigation

In the ordinary course of its business, the Company 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 matters are material to its business or financial condition. The Company is not involved in any material litigation in which it is a defendant.

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Note 13 Finance Income Recognition, Impairments, and Commissions and Fees

Income Recognition

The Company has accounted for its investment in consumer receivables acquired for liquidation using the interest method under the guidance of ASC 310. In 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. At June 30, 2014, the Company transferred its remaining balance of approximately $5.5 million of the consumer receivables acquired for liquidation from the interest method to the cost recovery method, resulting in approximately $31.5 million accounted for using the cost recovery method, of which approximately $21.6 million is concentrated in one portfolio. The Company transferred the remaining balance to cost recovery method because it did not have a reasonable expectation about timing and amount of cash flows expected to be collected.

Once a static pool is established for a quarter, individual accounts receivable are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310 requires that the excess of the contractual cash flows over expected cash flows not be recognized as an adjustment of income or expense or on the balance sheet. ASC 310 initially freezes the internal rate of return (IRR), estimated when the accounts receivable are purchased, as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the IRR over a portfolio s remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Under ASC 310, rather than lowering the estimated IRR if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current IRR.

Finance income is recognized on cost recovery portfolios after the carrying value has been fully recovered through collections or amounts written down.

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, income 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 BPCM matrimonial actions is on a non-recourse basis. BPCM income is recognized under the cost recovery method.

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. Increases in expected cash flows that were deemed permanent were recognized prospectively through an adjustment to the internal rate of return while decreases in expected cash flows that were deemed permanent are recognized as impairments. ASC 310 makes it more likely that impairment losses and accretable yield adjustments for portfolios performances which exceed original collection projections will be recorded, as all downward revisions in collection estimates will result in impairment charges, given the requirement that the IRR of the affected pool be held constant. There were $19.9 million of impairment charges recorded during the three and nine month periods ended June 30, 2014. An impairment of $10.1 million and $12.4 was recorded during the three and nine month periods ended June 30, 2013, respectively.

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Note 13 Income Recognition, Impairments, and Commissions and Fees (*continued*)

Impairments (*continued*)

The Company s analysis of the timing and amount of cash flows to be generated by our portfolio purchases are based on the following attributes:

the type of receivable, the location of the debtor and the number of collection agencies previously attempting to collect the receivables in the portfolio. The Company has found that there are better states to try to collect receivables and it factors in both better and worse states when establishing its initial cash flow expectations.

the average balance of the receivables influences our analysis in that lower average balance portfolios tend to be more collectible in the short-term and higher average balance portfolios are more appropriate for our law suit strategy and thus yield better results over the longer term. As the Company has significant experience with both types of balances, it is able to factor these variables into our initial expected cash flows;

the age of the receivables, the number of days since charge-off, any payments since charge-off, and the credit guidelines of the credit originator also represent factors taken into consideration in our estimation process. For example, older receivables might be more difficult and/or require more time and effort to collect;

past history and performance of similar assets acquired. As the Company purchase portfolios of like assets, it accumulates a significant historical data base on the tendencies of debtor repayments and factor this into our initial expected cash flows;

the Company s ability to analyze accounts and resell accounts that meet its criteria;

jobs or property of the debtors found within portfolios. With our business model, this is of particular importance. Debtors with jobs or property are more likely to repay their obligation through the lawsuit strategy and, conversely, debtors without jobs or property are less likely to repay their obligation. The Company believes that debtors with jobs or property are more likely to repay because courts have mandated the debtor must pay the debt. Ultimately, the debtor with property will pay to clear title or release a lien. The Company also believes that these debtors generally might take longer to repay and that is factored into our initial expected cash flows; and

credit standards of the issuer.

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

On the interest method portfolios, the Company has used a time frame of the expectation of recovering 100% of its capital within 24-29 month period and the expectation of recovering 150% of invested capital over a 7 year period. The Company continually monitors these expectations against the actual cash flows and, in the event the cash flows are below its expectations and it believes there are no reasons relating to mere timing, or temporary differences or explainable delays (such as can occur particularly when the court system is involved) for the reduced collections, an impairment would be recorded as a provision for credit losses. Conversely, in the event the cash flows are in excess of our expectations and the reason is due to timing, or temporary differences, it would defer the excess collection as deferred revenue.

The Company acquires accounts that have experienced deterioration of credit quality between origination and the date of its acquisition of the accounts. The amount paid for a portfolio of accounts reflects the Company s determination that it is probable that the Company will be unable to collect all amounts due according to the portfolio of accounts contractual terms. The Company considers the expected payments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each acquired portfolio coupled with expected cash flows from accounts available for sales. The excess of this amount over the cost of the portfolio, representing the excess of the accounts cash flows expected to be collected over the amount paid, was accreted into income recognized on finance receivables accounted for on the interest method over the expected remaining life of the portfolio.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 13 Income Recognition, Impairments, and Commissions and Fees (*continued*)

Impairments (*continued*)

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.

Note 14 Income Taxes

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) carry-forwards, which expire in September 2029. The provision for income tax expense (benefit) for the three month periods ended June 30, 2014 and 2013 reflects income tax expense (benefit) at an effective rate of 38.7% and (40.9)%, respectively. The provision for income tax expense for the nine month periods ended June 30, 2014 and 2013 reflects income tax expense at an effective rate of 36.7% and 35.4%, respectively.

The corporate federal income tax returns of the Company for the years 2009 through 2013 are subject to examination by the 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.

In April 2010, the Company received notification from the IRS that the Company s 2008, 2009 and 2010 federal income tax returns would be audited. This audit is currently in progress.

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 15 Net Income (Loss) 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 nine months ended June 30, 2014 and 2013:

	Nine Months Ended June 30, 2014			Nine Months Ended June 30, 2013		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic	$ 9,295,000	12,979,472	$ 0.72	$ 733,000	12,946,521	$ 0.06
Effect of Dilutive Stock		228,543	(0.02)		271,135	
Diluted	$ 9,295,000	13,208,015	$ 0.70	$ 733,000	13,217,656	$ 0.06

At June 30, 2014, 1,088,304 options at a weighted average exercise price of $11.88 were not included in the diluted earnings per share calculation as they were antidilutive.

At June 30, 2013, 575,669 options at a weighted average exercise price of $8.07 were not included in the diluted earnings per share calculation as they were antidilutive.

The following table presents the computation of basic and diluted per share data for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic	$ 5,464,000	12,984,882	$ 0.42	$ (2,737,000)	12,954,455	$ (0.21)

Effect of Dilutive Stock		229,821	(0.01)			
Diluted	$ 5,464,000	13,214,703	$ 0.41	$ (2,737,000)	12,954,455	$ (0.21)

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 16 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 2014, the Compensation Committee of the Board of Directors of the Company (Compensation Committee) granted 5,000 options to a former employee for past services. The exercise price of these options, issued on February 4, 2014, was at the market price on that date. The options vested immediately. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.06%
Expected term (years)	5.9
Expected volatility	35.3%
Dividend yield	0.00%

In December 2013, the Compensation Committee granted 156,700 stock options, of which 70,000 options were awarded to the Officers of the Company and the remaining 86,700 stock options were awarded to non-officer employees of the Company. The exercise price of these options, issued on December 12, 2013, was at the market price on that date. The options vest in three equal annual installments and accounted for as one graded vesting award. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.08%
Expected term (years)	6.5
Expected volatility	98.3%
Dividend yield	0.00%

In December 2012, the Compensation Committee granted 160,000 stock options, of which 65,000 options were awarded to three officers of the Company and 20,000 options were awarded to an employee of the Company. The remaining 75,000 shares were issued to six non-employee directors of the Company. The exercise price of these options, issued on December 18, 2012, was at the market price on that date. The options vest in three equal annual installments and accounted for as one graded vesting award. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.16%

Expected term (years)	6.0
Expected volatility	101.0%
Dividend yield	1.67%

In addition, the Company granted 102,321 restricted shares to the Chief Executive Officer of the Company. The shares vest in three equal annual installments.

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 17 Stock Option Plans

2012 Stock Option and Performance Award Plan

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

The 2012 Plan provides the Company with flexibility with respect to equity awards by 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 371,700 shares and an award of 102,321 shares of restricted stock, leaving 1,525,979 shares available as of June 30, 2014. As of June 30, 2014, approximately 49 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 allows the Company flexibility with respect to equity awards by also providing for grants of stock awards (i.e. restricted or unrestricted), stock purchase rights and stock appreciation rights.

The Company authorized 1,000,000 shares of Common Stock for issuance under the Equity Compensation Plan. As of March 21, 2012, no 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 authorizes 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.

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 17 Stock Option Plans *(continued)*

Summary of the Plans

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

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

	Nine Months Ended June 30, 2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding options at the beginning of period	1,622,771	$ 11.31	1,499,471	$ 11.27
Options granted	161,700	8.48	210,000	9.36
Options exercised	(11,500)	3.46	(29,500)	3.51
Options forfeited/canceled	(210,767)	14.87	(50,000)	7.77
Outstanding options at the end of period	1,562,204	$ 10.66	1,629,971	$ 11.27
Exercisable options at the end of period	987,198	$ 11.97	1,112,037	$ 12.57

	Three Months Ended June 30, 2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding options at the beginning of period	1,563,704	$ 10.65	1,655,871	$ 11.12
Options granted			50,000	8.69
Options exercised	(1,500)	6.89	(25,900)	3.06

Options forfeited/canceled			(50,000)	7.77
Outstanding options at the end of period	1,562,204	$ 10.66	1,629,971	$ 11.27
Exercisable options at the end of period	987,198	$ 11.97	1,112,037	$ 12.57

The following table summarizes information about the 2012 Plan, 2002 Plan, and the Equity Compensation Plan outstanding options as of June 30, 2014:

		Options Outstanding			Options Exercisable	
Range of Exercise Price		**Weighted Number Outstanding**	**Weighted Remaining Contractual Life (in Years)**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$ 2.8751	$ 5.7500	7,500	4.8	$ 2.95	7,500	$ 2.95
$ 5.7501	$ 8.6250	938,100	7.1	7.92	503,100	7.78
$ 8.6251	$14.3750	260,000	8.3	9.77	119,994	10.25
$14.3751	$17.2500	1,944	0.0	15.99	1,944	15.99
$17.2501	$20.1250	339,660	0.3	18.23	339,660	18.23
$25.8751	$28.7500	15,000	2.5	28.75	15,000	28.75
		1,562,204	5.8	$ 10.66	987,198	$ 11.97

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 17 Stock Option Plans *(continued)*

The Company recognized $1,046,000 and $367,000 of compensation expense related to stock option during the nine and three month periods ended June 30, 2014, respectively. The Company recognized $1,307,000 and $532,000 of compensation expense related to stock options during the nine and three months ended June 31, 2013. As June 30, 2014, there was $1,796,000 of unrecognized compensation cost related to stock option awards. The weighted average period over which such costs are expected to be recognized is 1.45 years.

The intrinsic value of the outstanding and exercisable options as of June 30, 2014 was approximately $391,000 and $281,000, respectively. The weighted average remaining contractual life of exercisable options is 4.3 years. The intrinsic and the fair value of the options exercised during the nine month period ended June 30, 2014 was approximately $57,000 and $95,000, respectively. The intrinsic and fair value of the stock options exercised during the three month period ended June 30, 2014 was approximately $2,000 and $12,000, respectively. The intrinsic and fair value of the stock options exercised during the nine month period ended June 30, 2013 was approximately $172,000 and $276,000, respectively. The intrinsic and fair value of the stock options exercised during the three month period ended June 30, 2013 was approximately $162,000 and $241,000, respectively. The proceeds from the exercise of options exercised during the nine and three month periods ended June 30, 2014 were approximately $40,000 and $10,000, respectively. There was no tax effect associated with these exercises. The fair value of the stock options that vested during the nine and three month periods ended June 30, 2014 was approximately $743,000 and $137,000, respectively. The fair value of the options that vested during the nine and three month periods ended June 30, 2013 was approximately $1,259,000 and $144,000, respectively. The fair value of the awards granted during the nine and three month periods ended June 30, 2014 was $1,372,000 and $0, respectively. The fair value of the awards granted during the nine and three month period ended June 30, 2013 was approximately $1,702,000 and $341,000, respectively.

The following table summarizes information about restricted stock transactions:

	Nine Months Ended June 30,			
	2014		2013	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at the beginning of period	102,321	$ 9.57	10,922	$ 7.63
Awards granted			102,321	9.57

Vested	(34,107)	9.57	(10,922)	7.63
Forfeited				
Unvested at the end of period	68,214	$ 9.57	102,321	$ 9.57

	Three Months Ended June 30, 2014		2013	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at the beginning of period	68,214	$ 9.57	102,321	$ 9.57
Awards granted				
Vested				
Forfeited				
Unvested at the end of period	68,214	$ 9.57	102,321	$ 9.57

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 17 Stock Option Plans *(continued)*

The Company recognized $244,000 and $82,000 of compensation expense related to the restricted stock awards during the nine and three month periods ended June 30, 2014, respectively. The Company recognized $191,000 and $81,000 of compensation expense related to the restricted stock awards for the nine and three month periods ended June 30, 2013. As of June 30, 2014, there was $479,000 of unrecognized compensation cost related to restricted stock awards. The weighted average remaining period over which such costs expected to be recognized is 1.47 years. There were no restricted stock awards granted during the first nine months of fiscal year 2014. The fair value of the restricted stock awards granted during the first quarter of fiscal year 2013 was approximately $979,000. The fair value of the awards vested during the nine month periods ended June 30, 2014 and 2013 was $326,000 and $83,000, respectively. There were no awards vested in the third quarter of fiscal years 2014 and 2013.

The Company recognized an aggregate total of $1,290,000 and $449,000, respectively, in compensation expense for the nine and three month periods ended June 30, 2014, for the stock options and restricted stock grants. The Company recognized an aggregate of $1,498,000 and $613,000, respectively, for the nine and three month periods ended June 30, 2013, for the stock options and restricted stock grants. As of June 30, 2014, there was a total of $2,275,000 of unrecognized compensation cost related to unvested stock options and restricted stock grants. The method used to calculate stock based compensation is the straight line pro-rated method.

Note 18 Stockholders Equity

There were no dividends declared or paid during the nine months ended June 30, 2014. During September 2012, the Company declared a cash dividend aggregating $260,000 ($0.02 per share) which was paid November 1, 2012. On December 13, 2012, the Board of Directors of the Company approved the payment of a special accelerated annual dividend of $0.08 per share to shareholders of record on December 24, 2012. The aggregate dividend of $1,030,000 was paid on December 28, 2012.

On March 9, 2012, the Company adopted a Rule 10b5-1 Plan in conjunction with its share repurchase program. The Board of Directors approved the repurchase of up to $20 million of the Company s common stock, which was effective through March 11, 2013. During the nine and three month period ended June 31, 2013 the Company purchased approximately 172,000 and 0 shares, respectively, at an aggregate cost of approximately $1,574,000 and $0, respectively, under the plan. The Plan expired in March 2013.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 19 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, 2014		September 30, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Available-for-sale investments (Level 1)	$ 70,205,000	$ 70,205,000	$ 58,035,000	$ 58,035,000
Consumer receivables acquired for liquidation (Level 3)	31,514,000	60,490,000	57,900,000	70,875,000
Structured settlements (Level 3)	35,892,000	35,892,000		
Financial liabilities				
Non-recourse debt BMO (Level 3)			35,760,000	27,000,000
Other debt CBC, revolving line of credit (Level 3)	14,443,000	14,443,000		
Other debt CBC, non-recourse notes payable with varying installments (Level 3)	12,991,000	12,991,000		

Disclosure of the estimated fair values of financial instruments often requires the use of estimates. The Company uses the following methods and assumptions to estimate the fair value of financial instruments:

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.

Non-recourse Debt   Bank of Montreal   carried a variable rate. The fair value at September 30, 2013 was based on the discounted weighted average forecasted future collections of the Portfolio Purchase.

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, 2014 was based on the discounted forecasted future collections of the structured settlements.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 19 Fair Value of Financial Measurements and Disclosures *(continued)*

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, 2014, 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.

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, 2014. The Company had no Level 2 or Level 3 available-for-sale investments during the first nine months of fiscal year 2014.

The following table sets forth the Company s quantitative information about its Level 3 fair value measurements as of June 30, 2014:

	Fair Value	Valuation Technique	Unobservable Input	Rate
Structured settlements at fair value	$ 35,892,000	Discounted	Discount	5.5%

	cash flow	rate

The changes in structured settlements at fair value using significant unobservable inputs (Level 3) during the nine months ended June 30, 2014 were as follows:

Balance at September 30, 2013	$ 0
Acquisition of CBC (see Note 5)	30,436,000
Total gains included in earnings	1,440,000
Purchases	4,696,000
Sales	
Interest accreted	1,475,000
Payments received	(2,155,000)
Total	$ 35,892,000
The amount of total gains for the nine month period included in earnings attributable to the change in unrealized gains (losses) relating to assets held at June 30, 2014	$ 1,440,000

Realized and unrealized gains and losses included in earnings in the accompanying consolidated statements of income for the nine months ended June 30, 2014 are reported in the following revenue categories:

Total gains (losses) included in earnings in fiscal year 2014	$ 1,440,000
Change in unrealized gains (losses) relating to assets still held at June 30, 2014	$ 1,440,000

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The changes in structured settlements at fair value using significant observable inputs (Level 3) during the three months ended June 30, 2014 were as follows:

Balance at March 31, 2014	$ 33,330,000
Total gains included in earnings	620,000
Purchases	2,337,000
Sales	
Interest accreted	767,000
Payments received	(1,162,000)
Total	$ 35,892,000
The amount of total gains for the three month period included in earnings attributable to the change in unrealized gains (losses) relating to assets held at June 30, 2014	$ 620,000

Realized and unrealized gains and losses included in earnings in the accompanying consolidated statements of income for the three months ended June 30, 2014 are reported in the following revenue categories:

Total gains included in earnings in the three months ended June 30, 2014	$ 620,000
Change in unrealized gains (losses) relating to assets still held at June 30, 2014	$ 620,000

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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, 2013 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), Pegasus Funding, LLC (Pegasus), CBC Settlement Funding, LLC (CBC) and other subsidiaries, not all wholly owned (the Company, we or us), is engaged in the business of acquiring, managing, servicing and recovering on portfolios of consumer receivables. These 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;

- *semi-performing receivables* accounts where the debtor is currently making partial or irregular monthly payments, but the accounts may have been written-off by the originators; and *performing receivables* accounts where the debtor is making regular monthly payments that may or may not have been delinquent in the past.

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 acquisition costs and 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 (i) privately negotiated direct sales and (ii) 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, collection agencies, investors and our financing sources;

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

other sources.

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Substantially all of the consumer receivables included in the accounts acquired for liquidation are charged-off receivables.

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 $21.8 million per year to Pegasus for a term of five (5) 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.

Pegasus is actively managed by personal injury litigation funders, Max Alperovich and Alexander Khanas, who rely upon strict underwriting criteria to provide legal funding to personal injury plaintiffs prior to the settlement of their claims or their resolution in court. 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 will be distributed at 80% to the Company and 20% to PLF. These distributions will be made only after the repayment of Fund Pegasus principal amount loaned, plus an amount equal to advances for overhead expenses. While the overall returns to Pegasus are currently estimated to be in excess of 20% per annum, the Company reserves the right to terminate Pegasus if returns to the Company for any rolling twelve (12) month period, after the first year of operations, do not exceed 15%. As of June 30, 2014, the Company had a net invested balance of approximately $31.7 million in personal injury cases. During the nine months ended June 30, 2014 distributions of $4.5 million and $0.8 million were made to Fund Pegasus, LLC and PLF, respectively.

On May 18, 2012, we announced the formation of BP Case Management, LLC (Balance Point), 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 $2,000,000. Such funds can be used for legal fees, expert costs and necessary living expenses. The Venture receives an agreed percentage of the proceeds received by such spouse upon final resolution of the case. Balance Point s profits and losses will be 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 consists 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, 2014, we have invested $1.8 million, net of reserve charges, in cases managed by this Venture.

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, which may be extended under certain circumstances for an additional 24 month period. The revolving line of credit is collateralized by Balance Point Management s profits share in the Venture and other assets. At June 30, 2014, the balance on the revolving line of credit was approximately $1.0 million. The term of the loan was to end in May 2014 but was extended an additional six months.

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 will provide financing to CBC of up to $5 million.

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 $27.4 million of debt, including a $15.0 million line of credit from an institutional source (approximately $0.6 million of the line was unused as of June 30, 2014) and notes issued by CBC to third party investors. At June 30, 2014 the Company has an invested value of $35.9 million in structured settlements.

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Critical Accounting Policies

We 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, telecom receivables, consumer loan receivables and mixed consumer receivables has matured, we have used 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 have utilized the cost recovery method of accounting for those portfolios of receivables.

We account for our investment in finance receivables using the interest method under the guidance of FASB Accounting Standards Codification (ASC) 310, Receivables Loans and Debt Securities Acquired with Deteriorating Credit Quality (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. We currently consider for aggregation portfolios of accounts, purchased within the same fiscal quarter, that generally have the following characteristics:

- same issuer/originator
- same underlying credit quality
- similar geographic distribution of the accounts
- similar age of the receivable and
- same type of asset class (credit cards, telecommunications, etc.)

After determining that an investment will yield an adequate return on our acquisition cost after servicing fees, including court costs which are expensed as incurred, we use a variety of qualitative and quantitative factors to determine the estimated cash flows. As previously mentioned, included in our analysis for purchasing a portfolio of receivables and determining a reasonable estimate of collections and the timing thereof, the following variables are analyzed and factored into our original estimates:

- the number of collection agencies previously attempting to collect the receivables in the portfolio;

the average balance of the receivables;

the age of the receivables (as older receivables might be more difficult to collect or might be less cost effective);

past history of performance of similar assets as we purchase portfolios of similar assets, we believe we have built significant history on how these receivables will liquidate and cash flow;

number of months since charge-off;

payments made since charge-off;

the credit originator and their credit guidelines;

the locations of the debtors as there are better states to attempt to collect in and ultimately we have better predictability of the liquidations and the expected cash flows. Conversely, there are also states where the liquidation rates are not as good and that is factored into our cash flow analysis;

financial wherewithal of the seller;

jobs or property of the debtors found within portfolios-with our business model, this is of particular importance as debtors with jobs or property are more likely to repay their obligation and conversely, debtors without jobs or property are less likely to repay their obligation ; and

the ability to obtain customer statements from the original issuer.

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We will obtain and utilize as appropriate input including, but not limited to, monthly collection projections and liquidation rates, from our third party collection agencies and attorneys, as further evidentiary matter, to assist us in developing collection strategies and in modeling the expected cash flows for a given portfolio.

We acquire accounts that have experienced deterioration of credit quality between origination and the date of our acquisition of the accounts. The amount paid for a portfolio of accounts reflects our determination that it is probable we will be unable to collect all amounts due according to the portfolio of accounts contractual terms. We consider the expected payments and estimate the amount and timing of undiscounted expected principal, interest and other cash flows for each acquired portfolio coupled with expected cash flows from accounts available for sales. The excess of this amount over the cost of the portfolio, representing the excess of the accounts cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables over the expected remaining life of the portfolio.

We believe we have significant experience in acquiring certain distressed consumer receivable portfolios at a significant discount to the amount actually owed by underlying debtors. We acquire these portfolios only after both qualitative and quantitative analyses of the underlying receivables are performed and a calculated purchase price is paid so that we believe our estimated cash flow offers us an adequate return on our costs, including servicing expenses. Additionally, when considering portfolio purchases of accounts, or portfolios from issuers from whom we have little or limited experience, we have the added benefit of soliciting our third party collection agencies and attorneys for their input on liquidation rates and, at times, incorporate such input into the price we offer for a given portfolio and the estimates we use for our expected cash flows.

On interest method portfolios, we have used a time frame of the expectation of recovering 100% of our capital within 24-29 months and the expectation of recovering 150% of invested capital over a 7 year period. We continuously monitored these expectations against the actual cash flows and, in the event the cash flows are below our expectations and we believe there are no reasons relating to mere timing or temporary differences or explainable delays (such as can occur particularly when the court system is involved) for the reduced collections, an impairment would be recorded as a provision for credit losses. Conversely, in the event the cash flows are in excess of our expectations and the reason is due to timing or temporary differences, we would defer the excess collection as deferred revenue.

We use 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. At June 30, 2014, the Company transferred its remaining balance of the consumer receivables acquired for liquidation from the interest method to the cost recovery method, resulting in approximately $31.5 million accounted for using the cost recovery method, of which approximately $21.6 million is concentrated in one portfolio. We transferred the remaining balance to cost recovery method because we did not have a reasonable expectation about timing and amount of cash flows expected to be collected.

We account for our investment in personal injury claims at an agreed upon interest rate, in anticipation of a future settlement. The interest purchased by Pegasus in each claim consists of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant s claim. 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. The reserve for bad debts is recorded based upon the historical trend for write off in the personal injury financing industry, the aging of the claims and other factors that could impact recoverability.

When a case is closed and 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 a claimant.

The funding of BPCM matrimonial actions is on a non recourse basis. BPCM revenues are 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 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) in structured settlements in our statements of income.

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

Results of Operations

The nine-month period ended June 30, 2014, compared to the nine-month period ended June 30, 2013

Finance income. For the nine month period ended June 30, 2014, finance income decreased $6.2 million, or 23.2%, to $20.6 million from $26.8 million for the nine month period ended June 30, 2013. Finance income decreased primarily due to the lower level of portfolio purchases and, as a result, an increased percentage of our portfolio balances are in the later stages of their yield curves. We purchased $53.0 million in face value of new portfolios at a cost of $3.7 million in the first nine months of fiscal year 2014. The portfolios purchased are accounted for on the cost recovery method. We purchased $53.5 million in face value of new portfolios at a cost of $3.3 million in the nine month period ended June 30, 2013.

During the first nine months of fiscal year 2014, gross collections decreased 21.8% to $51.9 million from $66.4 million for the nine months ended June 30, 2013, reflecting the lower level of purchases, and the age of our portfolios. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $3.2 million, or 13.1%, for the nine months ended June 30, 2014 as compared to the same period in the prior year, and averaged 40.7 % of collections for the nine months ended June 30, 2014 as compared to 36.7% for the same prior year period. Net collections decreased 26.9% to $30.7 million for the nine month period ended June 30, 2014 from $42.0 million for the nine months ended June 30, 201. Income recognized from fully amortized portfolios (zero based revenue) was $20.2 million for the nine month period ended June 30, 2014 compared to $25.8 million for the nine month period ended June 30, 2013.

Personal injury claims income. For the nine month period ended June 30, 2014, personal injury claims income increased 16.3% to $5.7 million, from $4.9 million for the nine month period ended June 30, 2013.

Forgiveness of non-recourse debt. On June 3, 2014 the Company made the final payment of the remaining amount due on the non-recourse debt due to the Bank of Montreal in accordance with the Settlement Agreement signed in August 2013. The Company has recorded as other income, forgiveness of non-recourse debt, in the amount of approximately $26.1 million in the third quarter of fiscal year 2014.

Structured settlement income. Structured settlement income was $2.9 million in the period ended June 30, 2014, which consists of $1.5 million of interest income on structured settlements and $1.5 million of unrealized gains on structured settlements. The income is for the period January 1, 2014 through June 30, 2014, the period CBC was included in our results of operations. There is no prior year comparative data.

Other income. Other income consists of interest and dividend income, realized gains and losses on available for sale transactions, service fee income and fee income from the new disability advocacy group, GAR National Disability Advocates.

General and administrative expenses. During the nine months ended June 30 , 2014, general and administrative expenses increased $2.6 million, or 14.5%, to $20.5 million from $17.9 million for the nine months ended June 30, 2013. The increase primarily reflects the inclusion of CBC and GAR National Disability Help Advocates, LLC (GAR National Disability), as there is no comparative data included in the nine month prior year period.

Interest expense. During the nine month period ended June 30, 2014, interest expense decreased $0.8 million, or 49.4%, to $0.8 million, from $1.6 million in the same prior year period. The decrease in interest expense is primarily the result of the Settlement Agreement with the Bank of Montreal, signed in August of 2013, whereby the interest rate and balance on which the interest is applied were significantly reduced. Offsetting the total interest savings is the inclusion of approximately $0.8 million in CBC interest expense for the period in which CBC was part of the Company, the six month period January 1, 2014 through June 30, 2014.

Impairments. There were $19.9 million in impairments recorded during the nine month period ended June 30, 2014 compared to impairments of $17.9 million recorded during the nine month period ended June 30, 2013. Impairment of the Great Seneca Portfolio totaled $14.1 million in the nine month period ended June 30, 2014 compared to $10.1 million in the same prior year period. Additionally, an impairment of $4.7 million was recorded on all the medical receivable asset class.

Income tax expense. Income tax expense, consisting of federal and state income taxes, was a $5.1 million benefit for the nine months ended June 30, 2014, as compared to income tax expense of $0.5 million for the comparable 2013 period.

Income attributable to non-controlling interest. The income attributable to non-controlling 20% interests in Pegasus and CBC of $483,000 was recorded in fiscal year 2014. The non-controlling interest in Pegasus for the nine month period ended June 30, 2013 was $176,000. There was no comparative data for CBC in the prior year.

Net income attributable to Asta Funding, Inc. Net income was $9.3 million for the nine month period ended June 30, 2014 as compared to $733,000 for the nine month period ended June 30, 2013.

The three-month period ended June 30, 2014, compared to the three-month period ended June 30, 2013

Finance income. For the three month period ended June 30, 2014, finance income was $6.7 million as compared to $10.0 million for the three month period ended June 30, 2013, a decrease of $3.3 million, or 33.5%. We purchased $35.9 million in face value of new portfolios at a cost of $2.7 million in the third quarter of fiscal year 2014. We purchased $53.5 million in face value of a consumer portfolio at a cost of $3.3 million during the three month period ended June 30, 2013.

During the third quarter of fiscal year 2014, gross collections decreased 22.4% to $18.2 million from $23.4 million for the three months ended June 30, 2013. Commissions and fees associated with gross collections from our third party collection agencies and attorneys were flat during the third quarter of fiscal year 2014 as compared the same period of the prior year. Net collections decreased by 34.9% to $10.0 million in the current quarter from $15.4 million for the three months ended June 30, 2013. Income recognized from fully amortized portfolios (zero based revenue) was $6.5 million and $9.7 million for the three months ended June 30, 2014 and 2013, respectively.

Personal injury claims income. For the three month period ended June 30, 2014 personal injury claims income of $1.8 million decreased $0.5 million from $2.3 million for the three month period ended June 30, 2013.

Structured settlement income. Structured settlement income was $1.4 million in the three month period ended June 30, 2014. There is no prior year comparative data.

Forgiveness of non-recourse debt. On June 3, 2014 the Company made the final payment of the remaining amount due on the non-recourse debt due to the Bank of Montreal in accordance with the Settlement Agreement signed in August 2013. The Company has recorded as other income, forgiveness of non-recourse debt, in the amount of approximately $26.1 million in the third quarter of fiscal year 2014.

Other income. Other income consists of interest and dividend income, realized gains and losses on available for sale transactions and service fee income and fee income from the new disability advocacy group, GAR National Disability Advocates.

General and administrative expenses. During the three-month period ended June 30, 2014, general and administrative expenses increased $0.5 million, or 7.1%, to $7.0 million from $6.5 million for the three months ended June 30, 2013. The increase primarily reflects the inclusion of CBC and GAR National Disability, as there is no comparative data included in the three month prior year period.

Interest expense. During the three-month period ended June 30, 2014, interest expense was $413,000 compared to $518,000 in the same period in the prior year. The decrease in interest expense is the result of the Settlement Agreement with the Bank of Montreal, signed in August of 2013, whereby the interest rate and balance on which the interest is applied were significantly reduced. Offsetting the total interest savings is the inclusion of approximately $0.4 million of CBC interest expense for the 2014 period.

Impairments. Impairments of $19.9 million were recorded in the three month period ended June 30, 2014 as compared to impairments of $10.2 million recorded during the three month period ended June 30, 2013. Approximately $14.4 million of the current period impairment charge was attributable to the Great Seneca Portfolio. Additionally, $4.7 million of the current quarter impairment charge was recorded on all the medical receivable asset class.

Income tax benefit. Income tax benefit was $7.2 million for the three month period ended June 30, 2014 as compared to a benefit of $1.9 million for the three month period ended June 30, 2013. The higher tax benefit in the current period is primarily the result of a higher pre-tax loss, reflecting the increase in impairments recorded in the current period compared to the prior year period.

Income attributable to non-controlling interest. The income attributable to non-controlling interest was $20,000 and $53,000 in fiscal years 2014 and 2013, respectively. The non-controlling interests are related to Pegasus and CBC in the three month period ended June 30, 2014 as compared to only Pegasus in the same comparative period of fiscal year 2013.

Net income attributable to Asta Funding, Inc. Net income was $5.5 million for the three month period ended June 30, 2014 as compared to a net loss of $2.7 million for the three month period ended June 30, 2013.

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Liquidity and Capital Resources

Our primary sources of cash from operations include collections on the receivable portfolios that we have acquired, personal injury claims settled, and collections on structured settlements Our primary uses of cash include our acquisition of receivable portfolios, investments in personal injury claims, investments in structured settlement, interest payments, costs involved in the collections of consumer receivables, personal injury claims, structured settlement taxes and dividends, if approved, and repayment of debt. We currently rely on cash provided by operations to provide the funds necessary for the acquisition of receivables, investments in personal injury claims and general operations of the business.

Receivables Financing Agreement

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

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

On June 3, 2014, Palisades XVI finished paying the Remaining Amount. The final principal payment of $2.9 million included a voluntary prepayment of $1.9 million provided from funds of the Company. Accordingly, Palisades XVI 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. The Company estimated the Income Interest to be between $0 and $1.4 million. However, the Company believes that no amount would be incurred because of the continued deterioration of the collections from the portfolio purchase.

With the payment of the Remaining Amount and upon completion of the documents granting the Palisades XVI Income Interest, including a written confirmation from BMO that the obligation has been paid in full, Palisades XVI has been released from further debt obligations from the RFA. We have recorded as other income, forgiveness of non-recourse debt, in the amount of approximately $26.1 million in the third quarter of fiscal year 2014.

Other Investments Personal Injury Claims

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

Other Investments 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 $1.0 million revolving line of credit to partially fund BP Divorce Funding s operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. The revolving line of credit is collateralized by BP Divorce Funding s profit share in BPCM and other assets. The term of the loan was to end in May 2014, but was extended an additional six months.

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Other Investments Structured Settlements

On December 31, 2013, the Company acquired 80% ownership of CBC and its affiliate, CBC Management Services, LLC for approximately $5.9 million. At the closing, the operating principals of CBC, William J. Skyrm, Esq. and James Goodman, were each issued a 10% interest in CBC. In addition, the Company has agreed to provide financing to CBC of up to $5 million. Through the transaction we acquired debt that totaled $23 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. As of June 30, 2014, the debt approximated $27.4 million. On July 15, 2014, CBC entered into an amendment whereby it increased its revolving line of credit from $15.0 million to $20.0 million and the maturity date was changed to December 31, 2014.

Cash Flow

As of June 30, 2014, our cash decreased $9.2 million to $26.0 million from $35.2 million at September 30, 2013.

Net cash provided by operating activities was $7.5 million during the nine months ended June 30, 2014 compared to $12.8 million during the nine months ended June 30, 2013 primarily a reflection of lower net income, net of non-cash items. Net cash used in investing activities was $8.8 million during the nine month period ended June 30, 2014 compared to $30.4 million provided by investing activity during the nine months ended June 30, 2013, reflecting proceeds from maturities of certificates of deposit in the prior fiscal year, an increase in net purchases of available-for-sale securities and the CBC acquisition in the current period, partially offset by a decrease in the personal injury claim investment. Net cash used in financing activities decreased from $10.0 million in the nine month period ended June 30, 2013 to $7.9 million in the nine month period ended June 30, 2014. This decrease is attributable to the discontinuation of dividend payments and treasury stock purchases in the current nine month period.

Our cash requirements have been and will continue to be significant and have, in the past, depended on external financing to acquire consumer receivables and operate the business. Significant requirements include repayments under our debt facilities, purchase of consumer receivable portfolios, interest payments, costs involved in the collections of consumer receivables, and taxes. In addition, dividends are paid if approved by the Board of Directors. Acquisitions have been financed primarily through cash flows from operating activities and a credit facility. We believe we will be less dependent on a credit facility in the short-term as our cash flow from operations will be sufficient to purchase portfolios and operate the business. However, as the collection environment remains challenging, we may seek additional financing.

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. We will continue to consider other financing options.

Our business model affords us the ability to sell accounts on an opportunistic basis; however, account sales have been immaterial in recent quarters.

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

	For the Nine Months Ended June 30, 2014		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 8,071,000	$ 49,829,000	$ 57,900,000
Acquisition of receivable portfolios		3,702,000	3,702,000
Net cash collections from collection of consumer receivables acquired for liquidation	(19,957,000)	(10,782,000)	(30,739,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(4,000)		(4,000)
Impairment	(1,056,000)	(18,845,000)	(19,901,000)
Transfer to cost recovery	(5,461,000)	5,461,000	
Finance income recognized (1)	18,407,000	2,149,000	20,556,000
Balance, end of period	$ 0	$ 31,514,000	$ 31,514,000
Finance income as a percentage of collections	92.2%	19.9%	66.9%

(1) The following table summarizes finance income from fully amortized and non-fully amortized portfolios:

Fully amortized portfolios	$ 18,046,000	$ 2,149,000	$ 20,195,000
Non-fully amortized portfolios	361,000		361,000
Finance income recognized	$ 18,407,000	$ 2,149,000	$ 20,556,000

	For the Nine Months Ended June 30, 2013		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 12,326,000	$ 74,561,000	$ 86,887,000
Acquisition of receivable portfolios	3,340,000		3,340,000
Net cash collections from collection of consumer receivables acquired for	(26,901,000)	(13,113,000)	(40,014,000)

liquidation			
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(987,000)	(1,037,000)	(2,024,000)
Impairment	(2,203,000)	(10,148,000)	(12,351,000)
Finance income recognized (1)	23,531,000	3,225,000	26,756,000
Balance, end of period	$ 9,106,000	$ 53,488,000	$ 62,594,000
Finance income as a percentage of collections	84.4%	22.8%	63.6%

(1) The following table summarizes finance income from fully amortized and non-fully amortized portfolios:

Fully amortized portfolios	$ 22,599,000	$ 3,225,000	$ 25,824,000
Non-fully amortized portfolios	932,000		932,000
Finance income recognized	$ 23,531,000	$ 3,225,000	$ 26,756,000

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	For the Three Months Ended June 30, 2014		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 6,970,000	$ 45,101,000	$ 52,071,000
Acquisition of receivable portfolio		2,733,000	2,733,000
Net cash collections from collection of consumer receivables acquired for liquidation	(6,348,000)	(3,691,000)	(10,039,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(2,000)		(2,000)
Impairment	(1,056,000)	(18,845,000)	(19,901,000)
Transfer to cost recovery	(5,461,000)	5,461,000	
Finance income recognized (1)	5,897,000	755,000	6,652,000
Balance, end of period	$ 0	$ 31,514,000	$ 31,514,000
Finance income as a percentage of collections	92.9%	20.5%	66.2%

(1) The following table summarizes finance income from fully amortized and non-fully amortized portfolios:

Fully amortized portfolios	$ 5,777,000	$ 755,000	$ 6,532,000
Non-fully amortized portfolios	120,000		120,000
Finance income recognized	$ 5,897,000	$ 755,000	$ 6,652,000

	For the Three Months Ended June 30, 2013		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 6,813,000	$ 68,011,000	$ 74,824,000
Acquisition of receivable portfolio	3,340,000		3,340,000
Net cash collections from collection of consumer receivables acquired for liquidation	(8,611,000)	(4,807,000)	(13,418,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(970,000)	(1,037,000)	(2,007,000)
Impairment		(10,148,000)	(10,148,000)
Finance income recognized (1)	8,534,000	1,469,000	10,003,000

Balance, end of period	$ 9,106,000	$ 53,488,000	$ 62,594,000
Finance income as a percentage of collections	89.1%	25.1%	64.8%

(1) The following table summarizes finance income from fully amortized and non-fully amortized portfolios:

Fully amortized portfolios	$ 8,280,000	$ 1,469,000	$ 9,749,000
Non-fully amortized portfolios	254,000		254,000
Finance income recognized	$ 8,534,000	$ 1,469,000	$ 10,003,000

All remaining interest method portfolios were transferred to cost recovery effective June 30, 2014. As of that date, we no longer recognize deferred finance income.

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Off Balance Sheet Arrangements

As of June 30, 2014, we did not have any relationships with unconsolidated entities or financial partners, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Additional Supplementary Information:

We do not anticipate collecting the majority of the purchased principal amounts. 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.

Collections Represented by Account Sales

Period	Collections Represented By Account Sales	Finance Income Earned
Nine months ended June 30, 2014	$ 4,000	$ 2,000
Three months ended June 30, 2014	$ 2,000	$ 1,000
Nine months ended June 30, 2013	$ 2,024,000	$ 1,592,000
Three months ended June 30, 2013	$ 2,007,000	$ 1,583,000

Portfolio Performance (1)

(*Interest method portfolios only*)

Purchase Period	Purchase Price (2)	Cash Collections Including Cash Sales (3)	Estimated Remaining Collections (4)	Total Estimated Collections (5)	Total Estimated Collections as a Percentage of Purchase Price
2001	$ 65,120,000	$ 105,766,000	$	$ 105,766,000	162%
2002	36,557,000	48,329,000		48,329,000	132%
2003	115,626,000	224,590,000		224,590,000	194%

2004	103,743,000	194,654,000	194,654,000	188%
2005	126,023,000	230,760,000	230,760,000	183%
2006	163,392,000	276,799,000	276,799,000	169%
2007	109,235,000	111,216,000	111,216000	102%
2008	26,626,000	54,125,000	54,125,000	203%
2009	19,127,000	41,824,000	41,824,000	219%
2010	7,212,000	24,473,000	24,473,000	339%
2011				
2012				
2013(6)	3,341,000	390,000	390,000	12%
2014				

(1) Total collections do not represent full collections of the Company with respect to this or any other year.
(2) Purchase price refers to the cash paid to a seller to acquire a portfolio less the purchase price refunded by a seller due to the return of non-compliant accounts (also defined as put-backs).
(3) Net cash collections include: net collections from our third-party collection agencies and attorneys, net collections from our in-house efforts and collections represented by account sales.
(4) Does not include collections from portfolios that are zero basis.
(5) Total estimated collections refer to the actual net cash collections, including cash sales, plus estimated remaining net collections.
(6) Portfolio transferred to cost recovery method effective June 30, 2014.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (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, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact this update will have on our consolidated financial statements as well as the expected adoption method.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this ASU require two accounting changes. First, the amendments in this ASU change the accounting for repurchase-to maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. This ASU also includes new disclosure requirements. The accounting changes in this Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited. The Company is currently reviewing this ASU to determine if it will have an impact on its consolidated 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 changes in corporate tax rates. At June 30, 2014, our Receivable Financing Agreement, which had been variable debt, had an outstanding balance of $0. The debt associated with our acquisition of CBC, had a balance of approximately $27.4 million, consisting of $14.4 million through a line of credit, at a rate of 4.75%, from a financial institution, and $13.0 million of notes at varying rates, from 7.125% to 8.75%, issued by CBC s subsidiaries. We do not currently invest in derivative financial or commodity instruments.

Item 4. Controls and Procedures

a. Disclosure Controls and Procedures

As of June 30, 2014, we carried out the evaluation of the effectiveness of our disclosure controls and procedures required by Rule 13a-15(e) under the Exchange Act under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2014, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b. Changes in Internal Controls Over Financial Reporting.

There have been certain improvements in our internal control over financial reporting during the third quarter ended June 30, 2014. These changes have not materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of our business, we are involved in numerous legal proceedings. We regularly initiate collection lawsuits, using 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 material litigation in which we are a defendant.

Item 1A. Risk factors

As a result of the acquisition of CBC Settlement Funding, LLC on December 31, 2013, the following risk factor was disclosed in the first quarter of fiscal year 2014:

We are subject to various risks in connection with our structured settlement funding business.

Risks of the structured settlement funding business include the potential regulation that could stem from the Dodd Frank Act, state regulation and/or any other change in statutory or case law which may limit or restrict the ability of our structured settlement business to: make investments; the effectiveness of our marketing programs; and our ability to continue to grow the volume of structured settlements. Our failure or inability to execute any element of our business strategy could materially adversely affect our business, financial position and results of operations.

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

None

Item 3. Default Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

Unresolved SEC Staff Comments

The Company received several comment letters beginning on March 7, 2014 from the Securities and Exchange Commission (SEC) concerning its Annual Report on Form 10-K for the fiscal year ended September 30, 2013. The SEC requested, among other things, information concerning the Company s revenue recognition policy on consumer receivables acquired for liquidation and the Company s application of Generally Accepted Accounting Principles in the United States (GAAP) thereon. The Company is in the process of addressing the questions raised by the SEC. The Company accounts for its investment in consumer receivables acquired for liquidation under ASC 310-30 - Loans and Debt Securities Acquired with Deteriorated Credit Quality and believes it has accounted for this investment and the related revenue in accordance with GAAP.

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Item 6. Exhibits

(a) Exhibits.

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, Robert J. Michel, 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

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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 18, 2014	By: /s/ Gary Stern Gary Stern, President, Chief Executive Officer (Principal Executive Officer)
Date: August 18, 2014	By: /s/ Robert J. Michel Robert J. Michel, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

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