

ASTA FUNDING INC
Form 10-Q/A
June 25, 2015
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A

Amendment #1

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

For the quarterly period ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 001-35637

ASTA FUNDING, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3388607
(IRS Employer
Identification No.)

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

07632
(Zip Code)

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

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐

No ☒

As of June 20, 2015, the registrant had 13,060,839 common shares outstanding.

Table of Contents

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-Q/A to revise and restate the following items of our Quarterly Report on Form 10-Q for the quarter ended December 31, 2013 as originally filed with the Securities and Exchange Commission on February 10, 2014 (the "Original Form 10-Q"): (i) Item 1 of Part I Financial Information, (ii) Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations, (iii) Item 4 of Part I, Controls and Procedures, and (iv) Item 6 of Part II, Exhibits, and we have also updated the signature page, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to reflect the revision and restatement described below. We previously reported finance income for certain portfolios of consumer receivables acquired for liquidation using the interest method ("interest method portfolios") in accordance with the guidance of FASB Accounting Standards Codification ("ASC"), Receivables, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30). We subsequently concluded that it is more appropriate to recognize finance income on these portfolios using the cost recovery method in accordance with ASC 310-30, and to reflect the change in accounting method in results of operations for the quarter ended December 31, 2013. The effect on the restated results of operations for the quarterly period ended December 31, 2013, was a reduction of pretax income of \$2.3 million with an associated tax benefit of \$0.8 million which resulted in Net Income attributable to Asta Funding, Inc. of \$0.9 million or \$0.07 per share from \$2.4 million or \$0.18 per share. The effect on the comparable quarterly period ended December 31, 2012 was not material. In addition, we identified certain pre-tax misstatements in prior periods related to our accounting for interest method portfolios accounted for under ASC 310-30. The misstatement resulted in an increase in the carrying value of interest method portfolios of approximately \$6.4 million, with an associated decrease in deferred tax assets of approximately \$2.7 million as of September 30, 2013. The impact of the misstatement in prior years' financial statements was not material to any of those years, however, the cumulative effect of correcting all of the prior period misstatements in the current year would be material to our current year consolidated financial statements. As such, we have accounted for the cumulative effect of this misstatement as an adjustment to the beginning balance of retained earnings of approximately \$3.7 million as of September 30, 2013, in this quarterly report for the period ended December 31, 2013. See Note 2 to the condensed consolidated financial statements for more information.

Table of Contents

ASTA FUNDING, INC.

INDEX TO FORM 10-Q/A

<u>Part I. Financial Information</u>	3
<u>Item 1. Condensed Consolidated Financial Statements</u> (As Restated and As Revised)	3
<u>Condensed Consolidated Balance Sheets as of December 31, 2013 and September 30, 2013 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Income for the three month periods ended December 31, 2013 and 2012 (unaudited)</u>	4
<u>Condensed Consolidated Statement of Comprehensive Income for the three month periods ended December 31, 2013 and 2012 (unaudited)</u>	5
<u>Condensed Consolidated Statement of Stockholders' Equity for the three month period ending December 31, 2013 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the three month periods ended December 31, 2013 and 2012 (unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	47
<u>Item 4. Controls and Procedures</u>	47
<u>Part II. Other Information</u>	48
<u>Item 1. Legal Proceedings</u>	48
<u>Item 1A. Risk Factors</u>	48
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 3. Defaults Upon Senior Securities</u>	48
<u>Item 4. Mine Safety Disclosures</u>	48
<u>Item 5. Other Information</u>	48
<u>Item 6. Exhibits</u>	49
<u>Signatures</u>	50
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

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

	December 31, 2013 (As Restated)⁽¹⁾	September 30, 2013 (As Revised)⁽¹⁾
ASSETS		
Cash and cash equivalents	\$ 36,103,000	\$ 35,179,000
Available for sale investments	58,479,000	58,035,000
Restricted cash	948,000	968,000
Consumer receivables acquired for liquidation (at net realizable value)	59,218,000	64,254,000
Structured settlements	30,436,000	
Investment in personal injury claims	30,489,000	35,758,000
Due from third party collection agencies and attorneys	679,000	1,169,000
Prepaid and income taxes receivable	251,000	1,496,000
Furniture and equipment, net	956,000	1,106,000
Deferred income taxes	8,286,000	7,772,000
Goodwill	2,770,000	1,410,000
Other assets	4,721,000	4,383,000
Total assets	\$ 233,336,000	\$ 211,530,000
LIABILITIES		
Non-recourse debt - Bank of Montreal	\$ 33,132,000	\$ 35,760,000
Other debt - CBC (including non-recourse notes payable amounting to \$13.8 million at December 31, 2013)	23,363,000	
Other liabilities	2,106,000	2,486,000
Total liabilities	58,601,000	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 at December 31, 2013 and September 30, 2013; and outstanding 12,974,239 at December 31, 2013 and September 30, 2013	14,917,977 149,000	14,917,977 149,000

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

Additional paid-in capital	79,522,000	79,104,000
Retained earnings	113,641,000	112,694,000
Accumulated other comprehensive loss	(755,000)	(674,000)
Treasury stock (at cost), 1,943,738 shares at December 31, 2013 and September 30, 2013	(17,805,000)	(17,805,000)
Non-controlling interest	(17,000)	(184,000)
Total stockholders' equity	174,735,000	173,284,000
 Total liabilities and stockholders' equity	 \$ 233,336,000	 \$ 211,530,000

(1) For discussion on the adjustments, see Note 2 – Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements.

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended December 31, 2013 (As Restated)⁽¹⁾	Three Months Ended December 31, 2012 (As Revised)⁽¹⁾
Revenues		
Finance income, net	\$ 4,648,000	\$ 8,430,000
Other income (includes (\$25,000) and \$175,000 during the three month periods ended December 31, 2013 and 2012, respectively, of accumulated other comprehensive income reclassification for unrealized net (losses) / gains on available for sale securities)	3,322,000	2,062,000
	7,970,000	10,492,000
Expenses		
General and administrative	5,767,000	5,593,000
Interest expense	9,000	569,000
Impairments		106,000
	5,776,000	6,268,000
Income before income taxes	2,194,000	4,224,000
Income tax expense (includes tax benefit / (expense) of \$10,000 and (\$71,000) during the three month periods ended December 31, 2013 and 2012, respectively, of accumulated other comprehensive income reclassifications for unrealized net (losses) / gains on available for sale securities)	798,000	1,691,000
Net income	1,396,000	2,533,000
Less: net income attributable to non-controlling interest	449,000	45,000
Net income attributable to Asta Funding, Inc.	\$ 947,000	\$ 2,488,000
Net income per share attributable to Asta Funding, Inc.:		
Basic	\$ 0.07	\$ 0.19
Diluted	\$ 0.07	\$ 0.19
Weighted average number of shares outstanding:		
Basic	12,974,239	12,941,242

Diluted	13,200,084	13,200,116
---------	------------	------------

- (1) For discussion on the adjustments, see Note 2 Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements.

See Notes to Condensed Consolidated Financial Statements

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income****December 31, 2013 and 2012****(Unaudited)**

	Three Months Ended December 31, 2013 (As Restated)⁽¹⁾	Three Months Ended December 31, 2012 (As Revised)⁽¹⁾
Comprehensive income is as follows:		
Net income	\$ 1,396,000	\$ 2,533,000
Net unrealized securities loss, net of tax benefit of \$58,000 and \$288,000 during the 3 month periods ended December 31, 2013 and 2012, respectively	(66,000)	(419,000)
Reclassification adjustments for securities sold during the period, net of tax benefit / (expense) of \$10,000 and (\$71,000) for the 3 months ended December 2013 and 2012, respectively	(15,000)	98,000
Other comprehensive loss	(81,000)	(321,000)
Total comprehensive income	\$ 1,315,000	\$ 2,212,000

(1) For discussion on the adjustments, see Note 2 Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements.

See Notes to Condensed Consolidated Financial Statements

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

	Common Stock		Additional	Retained	Accumulated	Treasury	Non-	Total
	Shares	Amount	Paid-in	Earnings	Other	Stock (1)	Controlling	Stockholders
			Capital		Comprehensive		Interest	Equity
					Loss			
Balance, September 30, 2013, as reported	14,917,977	\$ 149,000	\$ 79,104,000	\$ 109,011,000	\$ (674,000)	(\$ 17,805,000)	\$ (184,000)	\$ 169,601,000
Cumulative impact of prior period revisions				3,683,000				3,683,000
Balance, September 30, 2013, as revised(2)	14,917,977	149,000	79,104,000	112,694,000	(674,000)	(17,805,000)	(184,000)	173,284,000
Stock based compensation expense			418,000					418,000
Net income, as restated				947,000			449,000	1,396,000
Unrealized loss on marketable securities					(81,000)			(81,000)
Distributions to non-controlling interest							(282,000)	(282,000)
Balance, December 31, 2013, as restated	14,917,977	\$ 149,000	\$ 79,522,000	\$ 113,641,000	\$ (755,000)	(\$ 17,805,000)	\$ (17,000)	\$ 174,735,000

(1) Treasury shares are as follows: September 30, 2013, 1,923,738; December 31, 2013, 1,923,738.

(2) For discussion on the adjustment, see Note 2 Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements.

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended December 31, 2013 (As Restated)⁽¹⁾	Three Months Ended December 31, 2012 (As Revised)⁽¹⁾
Cash flows from operating activities		
Net income	\$ 1,396,000	\$ 2,533,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	150,000	150,000
Deferred income taxes	(446,000)	312,000
Impairments of consumer receivables acquired for liquidation		106,000
Stock based compensation	418,000	439,000
Loss / (gain) on sale of available-for-sale securities	25,000	(175,000)
Changes in:		
Prepaid and income taxes receivable	1,245,000	1,349,000
Due from third party collection agencies and attorneys	490,000	959,000
Other assets	(327,000)	(475,000)
Other liabilities	(736,000)	(446,000)
Net cash provided by operating activities	2,215,000	4,752,000
Cash flows from investing activities		
Purchase of consumer receivables acquired for liquidation	(520,000)	
Principal collected on receivables acquired for liquidation	5,556,000	5,175,000
Principal collected on receivables accounts represented by account sales		5,000
Purchase of available-for-sale securities	(5,618,000)	(23,674,000)
Proceeds from sale of available-for-sale securities	5,000,000	23,208,000
Proceeds from maturities of certificates of deposit		13,900,000
Cash paid for acquisition (net of cash acquired)	(5,588,000)	
Investments in personal injury claims advances	(4,519,000)	(7,597,000)
Investments in personal injury claims receipts	9,788,000	3,193,000
Capital expenditures		(674,000)
Net cash provided by investing activities	4,099,000	13,536,000
Cash flows from financing activities		
Proceeds from exercise of stock options		11,000
Changes in restricted cash	20,000	361,000
Distribution to non-controlling interest	(282,000)	

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

Repayment of non-recourse debt - Bank of Montreal	(2,628,000)	(2,620,000)
Repayment of other debt CBC	(2,500,000)	
Dividends paid		(1,290,000)
Purchase of treasury stock		(1,386,000)
Net cash used in financing activities	(5,390,000)	(4,924,000)
Net increase in cash and cash equivalents	924,000	13,364,000
Cash and cash equivalents at beginning of period	35,179,000	4,953,000
Cash and cash equivalents at end of period	\$ 36,103,000	\$ 18,317,000
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 10,000	\$ 572,000
Supplemental disclosures of non-cash investing and financing activities:		
Structured settlements	\$ 30,436,000	\$
Other debt CBC	23,363,000	

- (1) For discussion on the adjustments, see Note 2 Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements.

See Notes to Condensed Consolidated Financial Statements

Table of Contents

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), AGR Disability Help Center, LLC (AGR-DHC) 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 newly-acquired CBC Settlement Funding, LLC (CBC), which invests in structured settlements (see Note 6: Acquisition of CBC).

AGR-DHC is a disability advocacy group, assisting disabled individuals filing claims for disability benefits under the Social Security Act, from the filing of a claim to disability claim hearings and, if necessary, the appeals process.

Basis of Presentation

The condensed consolidated balance sheets as of December 31, 2013, the condensed consolidated statements of income for the three month periods ended December 31, 2013 and 2012, the condensed consolidated statements of comprehensive income for the three month periods ended December 31, 2013 and 2012, the condensed consolidated statement of stockholders' equity as of and for the three months ended December 31, 2013 and the condensed consolidated statements of cash flows for the three month periods ended December 31, 2013 and 2012, 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 December 31, 2013 and September 30, 2013, the results of operations for the three month periods ended December 31, 2013 and 2012 and cash flows for the three month periods ended December 31, 2013 and 2012 have been made. The results of operations for the three month periods ended December 31, 2013 and 2012 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. It also has the rights to receive benefits from the collections that exceed the payments to Bank of Montreal. Palisades XVI holds the Great Seneca portfolio of \$40.9 million and the Bank of Montreal loan of \$33.1 million as of December 31, 2013.

Blue Bell Receivables I, LLC, Blue Bell 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 \$15.5 million and the non-recourse notes payable of \$13.8 million as of December 31, 2013.

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.

Table of Contents

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.

Concentration of Credit Risk - Cash

Cash balances are maintained at various depository institutions and are insured by the Federal Deposit Insurance Corporation (FDIC). The Company had cash balances with seven banks at December 31, 2013 that exceeded the balance insured by the FDIC by approximately \$32.1 million. The Company had cash balances with three banks which amounted to approximately \$31.3 million as of December 31, 2013.

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the Condensed Consolidated Balance Sheet date of December 31, 2013, for items that should potentially be recognized or disclosed in these financial statements. The Company did not identify any items which would require disclosure in or adjustment to the Financial Statements, except as indicated in Note 20.

Reclassifications

Certain items in the prior period's financial statements have been reclassified to conform to the current period's presentation, primarily related to certain balance sheet and cash flow items.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 2 Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements

Restatement of Quarterly Financial Statements for the Period Ended December 31, 2013

Our previously reported results for the quarter ended December 31, 2013, reported finance income on the interest method in accordance with FASB *Accounting Standards Codification (ASC) 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality*. However, due to the Company's inability to reasonably estimate the cash collections under the interest method, as highlighted by the error identified below **Revision of Prior Period Annual Financial Statements** the Company was precluded from using the interest method and determined that the cost recovery method is the appropriate accounting method under the circumstances and has made adjustments to reflect the cost recovery method prospectively in the first interim period for the fiscal year ended September 30, 2014. The Company has concluded that the change to the cost recovery method should have occurred on October 1, 2013 instead of June 30, 2014 when it was originally reported. This change was also an error and has been corrected in this report on Form 10-Q/A. As disclosed in the detail that follows, the effect on the quarterly period ended December 31, 2013 was a reduction of finance income of approximately \$2.3 million with an associated tax benefit of approximately \$0.8 million which resulted in Net Income attributable to Asta Funding, Inc. of \$0.9 million or \$0.07 per share from \$2.4 million or \$0.18 per share.

Revision of Prior Period Annual Financial Statements

In addition, we identified pre-tax errors in prior annual periods related to the application of the interest method for consumer receivables acquired for liquidation and accounted for under ASC 310-30. During those prior annual periods, the Company had determined the effective yield for its distressed consumer receivable portfolios by analyzing actual cash flows versus the amount of cash flows expected to be collected over the life of the loan as opposed to performing this analysis using the current cash flow variations (i.e., actual versus estimated cash flows within a particular quarter). As disclosed in the detail that follows, this misstatement resulted in an increase in finance receivables of approximately \$6.4 million, with a decrease in deferred taxes of approximately \$2.7 million and a resulting increase to retained earnings of approximately \$3.7 million in this Form 10-Q/A as of September 30, 2013. The impact of the misstatements in the prior years' financial statements was not material to any of those years or interim periods, respectively, however, the cumulative effect of correcting all of the prior period misstatements in fiscal year 2014 would be material to our fiscal year 2014 consolidated financial statements. As such, consistent with the guidance in ASC Topic 250, *Accounting Changes and Error Corrections* we have accounted for these errors as a revision of prior period financial statements.

In evaluating whether the previously issued financial statements were materially misstated, the Company applied SEC Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB No. 108 states that registrants must quantify the impact of correcting all misstatements, including both the carryover (iron curtain method) and reversing (rollover method) effects of prior-year misstatements on the current-year financial statements, and by evaluating the misstatement measured under each method in light of quantitative and qualitative factors.

Under SAB No. 108, prior-year misstatements which, if corrected in the current year would be material, must be corrected by adjusting prior year financial statements, even though such correction previously was and continues to be immaterial to the prior-year financial statements. Correcting prior-year financial statements for such immaterial misstatements does not require previously filed reports to be amended. In accordance with accounting guidance presented in ASC 250-10 (SEC Staff Accounting Bulletin No. 99, Materiality), the Company assessed the materiality of the misstatements and concluded that they were not material to any of the Company's previously issued annual or interim period financial statements.

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

Due to the immaterial nature of the misstatement corrections, the cumulative adjustments required to correct the misstatements in the financial statements prior to the fiscal year ended September 30, 2013 are reflected in the revised stockholders' equity as an adjustment to the beginning balance of retained earnings as of September 30, 2013. The cumulative effect of those adjustments increased previously reported retained earnings by approximately \$3.7 million. These adjustments also cumulatively impacted the following balance sheet line items as of September 30, 2013:

ASTA FUNDING, INC. AND SUBSIDIARIES**Consolidated Balance Sheet**

	September 30, 2013		
	As Reported	Adjustments	As Revised
ASSETS			
Cash and cash equivalents	\$ 35,179,000	\$ 0	\$ 35,179,000
Investments - available-for-sale	58,035,000	0	58,035,000
Restricted cash	968,000	0	968,000
Consumer receivables acquired for liquidation (at net realizable value)	57,900,000	6,354,000	64,254,000
Investment in personal injury claims	35,758,000	0	35,758,000
Due from third party collection agencies and attorneys	1,169,000	0	1,169,000
Prepaid and income taxes receivable	1,496,000	0	1,496,000
Furniture and equipment, net (net of accumulated depreciation of \$4,136,000)	1,106,000	0	1,106,000
Deferred income taxes	10,443,000	(2,671,000)	7,772,000
Goodwill	1,410,000	0	1,410,000
Other assets	4,383,000	0	4,383,000
Total assets	\$ 207,847,000	\$ 3,683,000	\$ 211,530,000
LIABILITIES AND STOCKHOLDERS' EQUITY			
Liabilities			
Non-recourse debt	\$ 35,760,000	\$ 0	\$ 35,760,000
Other liabilities	2,486,000	0	2,486,000
Total liabilities	38,246,000	0	38,246,000
Commitments and contingencies			
STOCKHOLDERS' EQUITY			

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

Preferred stock, \$0.01 par value; authorized 5,000,000; issued and outstanding	none		
Common stock, \$.01 par value, authorized 30,000,000 shares; issued, 14,917,977, and outstanding 12,974,239	149,000	0	149,000
Additional paid in capital	79,104,000	0	79,104,000
Retained earnings	109,011,000	3,683,000	112,694,000
Accumulated other comprehensive loss, net of income taxes	(674,000)	0	(674,000)
Treasury stock (at cost), 1,943,738 shares	(17,805,000)	0	(17,805,000)
Non-controlling interest	(184,000)	0	(184,000)
Total stockholders' equity	169,601,000	3,683,000	173,284,000
Total liabilities and stockholders' equity	\$ 207,847,000	\$ 3,683,000	\$ 211,530,000

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The adjustments discussed above also cumulatively impacted the following balance sheet line items as of December 31, 2013:

ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet

	December 31, 2013		
	As Reported	Adjustments	As Restated
ASSETS			
Cash and cash equivalents	\$ 36,103,000	\$ 0	\$ 36,103,000
Available for sale investments	58,479,000	0	58,479,000
Restricted cash	948,000	0	948,000
Consumer receivables acquired for liquidation (at net realizable value)	55,131,000	4,087,000	59,218,000
Structured settlements	30,436,000	0	30,436,000
Investment in personal injury claims	30,489,000	0	30,489,000
Due from third party collection agencies and attorneys	679,000	0	679,000
Prepaid and income taxes receivable	251,000	0	251,000
Furniture and equipment, net	956,000	0	956,000
Deferred income taxes	10,132,000	(1,846,000)	8,286,000
Goodwill	2,770,000	0	2,770,000
Other assets	4,721,000	0	4,721,000
 Total assets	 \$ 231,095,000	 \$ 2,241,000	 \$ 233,336,000
LIABILITIES AND STOCKHOLDERS' EQUITY			
Non-recourse debt Bank of Montreal	\$ 33,132,000	\$ 0	\$ 33,132,000
Other debt CBC (including non-recourse notes payable amounting to \$13.8 million)	23,363,000	0	23,363,000
Other liabilities	2,106,000	0	2,106,000
 Total liabilities	 58,601,000	 0	 58,601,000

Commitments and contingencies

STOCKHOLDERS' EQUITY

Preferred stock, \$0.01 par value; authorized 5,000,000 shares;
issued and outstanding - none

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

Common stock, \$.01 par value, authorized 30,000,000 shares; issued, 14,917,977, and outstanding 12,974,239	149,000	0	149,000
Additional paid in capital	79,522,000	0	79,522,000
Retained earnings	111,400,000	2,241,000	113,641,000
Accumulated other comprehensive loss	(755,000)	0	(755,000)
Treasury stock (at cost), 1,943,738 shares	(17,805,000)	0	(17,805,000)
Non-controlling interest	(17,000)	0	(17,000)
Total stockholders' equity	172,494,000	2,241,000	174,735,000
Total liabilities and stockholders' equity	\$ 231,095,000	\$ 2,241,000	\$ 233,336,000

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The adjustments discussed above, for applying the cost recovery method, net of the related income tax benefit impact, resulted in an overstatement of net income of approximately \$1.4 million for the quarterly period ended December 31, 2013. The restatement of the quarterly period ended December 31, 2013 is as follow:

ASTA FUNDING, INC. AND SUBSIDIARIES**Condensed Consolidated Statement of Income**

	Three Months Ended December 31, 2013		
	As Reported	Adjustments	As Restated
Revenues			
Finance income, net	\$ 6,915,000	\$ (2,267,000)	\$ 4,648,000
Other income (includes \$25,000 during the three month period ended December 31, 2013 of accumulated other comprehensive income reclassification for unrealized net losses on available for sale securities)	3,322,000	0	3,322,000
	10,237,000	(2,267,000)	7,970,000
Expenses			
General and administrative	5,767,000	0	5,767,000
Interest expense	9,000	0	9,000
	5,776,000	0	5,776,000
Income before income taxes	4,461,000	(2,267,000)	2,194,000
Income tax expense (includes tax benefit of \$10,000 during the three month period ended December 31, 2013 of accumulated other comprehensive income reclassifications for unrealized net (losses) / gains on available for sale securities)	1,623,000	(825,000)	798,000
Net income	2,838,000	(1,442,000)	1,396,000
Less: net income attributable to non-controlling interest	449,000	0	449,000
Net income attributable to Asta Funding, Inc.	\$ 2,389,000	\$ (1,442,000)	\$ 947,000

Net income per share attributable to Asta Funding, Inc.:

Basic	\$	0.18	\$	(0.11)	\$	0.07
-------	----	------	----	--------	----	------

Diluted	\$	0.18	\$	(0.11)	\$	0.07
---------	----	------	----	--------	----	------

Weighted average number of shares outstanding:

Basic	12,974,239	0	12,974,239
-------	------------	---	------------

Diluted	13,200,084	0	13,200,084
---------	------------	---	------------

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The adjustments discussed above, net of the related income tax expense impact, resulted in an understatement of net income of approximately \$0.1 million for the quarterly period ended December 31, 2012. The revision of the quarterly period ended December 31, 2012 is as follows:

ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Income

	Three Months Ended December 31, 2012		
	As Reported	Adjustments	As Revised
Revenues			
Finance income, net	\$ 8,490,000	\$ (60,000)	\$ 8,430,000
Other income (includes \$175,000 during the three month period ended December 31, 2012 of accumulated other comprehensive income reclassification for unrealized net gains on available for sale securities)	2,062,000	0	2,062,000
	10,552,000	(60,000)	10,492,000
Expenses			
General and administrative	5,593,000	0	5,593,000
Interest expense	569,000	0	569,000
Impairments of consumer receivables acquired for liquidation	0	106,000	106,000
	6,162,000	106,000	6,268,000
Income before income taxes	4,390,000	(166,000)	4,224,000
Income tax expense (includes expense of \$71,000 during the three month periods ended December 31, 2012 of accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities)	1,757,000	(66,000)	1,691,000
Net income	2,633,000	(100,000)	2,533,000
Less: net income attributable to non-controlling interest	45,000	0	45,000

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

Net income attributable to Asta Funding, Inc.	\$ 2,588,000	\$ (100,000)	\$ 2,488,000
---	--------------	--------------	--------------

Net income per share attributable to Asta Funding, Inc.:

Basic	\$ 0.20	\$ (0.01)	\$ 0.19
-------	---------	-----------	---------

Diluted	\$ 0.20	\$ (0.01)	\$ 0.19
---------	---------	-----------	---------

Weighted average number of shares outstanding:

Basic	12,941,242	12,941,242
-------	------------	------------

Diluted	13,200,116	13,200,116
---------	------------	------------

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The adjustments discussed above also resulted in changes to previously reported amounts in our consolidated statements of cash flows. The previously reported changes in operating assets and liabilities in the reconciliation of net income to cash provided by operating activities have been restated and revised as detailed in the tables below.

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

	Three Months Ended December 31, 2013		
	As Reported	Adjustments	As Restated
Cash flows from operating activities			
Net income	\$ 2,838,000	\$ (1,442,000)	\$ 1,396,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	150,000	0	150,000
Deferred income taxes	379,000	(825,000)	(446,000)
Stock based compensation	418,000	0	418,000
Loss / (gain) on sale of available-for-sale securities	25,000	0	25,000
Changes in:			
Prepaid and income taxes receivable	1,245,000	0	1,245,000
Due from third party collection agencies and attorneys	490,000	0	490,000
Other assets	(327,000)	0	(327,000)
Other liabilities	(736,000)	0	(736,000)
Net cash provided by operating activities	4,482,000	(2,267,000)	2,215,000
Cash flows from investing activities			
Purchase of consumer receivables acquired for liquidation	(520,000)	0	(520,000)
Principal collected on receivables acquired for liquidation	3,289,000	2,267,000	5,556,000
Purchase of available-for-sale securities	(5,618,000)	0	(5,618,000)
Proceeds from sale of available-for-sale securities	5,000,000	0	5,000,000
Cash paid for acquisition (net of cash acquired)	(5,588,000)	0	(5,588,000)
Investments in personal injury claims advances	(4,519,000)	0	(4,519,000)
Investments in personal injury claims receipts	9,788,000	0	9,788,000
Net cash provided by investing activities	1,832,000	2,267,000	4,099,000

Cash flows from financing activities			
Changes in restricted cash	20,000	0	20,000
Distribution to non-controlling interest	(282,000)	0	(282,000)
Repayment of non-recourse debt - Bank of Montreal	(2,628,000)	0	(2,628,000)
Repayment of other debt CBC	(2,500,000)	0	(2,500,000)
Net cash used in financing activities	(5,390,000)	0	(5,390,000)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of period	35,179,000	0	35,179,000
Cash and cash equivalents at end of period	\$ 36,103,000	\$	0 \$ 36,103,000
Supplemental disclosure of cash flow information :			
Cash paid for:			
Interest	\$ 10,000	0	\$ 10,000
Supplemental disclosures of non-cash investing and financing activities:			
Structured settlements	\$ 30,436,000	0	\$ 30,436,000
Other debt CBC	23,363,000	0	23,363,000

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows

	Three Months Ended December 31, 2012		
	As Reported	Adjustments	As Revised
Cash flows from operating activities			
Net income	\$ 2,633,000	\$ (100,000)	\$ 2,533,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	150,000	0	150,000
Deferred income taxes	379,000	(67,000)	312,000
Impairments of consumer receivables acquired for liquidation		106,000	106,000
Stock based compensation	439,000	0	439,000
Loss / (gain) on sale of available-for-sale securities	(175,000)	0	(175,000)
Changes in:			
Prepaid and income taxes receivable	1,349,000	0	1,349,000
Due from third party collection agencies and attorneys	959,000	0	959,000
Other assets	(475,000)	0	(475,000)
Other liabilities	(446,000)	0	(446,000)
Net cash provided by operating activities	4,813,000	(61,000)	4,752,000
Cash flows from investing activities			
Principal collected on receivables acquired for liquidation	5,114,000	61,000	5,175,000
Principal collected on receivables accounts represented by account sales	5,000	0	5,000
Purchase of available-for-sale securities	(23,674,000)	0	(23,674,000)
Proceeds from sale of available-for-sale securities	23,208,000	0	23,208,000
Proceeds from maturities of certificates of deposit	13,900,000	0	13,900,000
Investments in personal injury claims advances	(7,597,000)	0	(7,597,000)
Investments in personal injury claims receipts	3,193,000	0	3,193,000
Capital expenditures	(674,000)	0	(674,000)
Net cash provided by investing activities	13,475,000	61,000	13,536,000
Cash flows from financing activities			
Proceeds from exercise of stock options	11,000	0	11,000

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

Changes in restricted cash	361,000	0	361,000
Repayment of non-recourse debt - Bank of Montreal	(2,620,000)	0	(2,620,000)
Dividends paid	(1,290,000)	0	(1,290,000)
Purchase of treasury stock	(1,386,000)	0	(1,386,000)
Net cash used in financing activities	(4,924,000)	0	(4,924,000)
Net increase in cash and cash equivalents	13,364,000	0	13,364,000
Cash and cash equivalents at beginning of period	4,953,000	0	4,953,000
Cash and cash equivalents at end of period	\$ 18,317,000	0	\$ 18,317,000
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	\$ 572,000	\$ 0	\$ 572,000

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 3 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 4 Investments***Available-for-Sale***

Investments classified as available-for-sale at December 31, 2013 and September 30, 2013, consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2013	\$ 59,744,000	\$	\$ (1,265,000)	\$ 58,479,000
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 one investment during the first quarter of fiscal year 2014, with an aggregate realized loss of \$25,000. Additionally, the Company received \$186,000 in capital gains distributions during the first quarter of fiscal year 2014. The Company recorded a total of \$161,000 in realized gain related to its available-for sale investments during the first quarter of fiscal year 2014. In the first quarter of fiscal year 2013, the Company sold two investments with an aggregate realized gain of \$175,000 and also received \$225,000 in capital gains distributions during that quarter. The Company recorded an aggregate realized gain of \$400,000 related to its available-for-sale securities during the first quarter of fiscal year 2013.

At December 31, 2013, there were six investments, all in an unrealized loss position, four of which had current unrealized losses that had existed for 12 months or more. All of these securities are considered to be acceptable credit risks. Based on the evaluation of the available evidence, including recent changes in market rates and credit rating information, management believes the aggregate decline in fair value for these instruments is temporary. In addition, management has the ability to hold these investment securities for a period of time sufficient to allow for an anticipated recovery or maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 Consumer Receivables Acquired for Liquidation (Restated and Revised)

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

the interest method; or

the cost recovery method.

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

Although the Company has switched to the cost recovery method on its current inventory of portfolios, the Company must still analyze a portfolio upon acquisition and once a static pool is established for a quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30 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 310-30 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. Material variations of cash flow estimates are recorded in the quarter such variations are determined. 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 and, as described above, has prospectively adopted the cost recovery method for all portfolios for the period ended December 31, 2013. Under the cost recovery method, no income is recognized until the cost of the portfolio has been fully recovered. Afterwards, 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 will analyze a portfolio to determine if the interest method is appropriate for accounting for asset acquisitions within these classes of receivables when it believes it can 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, with an appropriate degree of precision, the Company utilizes the cost recovery method of accounting for those portfolios of receivables. At December 31, 2013, all of the portfolios are accounted for on the cost recovery method, of which \$40.9 million is concentrated in one portfolio, the remaining value of a \$300 million portfolio purchase in March 2007 (the Portfolio Purchase).

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 Consumer Receivables Acquired for Liquidation (Restated and Revised) (continued)

The Company aggregates portfolios of receivables acquired sharing specific common characteristics which were acquired within a given quarter. The Company currently considers 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.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5 Consumer Receivables Acquired for Liquidation (Restated and Revised) *(continued)*

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

RESTATED			
For the Three Months Ended December 31, 2013			
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period, as previously reported	\$ 8,071,000	\$ 49,829,000	\$ 57,900,000
Balance transferred to cost recovery prior period adjustment	(1,304,000)	1,304,000	
Adjustment for misapplication of the interest method to prior periods	6,354,000		6,354,000
Balance beginning of period, as restated	13,121,000	51,133,000	64,254,000
Reclassification of interest method portfolios to cost recovery method	(13,121,000)	13,121,000	
Acquisitions of receivable portfolio		520,000	520,000
Net cash collections from collection of consumer receivables acquired for liquidation		(10,203,000)	(10,203,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation		(1,000)	(1,000)
Finance income recognized (1)		4,648,000	4,648,000
Balance, end of period	\$	\$ 59,218,000	\$ 59,218,000
Finance income as a percentage of collections		45.6%	45.6%

(1) Includes \$4.6 million derived from zero basis pools.

REVISED

**For the Three Months Ended December 31,
2012**

	Interest Method	Cost Recovery Method	Total
Balance, beginning of period, as previously reported	\$ 12,326,000	\$ 74,561,000	\$ 86,887,000
Balance transferred to cost recovery prior period adjustment	(2,692,000)	2,692,000	
Adjustment for misapplication of the interest method to prior periods	5,852,000	1,500,000	7,352,000
Balance, beginning of period, as revised	15,486,000	78,753,000	94,239,000
Net cash collections from collection of consumer receivables acquired for liquidation	(8,774,000)	(4,825,000)	(13,599,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(3,000)	(7,000)	(10,000)
Impairments	(106,000)		(106,000)
Finance income recognized (1)	7,521,000	909,000	8,430,000
Balance, end of period	\$ 14,124,000	\$ 74,830,000	\$ 88,954,000
Finance income as a percentage of collections	85.7%	18.8%	61.9%

(1) Includes \$6.9 million derived from zero basis pools.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 5 Consumer Receivables Acquired for Liquidation (Restated and Revised) (continued)

Accretable yield represents the amount of income the Company can expect to generate over the remaining life of its existing portfolios based on estimated future net cash flows as of December 31, 2013. There were no accretable yield adjustments in the first quarter of fiscal years 2014 and 2013. Changes in accretable yield for the three month periods ended December 31, 2013 and 2012 are as follows:

	RESTATED	REVISED
	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012
Balance at beginning of period	\$ 7,679,000	\$ 13,508,000
Transfer to cost recovery effective October 1, 2013	(7,679,000)	
Income recognized on finance receivables, net		(7,521,000)
Reclassifications from nonaccretable difference (1)		6,131,000
Balance at end of period	\$	\$ 12,118,000

(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 three months ended December 31, 2013, the Company purchased \$8.6 million of face value portfolios at a cost of \$0.5 million, which are accounted for on the cost recovery method. There were no portfolio purchases during the three months ended December 31, 2012.

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 three month periods ended December 31, 2013 and 2012, respectively.

	For the Three Months Ended December 31,	
	2013	2012
Gross collections (1)	\$ 17,325,000	\$ 22,086,000
Commissions and fees (2)	7,121,000	8,477,000
Net collections	\$ 10,204,000	\$ 13,609,000

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

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 6 Acquisition of CBC as restated and revised**

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 certain former owners. The fair value of non-controlling interests at the acquisition date was determined to be immaterial. The noncontrolling interests will not be entitled to any distributions from CBC until the Company receives distributions of \$2,337,190. The noncontrolling 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 noncontrolling interests 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 noncontrolling interests. The purchase price would be determined by a third party appraiser and is payable over a period of time.

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 - CBC (including non-recourse notes payable amounting to \$13.8 million) (see Note 11: Other debt-CBC)	(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 accretive to the Company in the first quarter of fiscal year 2014 and the comparable period of fiscal year 2013. Unaudited results of operations have been prepared as if the acquisition of CBC occurred at the beginning of the fiscal period. Total revenues, as reported, for the first quarter of fiscal year 2014 were \$7,427,000. On a pro forma basis, total revenues would have been \$9,062,000. Net income attributable to Asta Funding, Inc., as reported, was \$947,000. On a pro forma basis, net income attributable to Asta Funding, Inc. would have been \$989,000. Total revenues, as reported, for the first quarter of fiscal year 2013 were \$9,672,000. On a pro forma basis, total revenues would have been

\$10,680,000. Net income attributable to Asta Funding, Inc., as reported, was \$2,488,000. On a pro forma basis, net income attributable to Asta Funding, Inc. would have been \$2,530,000.

The acquisition provides the Company with the opportunity to further diversify its portfolio.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 \$2.8 million and \$1.2 million in interest and fees during the first quarter of fiscal years 2014 and 2013, respectively. The Company had a net invested balance of \$30.5 million and \$23.0 million on December 31, 2013 and 2012, respectively. The collections yielded net income attributable to non-controlling interest of \$449,000 and \$45,000 for the three month periods ending December 31, 2013 and 2012, respectively. Pegasus records reserves for bad debts, which, at December 31, 2013, amounted to \$1.9 million.

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 revolving line of credit is collateralized by BP Divorce Funding's profit share in BPCM and other assets. As of December 31, 2013, the Company's investment in cases through BPCM was approximately \$1.9 million. There was no income recognized in either the first quarter of fiscal years 2014 and 2013.

Note 8 Furniture & Equipment

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

	December 31, 2013	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	4,286,000	4,136,000

Balance, end of period	\$	956,000	\$	1,106,000
------------------------	----	---------	----	-----------

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 an 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 three month periods ended December 31, 2013 and 2012, 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 December 31, 2013 are as follows:

Balance, September 30, 2013	\$ 1,410,000
Goodwill from acquisition (see Note 6: Acquisition of CBC)	1,360,000
Balance, December 31, 2013	\$ 2,770,000

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 10 Non Recourse Debt Bank of Montreal

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 Bank of Montreal (BMO), in order to finance the Portfolio Purchase which had a purchase price of \$300 million. The original term of the agreement was three years. This term was extended by each of the Second, Third, Fourth, Fifth Amendments and the most recent agreement signed in August 2013.

Since the inception of the Receivables Financing Agreement amendments have been signed to revise various terms of the Receivables Financing Agreement. Currently, the Settlement Agreement and Omnibus Amendment (Settlement Agreement) is 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 receives the next \$15 million of collections from the Portfolio Purchase, less certain credits for payments made prior to the consummation of the Settlement Agreement, the Company is entitled to recover from future net collections the \$15 million prepayment that it funded. Thereafter, BMO will have the right to receive 30% of future net collections.

The aggregate minimum repayment obligations required under the Settlement Amendment, including interest and principal, for the fiscal years ending September 30, 2014 (9 months) and 2015 is \$3.4 million and \$3.6 million, respectively.

On December 31, 2013 and September 30, 2013, the outstanding balance on this loan was approximately \$33.1 million and \$35.8 million, respectively. The applicable interest rate at December 31, 2013 and September 30, 2013, was 0.42% and 0.43%, respectively. The average interest rate of the Receivable Financing Agreement was 0.42% and 3.71% for the three month periods ended December 31, 2013 and 2012, respectively. The Company's average debt obligation for the three month periods ended December 31, 2013 and 2012 was approximately \$34.2 million and \$60.0 million, respectively.

Note 11 Other Debt - CBC

The Company assumed \$25.9 million of debt related to the CBC acquisition (see Note 6) on December 31, 2013. On the same date, the Company paid down \$2.5 million of the debt. As of December 31, 2013, the remaining debt amounted to \$23.4 million, which consists of \$9.6 million from a line of credit from an institutional source and \$13.8 million non-recourse 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 December 31, 2013:

	Interest Rate	December 31, 2013 Balance
Non-recourse, notes payable with varying monthly installments:		
Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025	8.75%	\$ 2,776,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026	7.25%	5,884,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032	7.125%	5,107,000
Subtotal notes payable		13,767,000
\$12,500,000 revolving line of credit, \$2,904,000 available as of December 31, 2013, interest terms are prime + 1% with floor of 5.5%, expiring on September 30, 2014	5.5%	9,596,000
Total debt CBC		\$ 23,363,000

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 6: Acquisition of CBC).

Leases

The Company leases its facilities in Englewood Cliffs, New Jersey, Houston, Texas and New York, New York. 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. Upon the acquisition of CBC, the Company is a party to a lease agreement for a facility located in Conshohocken, Pennsylvania. The lease expires in August 2014.

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.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 13 Income Recognition, Impairments, and Commissions and Fees (Restated and Revised)

Income Recognition

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

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

For portfolios accounted for using the interest method, ASC 310-30 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. Material variations of cash flow estimates are recorded in the quarter such variations are determined. The estimated future cash flows are reevaluated quarterly.

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.

No income was recognized by the Company as of December 31, 2013, as a result of the CBC acquisition, since the consummation date was December 31, 2013. CBC purchases periodic payments under structured settlements and annuity policies from individuals in exchange for a lump sum payment. Income is recognized on the interest method based on the cash flow of the structured settlement.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Impairments

As previously discussed, the Company has switched from the interest method to the cost recovery method as of October 1, 2013 on its current inventory of portfolios. In accordance with ASC 310-30, 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 are recognized prospectively through an adjustment of the internal rate of return while decreases in expected cash flows 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. If it is determined a portfolio accounted for on the cost recovery method will not recover the current book value of the portfolio, an impairment would be recorded. There were no impairments recorded during the quarter ended December 31, 2013. The Company recorded a \$106,000 impairment in the three month period ended December 31, 2012, as disclosed in Note 2.

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 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, is accreted into income recognized on finance receivables accounted for on the interest method over the expected remaining life of the portfolio.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Impairments (continued)

The Company believes it has significant experience in acquiring certain distressed consumer receivable portfolios at a significant discount to the amount actually owed by underlying 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 our servicing expenses. Additionally, when considering larger portfolio purchases of accounts, or portfolios from issuers with whom the Company has limited experience, it has the added benefit of soliciting its third party collection agencies and attorneys for their input on liquidation rates and, at times, incorporates such input into the estimates that the Company uses for its expected cash flows.

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 for the three month periods ended December 31, 2013 and 2012 reflects income tax expense at an effective rate of 36.4% and 40.0%, respectively. There was no change in the valuation allowance for the three month period ended December 31, 2013.

The corporate federal income tax returns of the Company for 2009, 2010, 2011 and 2012 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 federal income tax returns would be audited. The current IRS audit period is 2008 through 2012. This audit is currently in progress. Additional tax

liabilities, penalties and interest thereon when determined could have a material impact on the Company's financial statements.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 15 Net Income per Share (Restated and Revised)

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

The following table presents the computation of basic and diluted per share data for the three months ended December 31, 2013 (restated) and 2012 (revised):

	RESTATED ⁽¹⁾			REVISED ⁽²⁾		
	December 31, 2013			December 31, 2012		
	Weighted			Weighted		
	Net	Average	Per	Net	Average	Per
	Income	Shares	Share	(Income)	Shares	Share
			Amount			Amount
Basic	\$ 947,000	12,974,239	\$ 0.07	\$ 2,488,000	12,941,242	\$ 0.19
Effect of Dilutive Stock		225,845			258,874	
Diluted	\$ 947,000	13,200,084	\$ 0.07	\$ 2,488,000	13,200,116	\$ 0.19

(1) Net income and per share data have been restated as explained in Note 2 Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements.

(2) Net income and per share data have been revised as explained in Note 2 Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements.

At December 31, 2013, 960,669 options at a weighted average exercise price of \$12.33 were not included in the diluted earnings per share calculation as they were antidilutive.

At December 31, 2012, 1,013,189 options at a weighted average exercise price of \$13.12 were not included in the diluted earnings per share calculation as they were antidilutive.

Table of Contents**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 December 2013, the Compensation Committee of the Board of Directors of the Company (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.

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 366,700 shares and an award of 102,321 shares of restricted stock, leaving 1,530,979 shares available as of December 31, 2013. As of December 31, 2013, approximately 53 of the Company's employees were able to participate in the 2012 Plan.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 17 Stock Option Plans *(continued)*

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.

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.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 17 Stock Option Plans (continued)

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

	Three Months Ended December 31,		2012	
	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	156,700	8.49	160,000	9.57
Options exercised			(1,600)	6.96
Options forfeited/canceled	(210,767)	14.39		
Outstanding options at the end of period	1,568,704	\$ 10.61	1,657,871	\$ 11.11
Exercisable options at the end of period	977,035	\$ 11.95	1,123,070	\$ 12.36

The following table summarizes information about the 2012 Plan, 2002 Plan, and the Equity Compensation Plan outstanding options as of December 31, 2013:

		Options Outstanding			Options Exercisable	
		Weighted Number Outstanding	Weighted Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Range of Exercise Price						
\$2.8751	\$5.7500	17,500	5.3	\$ 2.95	17,500	\$ 2.95
\$5.7501	\$8.6250	934,600	7.6	7.93	499,600	7.77
\$8.6251	\$14.3750	260,000	8.8	9.77	103,331	10.50
\$14.3751	\$17.2500	1,944	0.4	15.99	1,944	15.99
\$17.2501	\$20.1250	339,660	0.8	18.23	339,660	18.23
\$25.8751	\$28.7500	15,000	3.0	28.75	15,000	28.75

1,568,704	6.3	\$ 10.61	977,035	\$ 11.95
-----------	-----	----------	---------	----------

The Company recognized \$336,000 and \$409,000 of compensation expense related to the stock option grants during the three month periods ended December 31, 2013 and 2012, respectively. As of December 31, 2013, there was \$2,718,000 of unrecognized compensation cost related to stock option awards. The weighted average period over which such costs are expected to be recognized is 1.9 years.

The intrinsic value of the outstanding and exercisable options as of December 31, 2013 was approximately \$574,000 and \$422,000, respectively. The weighted average remaining contractual life of exercisable options is 4.7 years. There were no options exercised during the three month period ended December 31, 2013. The intrinsic value and the fair value of the options exercised during the three month period ended December 31, 2012 was approximately \$5,000 and \$9,000, respectively. The proceeds from the exercise of the stock options exercised during the first quarter of fiscal year 2013 were approximately \$11,000. There was no tax effect associated with this exercise. The fair value of the stock options that vested during the three month periods ended December 31, 2013 and 2012 was approximately \$481,000 and \$833,000, respectively. The fair value of the awards granted during the three month periods ended December 31, 2013 and 2012 was approximately \$1,021,000 and \$1,316,000, respectively.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 17 Stock Option Plans *(continued)*

The following table summarizes information about restricted stock transactions:

	Three Months Ended December 31,		2012	
		Weighted Average		Weighted Average
	Shares	Grant Date Fair Value	Shares	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

The Company recognized \$82,000 and \$30,000 of compensation expense related to the restricted stock awards during the three month periods ended December 31, 2013 and 2012, respectively. As of December 31, 2013, there was \$641,000 of unrecognized compensation cost related to restricted stock awards. The weighted average remaining period over which such costs are recognized is 2.0 years. There were no awards granted during the first quarter of fiscal year 2014. The fair value of the awards granted during the first quarter of fiscal year 2013 was approximately \$979,000. The fair value of the awards vested during the first quarter of fiscal year 2014 and 2013 was \$326,000 and \$83,000, respectively.

The Company recognized an aggregate total of \$418,000 and \$439,000 in compensation expense for the three month periods ended December 31, 2013 and 2012, respectively, for the stock options and restricted stock grants. As of December 31, 2013, there was a total of \$3,359,000 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 and Prior Period Adjustments

As more fully disclosed in Note 2, the Company identified pre-tax errors in prior annual periods related to the application of the interest method for consumer receivables acquired for liquidation and accounted for under ASC 310-30. This misstatement resulted in an increase in finance receivables of approximately \$6.4 million, with a decrease in deferred taxes of approximately \$2.7 million and a resulting increase to retained earnings of approximately \$3.7 million in this Form 10-Q/A as of September 30, 2013. The impact of the misstatements in the prior years financial statements was not material to any of those years, however, the cumulative effect of correcting all of the prior period misstatements in the current year would be material to our current year consolidated financial statements. As such, consistent with the guidance in ASC Topic 250, we have accounted for these errors as a restatement of prior period financial statements.

There were no dividends declared or paid during the three months ended December 31, 2013. 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 three month period ended December 31, 2012, the Company purchased approximately 151,000 shares at an aggregate cost of approximately \$1,386,000 under the plan. The Plan expired in March 2013.

As of December 31, 2013, stockholders equity includes an amount for other comprehensive loss of \$755,000, which reflects unrealized losses in available-for-sale securities. In addition, \$17,000 related to the non-controlling interest in Pegasus has been included in stockholders' equity.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 19 Fair Value of Financial Measurements and Disclosures (Restated and Revised)*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:

	RESTATED		REVISED	
	December 31, 2013		September 30, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Available-for-sale investments (Level 1)	\$ 58,479,000	\$ 58,479,000	\$ 58,035,000	\$ 58,035,000
Consumer receivables acquired for liquidation (Level 3)	59,218,000	61,833,000	64,254,000	70,875,000
Structured settlements (Level 3)	30,436,000	30,436,000		
Financial liabilities				
Non-Recourse Debt Bank of Montreal (Level 3)	33,132,000	24,570,000	35,760,000	27,000,000
Other debt - CBC, revolving line of credit (Level 3)	9,596,000	9,596,000		
Other debt - CBC, non-recourse notes payable with varying installments (Level 3)	13,767,000	13,767,000		

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 carries a variable rate. The fair value at December 31, 2013 and 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 that are available to the Company.

Other debt CBC, non-recourse notes payable with varying installments - The fair value at December 31, 2013 was based on the discounted forecasted future collections of the structured settlements.

Fair Value Hierarchy

The Company recorded its available-for-sale investments at estimated fair value on a recurring basis. The accompanying consolidated financial statements include estimated fair value information regarding its available-for-sale investments as of December 31, 2013, 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 three month period ended December 31, 2013. The Company had no Level 2 or Level 3 available-for-sale investments during the first quarter of fiscal year 2014.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 20 Subsequent Events

On February 7, 2014, the manager of AGR Disability Help Center was terminated for cause. A replacement has been hired and the team is in place to continue the management of AGR Disability Help Center.

Table of Contents

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/A 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 annual report on Form 10-K, including without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and 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/A.

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 primarily 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.

Table of Contents

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 December 31, 2013, the Company has invested approximately \$30.5 million in personal injury cases.

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 December 31, 2013, we have invested \$1.9 million 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 December 31, 2013, the balance on the revolving line of credit was approximately \$1.0 million.

Structured Settlement Business

On December 31, 2013, the Company acquired 80% ownership of CBC and its affiliate, CBC Management Services, LLC for approximately \$5.9 million. In addition, the Company 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. Skyrn, 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 \$25 million of debt, including an existing \$12.5 million line of credit (scheduled to increase to \$15 million) from an institutional source and notes issued by CBC to third party investors.

Table of Contents

Critical Accounting Policies

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

the interest method; or

the cost recovery method.

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

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

As further discussed under Item 4 Controls and Procedures in this Form 10-Q/A for the quarterly period ended December 31, 2013, management identified a material weakness in our internal control over financial reporting related to the revenue recognition process in our consumer receivables portfolios, specifically related to the application of the interest method of accounting as promulgated by ASC 310-30. This material weakness resulted in revenue and impairment misstatements that have been restated and revised in this report.

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

Under the interest method, ASC 310-30 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 310-30 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. Material variations of cash flow estimates are recorded in the quarter such variations are determined. 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 will analyze a portfolio to determine if the interest method is appropriate for accounting for asset acquisitions within these classes of receivables when it believes it can 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 with an appropriate degree of precision, the Company utilizes the cost recovery method of accounting for those portfolios of receivables. At December 31, 2013, all of the portfolios are accounted for on the cost recovery method, of which \$40.9 million is concentrated in one portfolio, a \$300 million portfolio purchase in March 2007 (the "Portfolio Purchase").

Table of Contents

We may 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.

Table of Contents

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.

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.

Table of Contents

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

Three-Months Period Ended December 31, 2013, Compared to the Three-Months Ended December 31, 2012 (RESTATED AND REVISED)

Finance income. For the three months ended December 31, 2013, finance income decreased \$3.8 million or 44.8 % to \$4.6 million from \$8.4 million for the three months ended December 31, 2012. The decrease is due to the lower level of portfolio purchases over the last three and one half years and, the lower zero basis income. Income from zero basis portfolios decreased \$2.3 million to \$4.6 million in the three months ended December 31, 2013 compared to \$6.9 million in the same prior year period. We purchased a consumer debt portfolio in the first quarter ended December 31, 2013 with a face value of \$8.6 million at a cost of \$520,000, accounted for on the cost recovery method. We did not purchase any consumer debt portfolios in the first quarter of fiscal year 2013. Net collections for the three months ended December 31, 2013 decreased 25.0% to \$10.2 million from \$13.6 million for the same prior year period. The decrease is due to the lower level of purchases over the last three and one half years. During the first quarter of fiscal year 2014, gross collections decreased 21.6% or \$4.8 million to \$17.3 million from \$22.1 million for the three months ended December 31, 2012. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased \$1.4 million, or 16.0%, to \$7.1 million for the current fiscal three-month period from \$8.5 million for the three months ended December 31, 2012. Commissions and fees amounted to 41.1% of gross collections for the three month period ended December 31, 2013, compared to 38.4% in the same period of the prior year.

Three-Months Period Ended December 31, 2013, Compared to the Three-Months Ended December 31, 2012 (AS REPORTED)

Finance income. For the three months ended December 31, 2013, finance income decreased \$1.6 million or 18.6% to \$6.9 million from \$8.5 million for the three months ended December 31, 2012. The decrease is primarily due to the lower level of portfolio purchases over the last three and one half years and, as a result, the increased number of our portfolios that are in the later stages of their yield curves. Income from fully amortized portfolios (zero basis revenue) decreased \$1.3 million to \$6.8 million in the three months ended December 31, 2013 compared to \$8.1 million in the same prior year period. We purchased a consumer debt portfolio in the first quarter ended December 31, 2013 with a face value of \$8.6 million at a cost of \$520,000, accounted for on the cost recovery method. We did not purchase any consumer debt portfolios in the first quarter of fiscal year 2013. Net collections for the three months ended December 31, 2013 decreased 25.0% to \$10.2 million from \$13.6 million for the same prior year period. The decrease is due to the lower level of purchases over the last three and one half years. During the first quarter of fiscal year 2014, gross collections decreased 21.6% or \$4.8 million to \$17.3 million from \$22.1 million for the three months ended December 31, 2012. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased \$1.4 million, or 16.0%, to \$7.1 million for the current fiscal three-month period from \$8.5 million for the three months ended December 31, 2012. Commissions and fees amounted to 41.1% of gross collections for the three month period ended December 31, 2013, compared to 38.4% in the same period of the prior year.

Other income. The following table summarizes other income for the three month periods ended December 31, 2013 and 2012:

	December 31,	
	2013	2012
Interest and dividend income	\$ 345,000	\$ 410,000
Personal injury fee income	2,779,000	1,242,000
Realized gain	160,000	400,000
Other	38,000	10,000
	\$ 3,322,000	\$ 2,062,000

General and administrative expenses. During the three-month period ended December 31, 2013, general and administrative expense increased \$0.2 million, or 3.1 %, to \$5.8 million from \$5.6 million for the three-months ended December 31, 2012. The increase is primarily attributable to the inclusion AGR-DHC, the new disability unit that works as advocates for individuals seeking disability benefits. The primary cost to grow the business is advertising expenses.

Interest expense. During the three-month period ended December 31, 2013, interest expense decreased \$560,000 or 98.4% from \$569,000 in the prior year period to \$9,000 for the same period in the current year. The lower interest expense in the first quarter of fiscal year 2014 is related to the Settlement Agreement and Omnibus Amendment (Settlement Agreement) signed on August 7, 2013 as an amendment to the Receivables Financing Agreement. As a result, the interest rate was significantly reduced to an average rate of 0.42% during the first quarter of fiscal year 2014, compared to 3.05% during the comparable prior year period.

Table of Contents

Income tax expense. (RESTATED AND REVISED) Income tax expense, consisting of federal and state income taxes, for the three months ended December 31, 2013 was \$0.8 million as compared to \$1.7 million for the three months ended December 31, 2012. The state portion of the income tax provision for the first quarter of fiscal year 2013 and 2012 has been offset against state net operating loss carryforwards, and, as a result, no state taxes are currently payable.

Income tax expense. (AS REPORTED) Income tax expense, consisting of federal and state income taxes, for the three months ended December 31, 2013 was \$1.6 million as compared to \$1.8 million for the three months ended December 31, 2012. The state portion of the income tax provision for the first quarter of fiscal year 2013 and 2012 has been offset against state net operating loss carryforwards, and, as a result, no state taxes are currently payable.

Net income. (RESTATED AND REVISED) For the three months ended December 31, 2013, net income was \$1.4 million as compared to \$2.5 million for the corresponding prior year period. The decrease is primarily due to the decrease in revenue from the prior period.

Net income. (AS REPORTED) For the three months ended December 31, 2013, net income was \$2.4 million as compared to \$2.6 million for the corresponding prior year period. The decrease is primarily due to the decrease in revenue from the prior period.

Income attributable to non-controlling interest. Income attributable to non-controlling interest of \$449,000 is the portion of results attributable to Pegasus Funding, LLC for the first quarter of fiscal year 2014 as compared to \$45,000 from the first quarter of fiscal year 2013. The increase in income attributable to non-controlling interest is due to the improved results of Pegasus Funding, LLC., primarily due to the increase in revenue which increased by \$1.6 million to \$2.8 million in the first quarter of fiscal year 2014 as compared to \$1.2 million in fiscal year 2013.

Net income attributable to Asta Funding, Inc. (RESTATED AND REVISED) Net income attributable to Asta Funding, Inc. was \$0.9 million in the first quarter of fiscal year 2014 as compared to \$2.5 million in the first quarter of fiscal year 2013. The decrease is primarily due to the decrease in revenue offset by the decrease in interest expense.

Net income attributable to Asta Funding, Inc. (AS REPORTED) Net income attributable to Asta Funding, Inc. was \$2.4 million in the first quarter of fiscal year 2014 as compared to \$2.6 million in the first quarter of fiscal year 2013.

Table of Contents

Liquidity and Capital Resources

Our primary sources of cash from operations include collections on the receivable portfolios that we have acquired and personal injury claims settled. Our primary uses of cash include our acquisition of receivable portfolios, investments in personal injury claims, interest payments, costs involved in the collections of consumer receivables and personal injury claims, 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. Currently, the Settlement Agreement and Omnibus Amendment (Settlement Agreement) is 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 receives the next \$15 million of collections from the Portfolio Purchase, less certain credits for payments made prior to the consummation of the Settlement Agreement, the Company is entitled to recover from future net collections the \$15 million prepayment that it funded. Thereafter, BMO will have the right to receive 30% of future net collections.

The aggregate minimum repayment obligations required under the Settlement Amendment, including interest and principal, for the fiscal years ending September 30, 2014 (9 months) and 2015 is \$3.4 million and \$3.6 million, respectively.

On December 31, 2013 and September 30, 2013, the outstanding balance on this loan was approximately \$33.1 million and \$35.8 million, respectively. The applicable interest rate at December 31, 2013 and September 30, 2013 was 0.42% and 0.43%, respectively. The average interest rate of the Receivable Financing Agreement was 0.42% and 3.71% for the three month periods ended December 31, 2013 and 2012, respectively. The Company's average debt obligation for the three month periods ended December 31, 2013 and 2012 was approximately \$34.2 million and \$60.0 million, respectively.

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%

Table of Contents

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.

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, namely William J. Skyrn, 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.

Cash Flow

As of December 31, 2013, our cash increased \$0.9 million to \$36.1 million from \$35.2 million at September 30, 2013.

Net cash provided by operating activities was \$2.2 million during the three months ended December 31, 2013 compared to \$4.8 million during the three months ended December 31, 2012. The decrease is primarily due to a decrease in other liabilities offset by an increase in collections from third party collection agencies and attorneys. Net cash provided by investing activities was \$4.1 million during the three month period ended December 31, 2013 compared to \$13.5 million during the three months ended December 31, 2012, reflecting proceeds from maturities of certificates of deposit in the prior fiscal year 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 increased from \$4.9 million in the period ended December 31, 2012 to \$5.4 million in the current period. This increase is a reflection of the decrease in restricted cash in the current 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.

Table of Contents

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

	RESTATED		
	For the Three Months Ended December 31,		
	2013		
	Cost		
	Interest	Recovery	Total
	Method	Method	
Balance, beginning of period, as previously reported	\$ 8,071,000	\$ 49,829,000	\$ 57,900,000
Balance transferred to cost recovery prior period adjustment	(1,304,000)	1,304,000	
Adjustment for misapplication of the interest method to prior periods	6,354,000		6,354,000
Balance beginning of period, as restated	13,121,000	51,133,000	64,254,000
Reclassification of interest method portfolios to cost recovery method	(13,121,000)	13,121,000	
Acquisitions of receivable portfolio		520,000	520,000
Net cash collections from collection of consumer receivables acquired for liquidation		(10,203,000)	(10,229,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation		(1,000)	(1,000)
Finance income recognized (1)		4,648,000	4,648,000
Balance, end of period	\$	\$ 59,218,000	\$ 59,218,000
Finance income as a percentage of collections		45.6%	45.6%

(1) Includes \$4.6 million derived from zero basis pools.

	REVISED		
	For the Three Months Ended December 31,		
	2012		
	Cost		
	Interest	Recovery	Total
	Method	Method	
Balance, beginning of period, as previously reported	\$ 12,326,000	\$ 74,561,000	\$ 86,887,000
Balance transferred to cost recovery prior period adjustment	(2,692,000)	2,692,000	
Adjustment for misapplication of the interest method to prior periods	5,852,000	1,500,000	7,352,000

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

Balance, beginning of period, as revised	15,486,000	78,753,000	94,239,000
Net cash collections from collection of consumer receivables acquired for liquidation	(8,774,000)	(4,825,000)	(13,599,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(3,000)	(7,000)	(10,000)
Impairments	(106,000)		(106,000)
Finance income recognized (1)	7,521,000	909,000	8,430,000
Balance, end of period	\$ 14,124,000	\$ 74,830,000	\$ 88,954,000
Finance income as a percentage of collections	85.7%	18.8%	61.9%

(1) Includes \$6.9 million derived from zero basis pools.

Table of Contents**Off Balance Sheet Arrangements**

As of December 31, 2013, 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
Three months ended December 31, 2013	\$ 1,000	\$ 0
Three months ended December 31, 2012	\$ 10,000	\$ 2,000

Table of Contents

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 December 31, 2013, our Receivable Financing Agreement, which is variable debt, had an outstanding balance of \$33.1 million. Through our acquisition of CBC we acquired approximately \$23.4 million of debt consisting of \$9.6 million through a line of credit at a rate of 5.5% from a financial institution and \$13.8 million of non-recourse 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 (As restated)

The Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2013 filed with the SEC on February 10, 2014 disclosed that, in accordance with Rules 13a-15(b) and 15d-15(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), the Chief Executive Officer and Chief Financial Officer, had carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) and, based on that evaluation, had concluded that the Company's disclosure controls and procedures were effective at December 31, 2013. In light of the SEC Comment Letter process and a review made by the Company in connection with the preparation of the restatement presented in this Form 10-Q/A the Chief Executive Officer and our Chief Financial Officer, re-evaluated the Company's disclosure controls and procedures and, based on that evaluation, concluded that the Company's disclosure controls and procedures were not effective at December 31, 2013.

The Company's management based its conclusion on the identification of a material weakness in internal control over financial reporting at December 31, 2013. The material weakness and remedial steps being taken by the Company are discussed below.

(a) Evaluation of Disclosure Controls and Procedures

Based on the aforementioned evaluation, Management identified a material weakness in our internal control over financial reporting related to the revenue recognition process in our consumer receivables portfolios, specifically related to the application of the interest method of accounting as promulgated by *Accounting Standards Codification (ASC) 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Quality*. During our review of portfolio cash flows, our controls did not include an analysis and review of the current cash flow variations within a quarter to determine whether there is an impairment or accretion. This resulted in misstatements of our previously filed quarterly financial statements and annual financial statements—see Note 2, Restatement of Quarterly Financial Statements and Revision of Prior Period Financial Statements. As a result of this material weakness, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective.

b) Remediation Plan

As part of our commitment to strengthening our internal control over financial reporting, we have implemented various actions and will initiate other remedial actions under the oversight of the Audit Committee, including:

Following the guidance set forth in by *Accounting Standards Codification (ASC) 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Quality*.

We believe we have implemented the necessary internal controls to remediate the material weakness relating to our revenue recognition process. We have implemented procedures to prepare and review an analysis of the variations between actual and estimated cash flows during the current period. We will continue to maintain and verify the effective operation of these controls before concluding that we have remediated this material weakness in revenue recognition controls.

We can give no assurance that the measures we take will remediate the material weakness that we identified or that any additional material weaknesses will not arise in the future. We will continue to monitor the effectiveness of these and other processes, procedures and controls and will make any further changes management determines appropriate.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of our business, we are involved in numerous legal proceedings. We regularly initiate collection lawsuits, using 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/A, we are not involved in any material litigation in which we are a defendant.

Item 1A. Risk factors

We have identified a material weakness in our internal control over financial reporting, specifically related to our revenue recognition process, and our business and stock price could be adversely affected if we do not adequately address this weakness, or if we have other material weaknesses in our internal control over financial reporting.

Management identified a material weakness in our internal control over financial reporting related to the revenue recognition process in our consumer receivables portfolios, specifically related to the application of the interest method of accounting as promulgated by ASC 310-30. As a result of this material weakness, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective. The existence of this material weakness could result in errors in our financial statements, and substantial costs and resources may be required to rectify any internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

As a result of the acquisition of CBC Settlement Funding, LLC the following risk factor is 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 Staff Comments.

The Company received several comment letters beginning on March 7, 2014 from the Securities and Exchange Commission (SEC), the last dated October 6, 2014, concerning its Annual Report on Form 10-K for the fiscal year ended September 30, 2013. Additionally, verbal communication with the SEC Staff addressed further comments with regard to the Company's Form 10-Q's for the fiscal year ended September 30, 2014. 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. We have restated the financial statements contained in this Report on Form 10-Q/A for the first quarter of Fiscal Year 2014. The Company is in the process of finalizing its discussions with the SEC in order to resolve the Staff Comments. Please see Note 2 of the Condensed Consolidated financial statements for the period ended December 31, 2013 (the first quarter of fiscal year 2014) for more information.

Table of Contents

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.
- 32.2 Certification of the Registrant's Chief Financial Officer, Robert J. Michel, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

ASTA FUNDING, INC.

(Registrant)

Dated: June 24, 2015

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

Dated: June 24, 2015

By: /s/ Robert J. Michel
Robert J. Michel, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit	
Number	Description
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.
32.2	Certification of the Registrant s Chief Financial Officer, Robert J. Michel, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.