

ASTA FUNDING INC
Form 10-Q
June 29, 2015
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2014

OR

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

For the transition period from _____ to _____

Commission file number: 001-35637

ASTA FUNDING, INC.
(Exact name of registrant as specified in its charter)

Delaware
(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 ☒

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 25, 2015, the registrant had 13,060,839 common shares outstanding.

Table of Contents

ASTA FUNDING, INC.

INDEX TO FORM 10-Q

<u>Part I. Financial Information</u>	3
<u>Item 1. Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of December 31, 2014 and September 30, 2014 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Income for the three month periods ended December 31, 2014 and 2013 (unaudited)</u>	4
<u>Condensed Consolidated Statement of Comprehensive Income for the three month periods ended December 31, 2014 and 2013 (unaudited)</u>	5
<u>Condensed Consolidated Statement of Stockholders' Equity for the three month periods ending December 31, 2014 and 2013 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the three month periods ended December 31, 2014 and 2013 (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>	27
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	36
<u>Part II. Other Information</u>	38
<u>Item 1. Legal Proceedings</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 3. Defaults Upon Senior Securities</u>	38
<u>Item 4. Mine Safety Disclosures</u>	38
<u>Item 5. Other Information</u>	38
<u>Item 6. Exhibits</u>	39
<u>Signatures</u>	39
<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, 2014	September 30, 2014
ASSETS		
Cash and cash equivalents	\$ 28,075,000	\$ 28,710,000
Available for sale investments	66,991,000	66,799,000
Consumer receivables acquired for liquidation (at net realizable value)	25,728,000	29,444,000
Structured settlements	46,031,000	42,079,000
Investment in personal injury claims	33,378,000	32,352,000
Other investments	5,000,000	
Due from third party collection agencies and attorneys	933,000	1,026,000
Prepaid and income taxes receivable	211,000	430,000
Furniture and equipment, net	606,000	756,000
Deferred income taxes	6,907,000	6,786,000
Goodwill	2,770,000	2,770,000
Other assets	6,672,000	5,986,000
Total assets	\$ 223,302,000	\$ 217,138,000
LIABILITIES		
Other debt CBC (including non-recourse notes payable amounting to \$33.2 million at December 31, 2014 and \$12.7 million at September 30, 2014)	\$ 38,472,000	\$ 32,295,000
Other liabilities	2,852,000	3,587,000
Total liabilities	41,324,000	35,882,000
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 and outstanding 13,060,839 at December 31, 2014 and 12,985,839 at September 30, 2014	130,000	130,000
Additional paid-in capital	64,002,000	63,102,000
Retained earnings	118,965,000	118,595,000

Edgar Filing: ASTA FUNDING INC - Form 10-Q

Accumulated other comprehensive income	(128,000)	142,000
Non-controlling interest	(991,000)	(713,000)
Total stockholders' equity	181,978,000	181,256,000
Total liabilities and stockholders' equity	\$ 223,302,000	\$ 217,138,000

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, 2014	Three Months Ended December 31, 2013
Revenues		
Finance income, net	\$ 5,037,000	\$ 4,648,000
Personal injury claims income	2,488,000	2,779,000
Unrealized gains on structured settlements	1,202,000	
Interest income on structured settlements	941,000	
 Total revenues	 9,668,000	 7,427,000
Other income (includes \$39,000 and (\$25,000) during the three month periods ended December 31, 2014 and 2013, respectively, of accumulated other comprehensive income reclassification for unrealized net losses on available for sale securities)	794,000	543,000
	10,462,000	7,970,000
Expenses		
General and administrative	9,554,000	5,767,000
Interest expense	489,000	9,000
	10,043,000	5,776,000
 Income before income taxes	 419,000	 2,194,000
Income tax expense (includes tax (expense)/ benefit of (\$16,000) and 10,000 during the three month periods ended December 31, 2014 and 2013, respectively, of accumulated other comprehensive income reclassifications for unrealized net losses on available for sale securities)	98,000	798,000
 Net income	 321,000	 1,396,000
Less: net income attributable to non-controlling interest	(49,000)	449,000
 Net income attributable to Asta Funding, Inc.	 \$ 370,000	 \$ 947,000
 Net income per share attributable to Asta Funding, Inc.:		
Basic	\$ 0.03	\$ 0.07

Diluted	\$	0.03	\$	0.07
---------	----	------	----	------

Weighted average number of shares outstanding:

Basic	13,013,719	12,974,239
-------	------------	------------

Diluted	13,308,573	13,200,084
---------	------------	------------

See Notes to Condensed Consolidated Financial Statement

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income****December 31, 2014 and 2013****(Unaudited)**

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013
Comprehensive income is as follows:		
Net income	\$ 321,000	\$ 1,396,000
Net unrealized securities loss, net of tax benefit of \$0 and \$58,000 during the 3 month periods ended December 31, 2014 and 2013, respectively	(300,000)	(66,000)
Reclassification adjustments for securities sold during the period, net of tax benefit / (expense) of \$16,000 and \$10,000 for the 3 months ended December 2014 and 2013, respectively	30,000	(15,000)
Other comprehensive loss	(270,000)	(81,000)
Total comprehensive income	\$ 51,000	\$ 1,315,000

See Notes to Condensed Consolidated Financial Statement

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non- Controlling Interests	Total Stockholders Equity
Balance, September 30, 2014	12,985,839	\$ 130,000	\$ 63,102,000	\$ 118,595,000	\$ 142,000	\$ (713,000)	\$ 181,256,000
Exercise of options	60,000		469,000				469,000
Stock based compensation expense			431,000				431,000
Restricted stock	15,000						
Net income				370,000		(49,000)	321,000
Unrealized gain on marketable securities					(270,000)		(270,000)
Distributions to non-controlling interest						(229,000)	(229,000)
Balance, December 31, 2014	13,060,839	\$ 130,000	\$ 64,002,000	\$ 118,965,000	\$ (128,000)	\$ (991,000)	\$ 181,978,000

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock ⁽¹⁾	Non- Controlling Interest	Total Stockholders Equity
Balance, September 30, 2013	14,917,977	\$ 149,000	\$ 79,104,000	\$ 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
					(81,000)			(81,000)

Unrealized loss
on marketable
securities

Distributions to
non-controlling
interest

(282,000) (282,000)

**Balance,
December 31,
2013**

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.
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, 2014	Three Months Ended December 31, 2013
Cash flows from operating activities		
Net income	\$ 321,000	\$ 1,396,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	150,000	150,000
Deferred income taxes	(121,000)	(446,000)
Stock based compensation	432,000	418,000
Loss on sale of available-for-sale securities	(39,000)	25,000
Structured settlements accrued interest	(1,202,000)	
Structured settlements gains	(907,000)	
Changes in:		
Prepaid and income taxes receivable	219,000	1,245,000
Due from third party collection agencies and attorneys	93,000	490,000
Other assets	(686,000)	(327,000)
Other liabilities	(735,000)	(736,000)
Net cash (used in) provided by operating activities	(2,475,000)	2,215,000
Cash flows from investing activities		
Purchase of consumer receivables acquired for liquidation		(520,000)
Principal collected on receivables acquired for liquidation	3,713,000	5,556,000
Principal collected on receivables accounts represented by account sales	3,000	
Purchase of available-for-sale securities	(5,443,000)	(5,618,000)
Proceeds from sale of available-for-sale securities	5,020,000	5,000,000
Purchase of other investments	(5,000,000)	
Cash paid for acquisition (net of cash acquired)		(5,588,000)
Investments in personal injury claims advances	(5,311,000)	(4,519,000)
Investments in personal injury claims receipts	6,337,000	9,788,000
Investments in structured settlements advances	(3,108,000)	
Investments in structured settlements receipts	1,265,000	
Net cash (used in) provided by investing activities	(4,576,000)	4,099,000
Cash flows from financing activities		
Proceeds from exercise of stock options	468,000	

Edgar Filing: ASTA FUNDING INC - Form 10-Q

Changes in restricted cash		20,000
Distribution to non-controlling interest	(229,000)	(282,000)
Repayments of non-recourse debt Bank of Montreal		(2,628,000)
Borrowings of other debt CBC	24,574,000	
Repayment of other debt CBC	(18,397,000)	(2,500,000)
Net cash provided by (used in) financing activities	6,416,000	(5,390,000)
Net (decrease) increase in cash and cash equivalents	(635,000)	924,000
Cash and cash equivalents at beginning of period	28,710,000	35,179,000
Cash and cash equivalents at end of period	\$ 28,075,000	\$ 36,103,000

Supplemental disclosure of cash flow information :

Cash paid for:		
Interest	\$ 543,000	\$ 10,000

Supplemental disclosure of non-cash investing and financing activities:

Structure settlement	\$ 30,436,000
Other debt - CBC	23,363,000

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), GAR Disability Advocates, LLC (GAR Disability Advocates) and other subsidiaries, not all wholly owned (collectively, the Company), has been engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged-off receivables and semi-performing receivables, since 1994, as well as more recent business segments, discussed below. 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. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. A large portion of the Company's distressed consumer receivables are MasterCard®, Visa®, other credit card accounts, and telecommunication accounts which were charged-off by the issuers for non-payment. The Company acquires these portfolios at substantial discounts from their face values. The discounts are based on the characteristics (issuer, account size, debtor residence and age of debt) of the underlying accounts of each portfolio. Litigation related receivables are semi-performing investments whereby the Company is assigned the revenue stream from the proceeds received.

The Company owns 80% of Pegasus Funding, LLC (Pegasus), which invests in funding personal injury claims and 80% of CBC Settlement Funding, LLC (CBC), which invests in structured settlements.

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

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

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

Basis of Presentation

The condensed consolidated balance sheet as of December 31, 2014, the condensed consolidated statements of income for the three month periods ended December 31, 2014 and 2013, the condensed consolidated statements of comprehensive income for the three month periods ended December 31, 2014 and 2013, the condensed consolidated statement of stockholders' equity as of and for the three months ended December 31, 2014 and 2013 the condensed consolidated statements of cash flows for the three month periods ended December 31, 2014 and 2013, are unaudited. The September 30, 2014 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, 2014. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position at December 31, 2014 and September 30, 2014, the results of operations for the three month periods ended December 31, 2014 and 2013 and cash flows for the three month periods ended December 31, 2014 and 2013 have been made. The results of operations for the three month periods ended December 31, 2014 and 2013 are not necessarily indicative of the operating results for any other interim period or the full fiscal year.

Palisades XVI is a variable interest entity (VIE). Asta Funding, Inc. is considered the primary beneficiary because it has the power to direct the significant activities of the VIE via its ownership and service contract. Palisades XVI holds the Great Seneca portfolio, a \$300 million portfolio purchase in March 2007 (the Portfolio Purchase), which, as of December 31, 2014, had a value of \$17.0 million.

Blue Bell Receivables I, LLC (BBR I), Blue Bells Receivables II, LLC (BBR II), Blue Bell Receivables III, LLC (BBR III) and Blue Bell Receivables IV, LLC (BBR IV), collectively the Blue Bell Entities , are VIEs. CBC is considered the primary beneficiary because it has the power to direct the significant activities of the VIEs via its ownership and service contract. It also has the rights to receive benefits from the collections that exceed the payments to the note holders. The Blue Bell Entities hold structured settlements of \$46.0 million and the non-recourse notes payable of \$33.1 million as of December 31, 2014.

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 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, 2014 filed with the Securities and Exchange Commission.

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

Concentration of Credit Risk Cash

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

Cash balances are maintained at various depository institutions and are insured by the Federal Deposit Insurance Corporation (FDIC). The Company had cash balances with 11 banks at December 31, 2014 that exceeded the balance insured by the FDIC by approximately \$24.3 million. The Company does not believe it is exposed to any significant credit risk for cash.

Reclassifications

Personal injury claims income had previously been included in other income in the prior period's financial statements and has been reclassified to revenue in the current period's statement of income.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the FASB) issued an update to ASC 606, Revenue from Contracts with Customers, that will supersede virtually all existing revenue guidance. Under this update, an entity is

required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the entitled consideration received in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the customer contracts. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact this update will have on our consolidated financial statements as well as the expected adoption method.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this ASU require two accounting changes. First, the amendments in this ASU change the accounting for repurchase-to maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. This ASU also includes new disclosure requirements. The accounting changes in this Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited. The Company reviewed this ASU and determined that it did not have a material impact on its consolidated financial statements.

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

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) . The amendments apply to reporting entities that elect to measure the fair value of an investment using the net asset value (NAV) per share (or its equivalent) practical equivalent. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. The Company has reviewed this ASU and has elected to early adopt these amendments in the current reporting period and has removed certain investments that are measured using the NAV practical expedient from the fair value hierarchy in all periods presented in the Company s consolidated financial statements.

Note 2 Principles of Consolidation

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

Note 3 Available-for-Sale Investments

Investments classified as available-for-sale at December 31, 2014 and September 30, 2014, consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2014	\$ 67,021,000	\$ 188,000	\$ (218,000)	\$ 66,991,000
September 30, 2014	\$ 66,559,000	\$ 411,000	\$ (171,000)	\$ 66,799,000

The available-for-sale investments do not have any contractual maturities. The Company sold two investments during the first quarter of fiscal year 2015, with a realized gain of \$39,000. Additionally, the Company received \$234,000 in capital gains distributions during the first quarter of fiscal year 2015. In the first quarter of fiscal year 2014, the Company sold one investment with a realized loss of \$25,000 and also received \$186,000 in capital gains distributions during that quarter. The Company recorded an aggregate realized gain of \$273,000 and \$161,000 related to its available-for-sale securities during the first quarter of fiscal years 2015 and 2014, respectively.

At December 31, 2014, there were seven investments, five of which were in an unrealized loss position. Of these five investments, three 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 4 Consumer Receivables Acquired for Liquidation

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

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

the interest method; or

the cost recovery method.

The Company can account 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.

Despite all of the Company's portfolios being on the cost recovery method, the Company must still analyze a portfolio upon acquisition and once a static pool is established for a quarter, individual accounts receivable were not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310-30 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 may aggregate 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.)

Table of Contents

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

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

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 4 Consumer Receivables Acquired for Liquidation (continued)

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

For the Three Months Ended December 31, 2014

	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	\$	\$ 29,444,000	\$ 29,444,000
Acquisitions of receivable portfolio			
Net cash collections from collection of consumer receivables acquired for liquidation		(8,750,000)	(8,750,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation		(3,000)	(3,000)
Finance income recognized		5,037,000	5,037,000
Balance, end of period	\$	\$ 25,728,000	\$ 25,728,000
Finance income as a percentage of collections		57.5%	57.5%

For the Three Months Ended December 31, 2013

	Interest Method	Cost Recovery Method	Total
Balance beginning of period	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		4,648,000	4,648,000

Edgar Filing: ASTA FUNDING INC - Form 10-Q

Balance, end of period	\$	\$ 59,218,000	\$ 59,218,000
Finance income as a percentage of collections		45.6%	45.6%

12

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

During the three months ended December 31, 2014, the Company did not purchase any consumer receivable portfolios. 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.

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, 2014 and 2013, respectively.

	For the Three Months Ended December 31,	
	2014	2013
Gross collections (1)	\$ 15,192,000	\$ 17,325,000
Commissions and fees (2)	6,439,000	7,121,000
Net collections	\$ 8,753,000	\$ 10,204,000

- (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.

Note 5 Acquisition of CBC

On December 31, 2013, the Company acquired 80% ownership of CBC and its affiliate, CBC Management Services, LLC for approximately \$5.9 million. In addition, the Company will provide financing to CBC of up to \$5 million. The 20% non-controlling interests are held by certain former owners. The fair value of non-controlling interests at the acquisition date was determined to be immaterial. The non-controlling interests will not be entitled to any distributions from CBC until the Company receives distributions of \$2,337,190. The non-controlling interests are entitled to two of

the five seats of CBC's Board of Managers and have the right to approve certain material transactions of CBC. The non-controlling 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 non-controlling interests. The purchase price would be determined by a third party appraiser and is payable over a period of time. The fair value of the put right was determined to be \$0 at December 31, 2013. No re-measurement is required at December 31, 2014 as it is not probable that the put option will become redeemable.

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

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

As the transaction consummated on December 31, 2013, there were no actual operational results that were accretive to the Company in the first quarter of fiscal year 2014. 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. The acquisition provided 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 6 Structured Settlements

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

Structured settlements consist of the following as of December 31, 2014 and September 30, 2014:

	December 31	September 30
Maturity	\$ 71,641,000	\$ 64,852,000
Unearned income	(25,610,000)	(22,773,000)
Net collections	\$ 46,031,000	\$ 42,079,000

Encumbrances on structured settlements as of December 31 and September 30, 2014 are as follows:

	December 31	September 30
Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025 (1)	\$ 2,468,000	\$ 2,521,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026 (1)	5,214,000	5,363,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032 (1)	4,646,000	4,828,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2037 (1)	20,813,000	
\$25,000,000 revolving line of credit (1)	5,331,000	19,583,000
Encumbered structured settlements	38,472,000	32,295,000
Structured settlements not encumbered	7,559,000	9,784,000
Total structured settlements	\$ 46,031,000	\$ 42,079,000

(1) See Note 11 Other Debt CBC

At December 31, 2014, the expected cash flows of structured settlements based on maturity value are as follows:

September 30, 2015 (9 months)	\$ 3,783,000
September 30, 2016	5,620,000
September 30, 2017	5,134,000
September 30, 2018	4,197,000
September 30, 2019	4,388,000
Thereafter	48,519,000
Total	\$ 71,641,000

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 \$2.5 million and \$2.8 million in interest and fees during the first quarter of fiscal years 2014 and 2013, respectively. The Company had a net invested balance of \$33.4 million and \$32.4 million on December 31, 2014 and September 30, 2014, respectively. The results of Pegasus yielded loss attributable to non-controlling interest of \$72,000 for the three months ended December 31, 2014 and yielded a profit of \$449,000 for the three month periods ending December 31, 2013, respectively. Pegasus records reserves for bad debts, which, at December 31, 2014, amounted to \$3.8 million, as follows:

	Three Months Ended December 31, 2014
Balance at beginning of period	\$ 2,474,000
Provisions for losses	1,561,000
Write offs	(278,000)
Balance at end of period	\$ 3,757,000

Matrimonial Claims (included in Other Assets)

On May 18, 2012, the Company formed BP Case Management, LLC (BPCM), a joint venture with California-based Balance Point Divorce Funding, LLC (BP Divorce Funding). A BPCM agreement provides non-recourse funding to a spouse in a matrimonial action. Through a revised agreement the Company provides a \$1.5 million revolving line of credit to partially fund BP Divorce Funding's operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. In September 2014, the agreement was revised to extend the term of the loan to August 2016, increase the line to \$1.5 million and include a personal guarantee of the principal of BP Divorce Funding. The loan balance at December 31, 2014, was approximately \$1.5 million. The revolving line of credit is collateralized by BP Divorce Funding's profit share in BPCM and other assets. As of December 31, 2014, the Company's investment in cases through BPCM was approximately \$2.4 million. There was no income recognized in the three month periods ended December 31, 2014 and 2013.

Note 8 Furniture & Equipment

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

	December 31, 2014	September 30, 2014
Furniture	\$ 323,000	\$ 323,000
Equipment	3,622,000	3,622,000
Software	1,211,000	1,211,000
Leasehold improvements	99,000	99,000
	5,255,000	5,255,000
Less accumulated depreciation	4,649,000	4,499,000
Balance, end of period	\$ 606,000	\$ 756,000

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, 2014 and 2013, management has determined that there was no impairment loss required to be recognized in the carrying value of goodwill.

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 9 Goodwill (continued)

The goodwill balances at December 31, 2014 and September 30, 2014 are as follows:

	December 31, 2014	September 30, 2014
Balance at beginning of period	\$ 2,770,000	\$ 1,410,000
Goodwill from acquisition (see Note 5: Acquisition of CBC)		1,360,000
Balance, end of period	\$ 2,770,000	\$ 2,770,000

Note 10 Non Recourse Debt***Non-Recourse Debt Bank of Montreal (BMO)***

In March 2007, Palisades XVI borrowed approximately \$227 million under the Receivables Financing Agreement, as amended in July 2007, December 2007, May 2008, February 2009, October 2010 and August 2013 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.

On August 7, 2013, Palisades XVI, a 100% owned bankruptcy remote subsidiary, entered into a Settlement Agreement and Omnibus Amendment (the Settlement Agreement) with BMO as an amendment to the RFA. In consideration for a \$15 million prepayment funded by the Company, BMO agreed to significantly reduce minimum monthly collection requirements and the interest rate. If and when BMO receives the next \$15 million of collections from the Portfolio Purchase or from voluntary prepayments by Asta Funding, Inc., less certain credits for payments made prior to the consummation of the Settlement Agreement (the Remaining Amount), Palisades XVI and its affiliates would be automatically released from liability in connection with the RFA (subject to customary exceptions). A condition to the release was Palisade XVI s agreement to grant BMO, as of the time of the payment of the Remaining Amount, the right to receive 30% of net collections from the Portfolio Purchase once Palisades XVI has received from future net collections, the sum of \$15 million plus voluntary prepayments included in the payment of the Remaining Amount (the Income Interest). The Company estimated the Income Interest to be between \$0 and \$1.4 million. However, the Company believes that no amount would be incurred because of the continued deterioration of collections from the Portfolio Purchase.

On June 3, 2014, Palisades XVI paid the Remaining Amount. The final principal payment of \$2,901,199 included a voluntary prepayment of \$1,866,036 provided from funds of the Company. Accordingly, Palisades XVI will be entitled to receive \$16.9 million of future collections from the Portfolio Purchase before BMO is entitled to receive any payments with respect to its Income Interest.

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

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

On May 2, 2014, the Company obtained a \$20 million line of credit facility from Bank Hapoalim, pursuant to a Loan Agreement (the Loan Agreement) among the Company and its subsidiary, Palisades Collection, LLC, as borrowers (the Borrowers), and Bank Hapoalim, as agent and lender. The Loan Agreement provides for a \$20.0 million committed line of credit and an accordion feature providing an increase in the line of credit of up to \$30 million, at the discretion of the lenders. The facility is for a term of three years at an interest rate of either LIBOR plus 275 basis points or prime, at the Company's option. The Loan Agreement includes covenants that require the Company to maintain a minimum net worth of \$150 million and pay an unused line fee. The facility is secured pursuant to a Security Agreement (Security Agreement) among the parties to the Loan Agreement, with property of the Borrowers serving as collateral. Through the period ended December 31, 2014, the Company did not use this facility.

Table of Contents**ASTA FUNDING, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 11 Other Debt - CBC**

The Company assumed \$25.9 million of debt related to the CBC acquisition (see Note 5) on December 31, 2013. On the same date, the Company paid down \$2.5 million of the debt. On March 27, 2014, CBC entered into the Sixth Amendment whereby it increased its revolving line of credit from \$12.5 million to \$15.0 million, the interest rate floor was reduced from 5.5% to 4.75% and the commitment was extended to February 28, 2015. The amendment also included changes in carrier concentration ratios and removal of the personal guarantees of the general managers and non-controlling interest partners. On July 15, 2014, CBC entered into the Seventh Amendment, extending the revolving line of credit to \$20.0 million. On September 29, 2014, CBC entered into the Eighth Amendment, further extending the credit line to \$22.0 million. On November 26, 2014, CBC completed its fourth private placement, backed by structured settlement and fixed annuity payments. CBC issued, through its subsidiary, BBR IV, LLC, approximately \$20.8 million of fixed rate asset-backed notes with a yield of 5.4%. As of December 31, 2014, the remaining debt amounted to \$38.5 million, which consisted of \$5.3 million drawdown from a line of credit from an institutional source and \$33.2 million notes issued by entities 100%-owned and consolidated by CBC. These entities are bankruptcy-remote entities created to issue notes secured by structured settlements. On March 11, 2015, CBC entered into the Ninth Amendment, extending the maturity date and the revolving line of credit maximum revolver amount (see Note 21 Subsequent Events for additional information). The following table details the other debt at December 31, 2014 and September 30, 2014:

	Interest Rate	December 31	September 30
Notes payable secured by settlement receivables with principal and interest outstanding payable until June 2025	8.75%	\$ 2,468,000	\$ 2,521,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until August 2026	7.25%	5,214,000	5,363,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until April 2032	7.125%	4,646,000	4,828,000
Notes payable secured by settlement receivables with principal and interest outstanding payable until February 2037	5.39%	20,813,000	
Subtotal notes payable		33,141,000	12,712,000
\$25,000,000 revolving line of credit expiring on March 1, 2017	4.75%	5,331,000	19,583,000
Total debt CBC		\$ 38,472,000	\$ 32,295,000

Note 12 Commitments and Contingencies***Leases***

The Company leases its facilities in Englewood Cliffs, New Jersey, Houston, Texas, New York, New York and Conshohocken, Pennsylvania.

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

Income Recognition

The Company can account 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 reasonable 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.

Despite all of the Company's portfolios being on the cost recovery method, 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.

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

The Company recognizes revenue for GAR Disability Advocates as fees are earned when cases close and the fees are paid.

Impairments

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. 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, 2014 and 2013, respectively.

Table of Contents

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

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

Impairments *(continued)*

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

the type of receivable,

the average balance of the receivables

the age of the receivables;

past history and performance of similar assets acquired

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

jobs or property of the debtors found within portfolios.; and

credit standards of the issue

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 New Jersey NOL carryforward balance as of December 31, 2014 is approximately \$110 million. The provision for income tax expense for the three month periods ended December 31, 2014 and 2013 reflects income tax expense at an effective rate of 23.4% and 36.4%, respectively. The lower effective tax rate for the first quarter of fiscal year 2015 is primarily due to the high level of tax exempt income.

The corporate federal income tax returns of the Company for 2008 through 2014 are subject to examination by the Internal Revenue Service (IRS) generally for three years after they are filed. The state income tax returns and other state filings of the Company are subject to examination by the state taxing authorities, for various periods, generally up to four years after they are filed.

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**

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, 2014 and 2013:

	December 31, 2014			December 31, 2013		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic	\$ 370,000	13,013,719	\$ 0.03	\$ 947,000	12,974,239	\$ 0.07
Effect of Dilutive Stock		294,854			225,845	
Diluted	\$ 370,000	13,308,573	\$ 0.03	\$ 947,000	13,200,084	\$ 0.07

At December 31, 2014, 381,000 options at a weighted average exercise price of \$9.69 were not included in the diluted earnings per share calculation as they were antidilutive.

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.

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.

On October 2, 2014, the Compensation Committee of the Board of Directors of the Company (Compensation Committee) granted 15,000 restricted shares to a non-officer employee of the Company. These shares vest in three equal installments, starting on the first anniversary of the grant.

Edgar Filing: ASTA FUNDING INC - Form 10-Q

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%

Table of Contents

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

Note 17 Stock Option Plans

2012 Stock Option and Performance Award Plan

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

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

The Company authorized 2,000,000 shares of Common Stock for issuance under the 2012 Plan. Under the 2012 Plan, the Company has granted options to purchase an aggregate of 371,700 shares, an award of 117,321 shares of restricted stock, and has cancelled 45,600 options, leaving 1,556,579 shares available as of December 31, 2014. As of December 31, 2014, approximately 62 of the Company's employees were able to participate in the 2012 Plan.

Equity Compensation Plan

On December 1, 2005, the Board of Directors adopted the Company's Equity Compensation Plan (the "Equity Compensation Plan"), which was approved by the stockholders of the Company on March 1, 2006. The Equity Compensation Plan was adopted to supplement the Company's 2002 Stock Option Plan (as defined below).

In addition to permitting the grant of stock options as are permitted under the 2002 Stock Option Plan, the Equity Compensation Plan allows the Company flexibility with respect to equity awards by also providing for grants of stock awards (i.e. restricted or unrestricted), stock purchase rights and stock appreciation rights.

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

2002 Stock Option Plan

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

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

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

Summary of the Plans

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

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

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 17 Stock Option Plans *(continued)*

	Three Months Ended December 31,			
	2014		2013	
	Number Of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding options at the beginning of period	1,403,259	\$ 10.78	1,622,771	\$ 11.31
Options granted			156,700	8.49
Options exercised	(60,000)	7.83		
Options forfeited/canceled	(344,259)	17.99	(210,767)	14.39
Outstanding options at the end of period	999,000	\$ 8.47	1,568,704	\$ 10.61
Exercisable options at the end of period	832,319	\$ 8.40	977,035	\$ 11.95

The following table summarizes information about the 2012 Plan, 2002 Plans, and the Equity Compensation Plan outstanding options as of December 31, 2014:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares Outstanding	Weighted Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
\$2.8751 \$5.7500	7,100	4.3	\$ 2.95	7,100	\$ 2.95
\$5.7501 \$8.6250	802,900	6.7	7.94	705,557	7.86
\$8.6251 \$25.8750	174,000	8.1	9.40	104,662	9.47
\$25.8751 \$28.7500	15,000	2.0	28.75	15,000	28.75
	999,000	6.8	\$ 8.47	832,319	\$ 8.40

The Company recognized \$338,000 and \$336,000 of compensation expense related to the stock option grants during the three month periods ended December 31, 2014 and 2013, respectively. As of December 31, 2014, there was

\$1,087,000 of unrecognized compensation cost related to stock option awards. The weighted average period over which such costs are expected to be recognized is 1.6 years.

The intrinsic value of the outstanding and exercisable options as of December 31, 2014 was approximately \$693,000 and \$666,000, respectively. The weighted average remaining contractual life of exercisable options is 6.5 years. The intrinsic and fair value of the stock options exercised during the three month period ended December 31, 2014 was approximately \$76,000 and \$525,000, respectively. There were no options exercised during the three month period ended December 31, 2013. The fair value of the stock options that vested during the three month periods ended December 31, 2014 and 2013 was approximately \$2,998,000 and \$481,000, respectively. There were no options granted during the three month period ended December 31, 2014. The fair value of the options granted during the three month periods ended December 31, 2013 was approximately \$1,021,000.

The following table summarizes information about restricted stock transactions:

	Three Months Ended December 31, 2014		2013	
	Number of	Weighted Average Grant Date Fair Value	Number of	Weighted Average Grant Date Fair Value
	Shares		Shares	
Unvested at the beginning of period	68,214	\$ 9.57	102,321	\$ 9.57
Awards granted	15,000	8.30		
Vested	(34,107)	9.57	(34,107)	9.57
Forfeited				
Unvested at the end of period	49,107	\$ 9.18	68,214	\$ 9.57

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 17 Stock Option Plans *(continued)*

The Company recognized \$94,000 and \$82,000 of compensation expense related to the restricted stock awards during the three month periods ended December 31, 2014 and 2013, respectively. As of December 31, 2014, there was \$357,000 of unrecognized compensation cost related to restricted stock awards. The weighted average remaining period over which such costs are recognized is 1.4 years. There were 15,000 restricted stock awards granted to an employee during the first quarter of fiscal year 2015. There were no awards granted during the first quarter of fiscal year 2014. The fair value of the awards vested during the first quarter of fiscal years 2015 and 2014 was \$326,000 for both periods.

The Company recognized an aggregate total of \$432,000 and \$418,000 in compensation expense for the three month periods ended December 31, 2014 and 2013, respectively, for the stock options and restricted stock grants. As of December 31, 2014, there was a total of \$1,444,000 of unrecognized compensation cost related to unvested stock options and restricted stock grants. The method used to calculate stock based compensation is the straight line pro-rated method.

Note 18 Stockholders Equity

There were no dividends declared or paid during the three months ended December 31, 2014 and 2013.

Dividends are declared at the discretion of the board of directors and depend upon the Company's financial condition, operating results, capital requirements and other factors that the board of directors deems relevant. In addition, agreements with the Company's lenders may, from time to time, restrict the ability to pay dividends. As of December 31, 2014, there were no such restrictions. No dividends were declared for the three month periods ended December 31, 2014 and 2013.

Note 19 Fair Value of Financial Measurements and Disclosures

Disclosures about Fair Value of Financial Instruments

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

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

	December 31, 2014		September 30, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Available-for-sale investments (Level 1)	\$ 66,991,000	\$ 66,991,000	\$ 66,799,000	\$ 66,799,000
Consumer receivables acquired for liquidation (Level 3)	25,728,000	44,478,000	29,444,000	50,962,000
Structured settlements (Level 3)	46,031,000	46,031,000	42,079,000	42,079,000
Other investments (1)	5,000,000	5,000,000		
Financial liabilities				
Other debt CBC, revolving line of credit (Level 3)	5,331,000	5,331,000	19,583,000	19,583,000
Other debt CBC, non-recourse notes payable with varying installments (Level 3)	33,141,000	33,141,000	12,712,000	12,712,000

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

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

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

Table of Contents

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

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

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.

Other investments The Company estimated the fair value using the net asset value per share of the investment. There are no unfunded commitments and the investment cannot be redeemed for 5 years.

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

Other debt CBC, notes payable with varying installments - The fair value at December 31, 2014 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, 2014, as required by FASB ASC 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

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

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

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

The Company's available-for-sale investments are classified as Level 1 financial instruments based on the classifications described above. The Company did not have transfers into or (out of) Level 1 investments during the three month period ended December 31, 2014. The Company had no Level 2 or Level 3 available-for-sale investments during the first quarter of fiscal year 2015.

The following table sets forth the Company's quantitative information about its Level 3 fair value measurements as of December 31, 2014:

	Fair Value	Valuation Technique	Unobservable Input	Rate
		Discounted cash flow	Discount rate	
Structured settlements at fair value	\$ 46,031,000			5.5%

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The changes in structured settlements at fair value using significant unobservable inputs (Level 3) during the three months ended December 31, 2014 were as follows:

Balance at September 30, 2014	\$ 42,079,000
Total gains included in earnings	1,202,000
Purchases	3,108,000
Sales	
Interest accreted	907,000
Payments received	(1,265,000)
Total	\$ 46,031,000

The amount of total gains for the three month period included in earnings attributable to the change in unrealized gains (losses) relating to assets held at December 31, 2014

\$ 1,202,000

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

Total gains (losses) included in the three months ended December 31, 2014	\$ 1,202,000
---	--------------

Change in unrealized gains (losses) relating to assets still held at December 31, 2014

\$ 1,202,000

Note 20 - Segment Reporting

The Company operates through strategic business units that are aggregated into four reportable segments: Consumer receivables, Personal injury claims, structured settlements, and GAR disability advocates. The four reportable segments consist of the following:

Consumer receivables - segment is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including 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 our distressed consumer receivables are MasterCard®, Visa® and other credit card accounts which were charged-off by the issuers or providers for non-payment. We acquire these and other consumer receivable portfolios at substantial discounts to their face values. The discounts are based on the characteristics (issuer, account size, debtor location and age of debt) of the underlying accounts of each portfolio. Litigation related receivables are semi-performing investments whereby the Company is assigned the revenue stream from the proceeds received. The business conducts its activities primarily under the name Palisades Collection, LLC.

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

Structured settlements. On December 31, 2013, the Company purchased an 80% interest in CBC Settlement Funding, LLC. CBC purchases periodic structured settlements and annuity policies from individuals in exchange for a lump sum payment.

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

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

Table of Contents

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 20 - Segment Reporting *(continued)*

The following table shows results by reporting segment for the three month period ended December 31, 2014 and 2013 and total assets as of December 31 and September 30, 2014:

(Dollars in millions)	Fiscal Year	Consumer Receivables	Personal Injury Claims	Structured Settlements	GAR Disability Advocates	Corporate	Total Company
Revenues	2015	\$ 5.0	\$ 2.5	\$ 2.2	\$	\$	\$ 9.7
	2014	4.6	2.8				7.4
Other income	2015				0.2	0.6	0.8
	2014				0.0	0.5	0.5
Income before income taxes	2015	3.4	(0.2)	0.1	(1.2)	(1.7)	0.4
	2014	2.6	2.2		(0.7)	(1.9)	2.2
Total assets	2015	25.7	34.7	42.7	1.4	118.8	223.3
	2014	30.5	34.0	38.5	1.0	113.1	217.1
Capital expenditures	2015						
	2014						
Depreciation	2015					0.2	0.2
	2014					0.2	0.2

The Company does not have any intersegment revenue transactions.

Note 21 - Subsequent Events

On March 11, 2015, CBC entered into the Ninth Amendment. This amendment, effective March 1, 2015, extended the maturity date from February 28, 2015 to March 1, 2017. Additionally, the credit line was increased from \$22.0 million to \$25.0 million and the interest rate floor was decreased from 4.75% to 4.1%. Other terms and conditions are materially unchanged (see Note 11 Other Debt CBC).

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 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, 2014 and Item 1A of this Quarterly Report on Form 10-Q.

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

Overview

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC (Palisades XVI), VATIV Recovery Solutions LLC (VATIV), ASFI Pegasus Holdings, LLC (APH), Fund Pegasus, LLC (Fund Pegasus), GAR Disability Advocates, LLC (GAR Disability Advocates) and other subsidiaries, not all wholly owned (the Company, we or us), has been engaged in the business purchasing, managing for its own account and servicing distressed consumer receivables, including charged-off receivables and semi-performing receivables, since 1994. 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. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. A large portion of our distressed consumer receivables are MasterCard®, Visa® and other credit card accounts which were charged-off by the issuers or providers for non-payment. We acquire these and other consumer receivable portfolios at substantial discounts to their face values. The discounts are based on the characteristics (issuer, account size, debtor location and age of debt) of the underlying accounts of each portfolio. Litigation related receivables are semi-performing investments whereby the Company is assigned the revenue stream from the proceeds received. GAR Disability Advocates is a social security disability advocacy firm. GAR Disability Advocates assists claimants in obtaining long term disability benefits from the social

security administration.

We own 80% of Pegasus Funding, LLC (Pegasus), which invests in funding personal injury claims and 80% of CBC Settlement Funding, LLC (CBC), which invests in structured settlements.

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

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

We operate principally in the United States in four reportable business segments.

Table of Contents**Financial Information About Operating Segments**

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

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

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

Structured settlements. On December 31, 2013 the Company purchased an 80% interest in CBC Settlement Funding, LLC. CBC purchases periodic structured settlements and annuity policies from individuals in exchange for a lump sum payment.

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

Three of the Company's business lines accounted for 10% or more of consolidated net revenue for the three month period ended December 31, 2014. For the three month period ended December 31, 2013, two of the Company's business lines accounted for 10% or more of consolidated net revenue. The following table summarizes the net revenues by percentage from the four lines of business for the three month periods ended December 31, 2014 and 2013:

Three Month Periods Ended December 31,	
2014	2013

Edgar Filing: ASTA FUNDING INC - Form 10-Q

Finance income (consumer receivables)	52.2%	62.6%
Personal injury claims	25.7%	37.4%
Structured settlements	22.1%	%
GAR Disability Advocates	%	%
Total revenues	100.0%	100.0%

The Company has no reportable segment information from international operations.

Information about the results of each of the Company's reportable segments for the three month periods ended December 31, 2014 and 2013 and total assets as of December 31 and September 30, 2014, reconciled to the consolidated results, is set forth below. For additional information, refer to the information set forth under the caption

Segment Results from Continuing Operations in Management's Discussion and Analysis of Financial Condition and Results of Operations, below.

Table of Contents

(Dollars in millions)	Fiscal Year	Consumer Receivables	Personal Injury Claims	Structured Settlements	GAR Disability Advocates	Corporate	Total Company
Revenues	2015	\$ 5.0	\$ 2.5	\$ 2.2	\$	\$	\$ 9.7
	2014	4.6	2.8				7.4
Other income	2015				0.2	0.6	0.8
	2014				0.0	0.5	0.5
Income before income taxes	2015	3.4	(0.2)	0.1	(1.2)	(1.7)	0.4
	2014	2.6	2.2		(0.7)	(1.9)	2.2
Total assets	2015	25.7	34.7	42.7	1.4	118.8	223.3
	2014	30.5	34.0	38.5	1.0	113.1	217.1

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. As of December 31, 2014, the Company's net investment in personal injury cases was approximately \$33.4 million.

On May 18, 2012, BP Case Management, LLC (Balance Point) was formed, a joint venture (the Venture) with California-based Balance Point Divorce Funding, LLC (Balance Point Management). The Venture provides non-recourse funding to a spouse in a matrimonial action where the marital assets exceed \$2,000,000. 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 are distributed 60% to us and 40% to Balance Point Management, after the return of our investment on a case by case basis and after a 15% preferred return to us. Our initial investment in the Venture consisted of up to \$15 million to fund divorce claims to be fulfilled in three tranches of \$5 million each. Each investment tranche is contingent upon a minimum 15% cash-on-cash return to us. At our option, there could be an additional \$35 million investment in divorce claims in tranches of \$10 million, \$10 million, and \$15 million, also with a 15% preferred return and such investments may even exceed a total of \$50 million, at our sole option. Should the preferred return be less than 15% on any \$5 million tranche, the 60%/40% profit and loss split would be adjusted to reflect our priority to a 15% preferred return. As of December 31, 2014, we have invested \$2.4 million in cases managed by this Venture.

We provide 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, 2014, the balance on the revolving line of credit was approximately \$1.5 million. In September 2014, the agreement was revised to extend the term of the loan to August 2016, increase the credit line to \$1.5 million and include a personal guarantee of the principle of Balance Point Management.

Structured Settlement Business

On December 31, 2014, 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 \$38.5 million of debt, including a \$5.3 million line of credit 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.

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, telecommunication receivables, consumer loan receivables and mixed consumer receivables has matured, we have used the interest method when we believe we can reasonably estimate the timing of the cash flows. In those situations where we diversify our acquisitions into other asset classes and we do not possess the same expertise, or we cannot reasonably estimate the timing of the cash flows, we have utilized the cost recovery method of accounting for those portfolios of receivables.

The Company can account 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 in the circumstances.

Despite all of the Company's portfolios being on the cost recovery method, 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, 2014, all of the portfolios are accounted for on the cost recovery method, of which \$17.0 million is concentrated in one portfolio, the remaining value of 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.

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

Table of Contents

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 account for our investment in personal injury claims at an agreed upon interest rate, in anticipation of a future settlement. The interest purchased by Pegasus in each claim consists of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant's claim. Open case revenue is estimated, recognized and accrued at a rate based on the expected realization and underwriting guidelines and facts and circumstances for each individual case. These personal injury claims are non-recourse. The reserve for bad debts is recorded based upon the historical trend for write off in the personal injury financing industry, the aging of the claims and other factors that could impact recoverability.

When a case is closed and cash is received for the advance provided to a claimant, revenue is recognized based upon the contractually agreed upon interest rate, and, if applicable, adjusted for any changes due to a settled amount and fees charged to a claimant.

The funding of BPCM matrimonial actions is on a non- recourse basis. BPCM revenues are recognized under the cost recovery method.

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

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, 2014, Compared to the Three-Months Ended December 31, 2013***

Finance income. For the three months ended December 31, 2014, finance income increased \$0.4 million or 8.4% to \$5.0 million from \$4.6 million for the three months ended December 31, 2013. The increase is primarily due to portfolios moving to zero basis. 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. Net collections for the three months ended December 31, 2014 decreased 14% to \$8.8 million from \$10.2 million for the same prior year period. The decrease is due to the lower level of purchases over the last four and one half years. During the first quarter of fiscal year 2015, gross collections decreased 12.1% or \$2.1 million to \$15.2 million from \$17.3 million for the three months ended December 31, 2013. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased \$0.7 million, or 10%, to \$6.4 million for the current fiscal three month period from \$7.1 million for the three months ended December 31, 2013. Commissions and fees amounted to 42.4% of gross collections for the three month period ended December 31, 2014, compared to 41.1% in the same period of the prior year.

Other income. The following table summarizes other income for the three month periods ended December 31, 2014 and 2013:

	December 31,	
	2014	2013
Interest and dividend income	\$ 357,000	\$ 345,000
Realized gain	273,000	160,000
GAR Disability Advocates	159,000	30,000
Other	5,000	8,000
	\$ 794,000	\$ 543,000

Other income. Other income consists of interest and dividend income, realized gains and losses on available for sale transactions, GAR Disability Advocates fee income and other service fee income.

Personal injury claims income. Personal injury claims income decreased \$0.3 million or 10.4% from \$2.8 million to \$2.5 million from the prior year.

Structured settlement income of \$2.1 million includes \$1.2 million of unrealized gains and \$0.9 million of interest income in the three month period ended December 31, 2014. As we acquired CBC on December 31, 2013, there were no comparative results in the prior year.

General and administrative expenses. During the three-month period ended December 31, 2014, general and administrative expense increased \$3.8 million, or 65.7 %, to \$9.6 million from \$5.8 million for the three-months ended December 31, 2013. The increase is attributable to the inclusion of CBC expenses in the current three month period ended December 31, 2014. G&A was approximately \$1.4 million in the three month period ended

December 31, 2014 for CBC. As the CBC acquisition took place on December 31, 2013, there was no comparable data for the prior three month period. In addition, there was an increase in the bad debt reserve related to personal injury claims of approximately \$1.8 million.

Interest expense. During the three-month period ended December 31, 2014, interest expense increased \$480,000 from \$9,000 in the prior year period to \$489,000 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 (RFA). As a result, the interest rate was significantly reduced to an average rate of 0.42% during the first quarter of fiscal year 2014. The interest expense in fiscal year 2015 is related to CBC debt, which had an average interest rate of 5.91% during the first quarter. There was no corresponding prior year expense.

Net income before taxes Consumer Receivables. Net income before taxes increased \$1.2 million from \$3.0 million for the three months ended December 31, 2013, reflecting lower collection costs in the current fiscal year period, including a \$0.7 million decrease in commissions.

Net income before taxes Personal Injury Claims. Net loss before taxes was \$0.3 million in the current fiscal year period as compared to \$2.2 million of net income in the fiscal year 2014 period. Increased reserves for bad debt were the cause for the loss in the three month period.

Net income before taxes Structured Settlements. Net income before taxes was \$0.2 million in the three month period ended December 31, 2014, with no corresponding data in the comparable prior year period.

Table of Contents

Net loss before taxes – GAR Disability Advocates. Net loss before taxes was \$1.2 million in the fiscal year 2015 period as compared to a \$0.7 million net loss in the same prior year period. GAR Disability Advocates is building the business through increased costs associated with acquiring disability cases in the current fiscal year period completed to the corresponding prior fiscal period.

Income tax expense. Income tax expense, consisting of federal and state income taxes, for three months ended December 31, 2014 was \$0.1 million as compared to \$0.8 million for the three months ended December 31, 2013. The state portion of the income tax provision for the first quarter of fiscal years 2014 and 2013 has been offset against state net operating loss carryforwards, and, as a result, no state taxes are currently payable.

Net income. For the three months ended December 31, 2014, net income was \$0.3 million as compared to \$1.4 million for the corresponding prior year period. The decrease is primarily due to increased costs related to building the disability business and the inclusion of CBC in the first quarter of fiscal year 2015 with no comparable results from the first quarter of fiscal year 2014.

Income attributable to non-controlling interest. The income attributable to non-controlling interest of \$49,000 is the portion of results attributable to Pegasus and CBC for the first quarter of fiscal year 2015 as compared to \$449,000 loss from the first quarter of fiscal year 2014. The results attributable to non-controlling interest is primarily due to the small loss of Pegasus Funding LLC.

Net income attributable to Asta Funding, Inc. Net income attributable to Asta Funding, Inc. was \$0.4 million in the first quarter of fiscal year 2015 as compared to \$ 0.9 million in the first quarter of fiscal year 2014.

Liquidity and Capital Resources

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

Receivables Financing Agreement (RFA)

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

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

remaining contractual obligation of the RFA and the Settlement Agreement.

On June 3, 2014, Palisades XVI finished paying the Remaining Amount. The final principal payment of \$2.9 million included a voluntary prepayment of \$1.9 million provided from funds of the Company. Accordingly, Palisades XVI will be entitled to receive \$16.9 million of future collections from the Portfolio Purchase before BMO is entitled to receive any payments with respect to its Income Interest. The Company estimates the Income Interest to be between \$0 and \$1.4 million. However, the Company believes that no amount will be incurred because of the continued deterioration of the collections from the portfolio purchase.

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

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

On May 2, 2014, the Company obtained a \$20 million line of credit facility from Bank Hapoalim, pursuant to a Loan Agreement (the Loan Agreement) among the Company and its subsidiary, Palisades Collection, LLC, as borrowers, and Bank Hapoalim, as agent and lender. The Loan Agreement provides for a \$20.0 million committed line of credit and an accordion feature providing an increase in the line of credit of up to \$30 million, at the discretion of the lenders. The facility is for a term of three years at an interest rate of either LIBOR plus 275 basis points or prime, at the Company's option. The Loan Agreement includes covenants that require the Company to maintain a minimum net worth of \$150 million and pay an unused line fee. The facility is secured pursuant to a Security Agreement (Security Agreement) among the parties to the Loan Agreement. As of December 31, 2014, the Company had not used this facility.

Table of Contents**Other Investments Personal Injury Claims**

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

Other Investments Divorce Funding

On May 18, 2012, we formed BP Case Management, LLC ("BPCM"), a joint venture with California-based Balance Point Divorce Funding, LLC ("BP Divorce Funding"). BPCM provides non-recourse funding to a spouse in a matrimonial action. The Company provides a \$1.0 million revolving line of credit to partially fund BP Divorce Funding's operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. In September 2014, the agreement was revised to extend the term of the loan to August 2016, increase the line to \$1.5 million and include a personal guarantee of the principal of BP Divorce Funding. The revolving line of credit is collateralized by BP Divorce Funding's 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. Skyrms, 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 structured settlements valued at \$30.4 million and debt that totaled \$23.4 million, consisting of \$9.6 million of a revolving line of credit with a financial institution and \$13.8 million of non-recourse notes issued by CBC's subsidiaries. As of December 31, 2014, we had structured settlements valued at \$46.0 million and debt valued at \$38.5 million, consisting of a \$5.3 million line of credit and an aggregate of \$33.2 million of non-recourse notes.

Cash Flow

As of December 31, 2014, our cash decreased \$0.6 million to \$28.1 million from \$28.7 million at September 30, 2014.

Net cash used in operating activities was \$2.5 million during the three months ended December 31, 2014 compared to \$2.2 million provided by operating activities during the three months ended December 31, 2013. Net cash used in investing activities was \$4.6 million during the three month period ended December 31, 2014 compared to \$4.1 million provided by during the three months ended December 31, 2014, reflecting investments in structured settlements in fiscal year 2014 with no comparable data in fiscal year 2013 as CBC was acquired in December 31, 2013. This will be due to the purchases of other investments. Net cash provided by financing activities \$6.4 million in the three month period ended December 31, 2013 as compared to cash used in financing activities of \$5.4 million in the three month period ended December 31, 2013. The increase is due to the financing activities of CBC.

Our cash requirements have been and will continue to be significant and include external financing to operate various lines of business. Significant requirements include investment in personal injury claims, investment in structured settlements, costs involved in the collections of consumer receivables, repayment of CBC debt and investment in

consumer receivable portfolios. In addition, dividends are paid if approved by the Board of Directors. Acquisitions recently have been financed through cash flows from operating activities. We believe we will be less dependent on a credit facility (with the exception of CBC) in the short-term, as our cash balances will be sufficient to invest in personal injury claims, purchase portfolios and finance the early stages of the disability advocacy business. Structured settlements are financed through the use of a credit line, warehouse facility, and private placement financing.

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

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

Off Balance Sheet Arrangements

As of December 31, 2014, we did not have any relationships with unconsolidated entities or financial partners, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Table of Contents**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, 2014	\$ 3,000	\$ 2,000
Three months ended December 31, 2013	\$ 1,000	\$

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the FASB) issued an update to ASC 606, Revenue from Contracts with Customers, that will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the entitled consideration received in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the customer contracts. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact this update will have on our consolidated financial statements as well as the expected adoption method.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this ASU require two accounting changes. First, the amendments in this ASU change the accounting for repurchase-to maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. This ASU also includes new disclosure requirements. The accounting changes in this Update are effective for public business entities for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application for a public business entity is prohibited. The Company reviewed this ASU and determined that it did not have a material impact on its consolidated financial statements.

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

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) . The amendments apply to reporting entities that elect to measure the fair value of an investment using the net asset value (NAV) per share (or its equivalent) practical equivalent. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. The Company has reviewed this ASU and has elected to early adopt these amendments in the current reporting period and has removed certain investments that are measured using the NAV practical expedient from the fair value hierarchy in all periods presented in the Company's consolidated financial statements.

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, 2014, the debt associated with our acquisition of CBC, had a balance of approximately \$38.5 million, consisting of \$5.3 million through a line of credit, at a rate of LIBOR plus 4%, with a floor of 4.75%, from a financial institution, and \$33.2 million of notes at varying rates, from 5.39% to 8.75%, issued by CBC's subsidiaries. At December 31, 2014, the LIBOR rate was 0.17%. Thus, a 25 basis point change in the LIBOR rate would have had no impact on the line of credit interest rate. We do not currently invest in derivative financial or commodity instruments.

Item 4. Controls and Procedures

a. Disclosure Controls and Procedures

Based on criteria for effective internal control over financial reporting described in the standards promulgated by the Public Company Accounting Oversight Board and in the Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992), we conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of December 31, 2014. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2014 based on the material weakness discussed below.

The Company is in the process of implementing the criteria established in the Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) and believes such new criteria would not materially affect the Company's evaluation described above that occurred during the first quarter of fiscal year 2015.

(b) 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. 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.

c) Remediation Plan

As part of our commitment to strengthening our internal control over financial reporting, we have implemented various actions

Table of Contents

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.

b. Changes in Internal Controls Over Financial Reporting.

There had been certain improvements in our internal control over financial reporting during the first quarter ended December 31, 2014. These changes have not materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of our business, we are involved in numerous legal proceedings. We regularly initiate collection lawsuits, using our network of third party law firms, against consumers. Also, consumers occasionally initiate litigation against us, in which they allege that we have violated a federal or state law in the process of collecting their account. We do not believe that these ordinary course matters are material to our business and financial condition. As of the date of this Form 10-Q, we are not involved in any material litigation in which we are a defendant.

Item 1A. Risk factors

None

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

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-K for the fiscal years ended September 30, 2013 and 2012 and for the first three quarters of fiscal year 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 thereon. The Company is in the process of finalizing its discussions with the SEC in order to resolve the Staff Comments.

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.

SIGNATURES

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

ASTA FUNDING, INC.

(Registrant)

Date: June 29, 2015

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

Date: June 29, 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.