ASTA FUNDING INC

FORM 10-K
(Annual Report)

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

Form 10-K

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

For the fiscal year ended September 30, 2013

OR

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

For the transition period from to

Commission file number: 001-35637

ASTA FUNDING, INC.

(Exact Name of Registrant Specified in its Charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**22-3388607** *(I.R.S. Employer Identification No.)*
210 Sylvan Avenue, Englewood Cliffs, NJ *(Address of principal executive offices)*	**07632** *(Zip Code)*

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

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

Title of each Class	Name of Exchange on Which Registered
Common Stock, par value $.01 per share	NASDAQ Global Select Market

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☑

The aggregate market value of voting and nonvoting common equity held by non-affiliates of the registrant was approximately $89,066,000 as of the last business day of the registrant's most recently completed second fiscal quarter.

As of December 3, 2013, the registrant had 12,974,239 shares of Common Stock issued and outstanding.

Documents incorporated by reference:

Portions of the registrant's proxy statement for the 2014 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended September 30, 2013.

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FORM 10-K

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Caution Regarding Forward Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included or incorporated by reference in this Annual Report on Form 10-K, including without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expects,” “intends,” “plans,” “projects,” “estimates,” “anticipates,” or “believes” or the negative thereof or any variation there on or similar terminology or expressions.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors which could materially affect our results and our future performance include, without limitation, 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” beginning on page 15 of this report and “Item 7 — Management’s Discussions and Analysis of Financial Condition and Results of Operation” below.

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

Part I

Item 1. *Business.*

Overview

Asta Funding, Inc., 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”), and other subsidiaries, not all wholly owned, and not considered material (the “Company”, “we” or “us”), is primarily engaged in the business of acquiring, managing, servicing and recovering on portfolios of consumer receivables. These portfolios generally consist of one or more of the following types of consumer receivables:

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

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.

In addition, the Company, owns 80% of Pegasus Funding, LLC (“Pegasus”), which invests in funding personal injury claims.

We operate solely in the United States in one reportable business segment.

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

We purchase receivables from credit grantors and others through privately negotiated direct sales, brokered transactions and auctions in which sellers of receivables seek bids from several pre-qualified debt purchasers. We fund portfolios through a combination of internally generated cash flow and bank debt, if needed.

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

When we outsource the servicing of receivables, our management typically determines the appropriate third-party collection agencies and attorneys based on the type of receivables purchased. Once a group of receivables is sent to third-party collection agencies and attorneys, our management actively monitors and reviews the third-party collection agencies’ and attorneys’ performance on an ongoing basis. Based on portfolio performance considerations, our management will either (i) move certain receivables from one third-party collection agency or attorney to another or to our internal servicing department if it anticipates that this will result in an increase in collections, or (ii) sell portions of the portfolio accounts. Our internal collection unit, which currently employs approximately 10 collection-related staff, including senior management, assists us in benchmarking our third-party collection agencies and attorneys, and provides us with greater flexibility for servicing a percentage of our consumer receivable portfolios in-house.

We are a Delaware corporation whose principal executive offices are located at 210 Sylvan Avenue, Englewood Cliffs, New Jersey 07632. We were incorporated in New Jersey on July 7, 1994 and were reincorporated in Delaware on October 12, 1995, as the result of a merger with a Delaware corporation. We were formed as an affiliate of Asta Group, Incorporated (the "Family Entity"), an entity owned by Arthur Stern, our Chairman Emeritus, Gary Stern, our Chairman, President and Chief Executive Officer, and other members of the Stern family, to purchase, at a small discount to face value, retail installment sales contracts secured by motor vehicles. We became a public company in November 1995. In 1999, we capitalized on our management's almost 50 years of experience and expertise in acquiring and managing consumer receivable portfolios for the Family Entity. As a result, we ceased purchasing automobile contracts and, with the assistance and financial support of the Family Entity and a partner, purchased our first significant consumer receivable portfolio. Since then, the Family Entity ceased acquiring consumer receivable portfolios and, accordingly, does not compete with the Company.

Industry Overview

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

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

Strategy

Although we are in a challenging economic period and an enhanced regulatory environment, our primary objective remains to utilize our management's experience and expertise by identifying, evaluating, pricing and acquiring consumer receivable portfolios and maximizing collections of such receivables in a cost efficient manner. Our strategies include:

- managing the collection and servicing of our consumer receivable portfolios, including outsourcing a majority of those activities to maintain low fixed overhead;
- selling accounts on an opportunistic basis, generally when our efforts have been exhausted through traditional collecting methods, or when we can capitalize on pricing during times when we feel the pricing environment is high; and
- capitalizing on our strategic relationships to identify and acquire consumer receivable portfolios as pricing, financing and conditions permit.

Because we reduced our purchases of consumer receivables portfolios, there has been a reduction in finance income. Instead, we focused on reducing our debt and being highly disciplined in our portfolio purchases. We continue to review potential portfolio acquisitions regularly and will buy at a price that we believe will yield our desired rate of return.

We believe that, given our management's experience and expertise, along with the fragmented yet growing market in which we operate, as we implement this short-term strategy, we will be in position to again grow our business as economic conditions stabilize.

Consumer Receivables Business

Receivables Purchase Program

We purchase bulk receivable portfolios that include charged-off receivables, semi-performing receivables and performing receivables. These receivables consist primarily of MasterCard ®, Visa ® and private label credit card accounts, among other types of receivables.

In the past we have acquired, directly and indirectly, through the consumer receivable portfolios that we acquire, secured consumer asset portfolios, consisting primarily of receivables secured by automobiles.

We identify potential portfolio acquisitions on an ongoing basis through:

- our relationships with industry participants, financial institutions, collection agencies, investors and our financing sources;

- brokers who specialize in the sale of consumer receivable portfolios; and
- other sources.

Historically, the purchase prices of the consumer receivable portfolios we have acquired have ranged from less than $100,000 to approximately $15,000,000; however, we acquired one group of portfolios in March 2007 for $300 million (the "Portfolio Purchase"). As a part of our strategy to acquire consumer receivable portfolios, we have, from time to time, entered into, and may continue to enter into, participation and profit sharing agreements with our sources of financing and our third-party collection agencies and attorneys. These arrangements may take the form of a joint bid with one of our third-party collection agencies, collection attorneys, or financing sources that assist in the acquisition of a portfolio. This joint bid provides us with more favorable non-recourse financing terms or a discounted servicing commission. Current participation agreements include a 50%-50% sharing arrangement after we have recouped 100% of the cost of the portfolio purchase plus the cost of funds.

We utilize our relationships with brokers, third-party collection agencies and attorneys, and sellers of portfolios to locate portfolios for purchase. Our senior management is responsible for:

- coordinating due diligence, including, in some cases, on-site visits to the seller's office;
- stratifying and analyzing the portfolio characteristics;
- valuing the portfolio;
- preparing bid proposals;
- negotiating pricing and terms;
- negotiating and executing a purchase contract;
- closing the purchase; and
- coordinating the receipt of account documentation for the acquired portfolios.

The seller or broker typically supplies us with either a sample listing or the actual portfolio being sold, through an electronic form of media. We analyze each consumer receivable portfolio to determine if it meets our purchasing criteria. We may then prepare a bid or negotiate a purchase price. If a purchase is completed, management monitors the portfolio's performance and uses this information in determining future buying criteria including pricing. An integral part of the acquisition process is the oversight by our Investment Committee. This committee, established in January 2008, must review and approve all investments above $1 million in value. Voting criteria are more stringent as the size of the investment increases. The current members of the committee are the Chairman Emeritus, the Chief Executive Officer, the Chief Financial Officer, and the Senior Vice President. As the Chairman Emeritus and Chief Executive Officer are related family members, at least one other officer must approve transactions.

After determining that an investment should yield an adequate return on our acquisition cost after servicing fees, including court costs, we use a variety of qualitative and quantitative factors to calculate the estimated cash flows. 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 customers as there are states with better regulatory environments, better collection histories, and that are better suited to attempt to collect in and ultimately we have better predictability of the liquidations and the expected cash flows all of which factor into our cash flow analysis;
- financial wherewithal of the seller;
- jobs or property of the customers within portfolios — this is of particular importance. Customers with jobs or property are more likely to repay their obligation and, conversely, customers without jobs or property are less likely to repay their obligation; and
- the ability to obtain customer statements from the original issuer.

We 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.

Once a receivable portfolio has been identified for potential purchase, we prepare various analyses based on extracting customer level data from external sources, other than the issuer, to analyze the potential collectability of the portfolio. We also analyze the portfolio by comparing it to similar portfolios previously acquired by us. In addition, we perform qualitative analyses of other matters affecting the value of portfolios, including a review of the delinquency, charge off, placement and recovery policies of the originator as well as the collection authority granted by the originator to any third-party collection agencies, and, if possible, by reviewing their recovery efforts on the particular portfolio. After these evaluations are completed, members of our senior management discuss the findings, decide whether to make the purchase and finalize the price at which we are willing to purchase the portfolio.

We purchase most of our consumer receivable portfolios directly from originators and other sellers including, from time to time, our third-party collection agencies and attorneys, through (i) privately negotiated direct sales, and (ii) through auction-type sales in which sellers of receivables seek bids from several pre-qualified debt purchasers. We also, from time to time, use the services of brokers for sourcing consumer receivable portfolios. We consider a variety of factors in determining whether potential seller may be a source of receivables, a variety of factors are considered. Sellers must demonstrate that they have:

- adequate internal controls to detect fraud;
- the ability to provide post-sale support; and
- the capacity to honor put-back and return warranty requests.

Generally, our portfolio purchase agreements provide that we can return certain accounts to the seller within a specified time period. However, in some transactions, we may acquire a portfolio with few, if any, rights to return accounts to the seller. After acquiring a portfolio, we conduct a detailed analysis to determine which accounts in the portfolio should be returned to the seller. Although the terms of each portfolio purchase agreement differ, examples of accounts that may be returned to the seller include:

- debts paid prior to the cutoff date;
- debts in which the consumer filed bankruptcy prior to the cutoff date;
- debts in which the consumer was deceased prior to cutoff date; and
- fraudulent accounts.

We have determined that all accounts returned to sellers for fiscal years 2013, 2012 and 2011 are immaterial. Our purchase agreements generally do not contain any provision for a limitation on the number of accounts that we may return to the seller.

We generally use third parties to determine bankrupt and deceased accounts, allowing us to focus our resources on portfolio collections. Under a typical portfolio purchase agreement, the seller refunds the portion of the purchase price attributable to the returned accounts or delivers replacement receivables to us. Occasionally, we will acquire a well-seasoned or older portfolio at a reduced price from a seller that is unable to meet all of our purchasing criteria. When we acquire such portfolios, the purchase price is further discounted beyond the typical discounts we receive on the portfolios we purchase.

VATIV, our wholly-owned subsidiary located in Houston, Texas, provides bankruptcy account servicing. VATIV provides us with internal experience and proprietary systems in support of servicing our own bankruptcy accounts, while also affording us the opportunity to enter new markets for acquisitions in the bankruptcy account field.

Receivable Servicing

Our objective is to maximize our return on investment on acquired consumer receivable portfolios. As a result, before acquiring a portfolio, we analyze the portfolio to determine how to best maximize collections in a cost efficient manner and decide whether to use a third-party collection agency or an attorney.

Therefore, if we are successful in acquiring the portfolio, we can promptly process the receivables that were purchased and commence the collection process. Unlike collection agencies that typically have only a specified period of time to recover a receivable, as the portfolio owner, we have significantly more flexibility and can establish payment programs.

We presently outsource a significant amount of our receivable servicing to third-party collection agencies and attorneys. Our senior management typically determines the appropriate third-party collection agency and attorney based on the type of receivables purchased. Once a group of receivables is sent to a third-party collection agency or attorney, our management actively monitors and reviews the third-party collection agency's and attorney's performance on an ongoing basis. Our management receives detailed analyses, including collection activity and portfolio performance, from our internal servicing departments for the purpose of evaluating the results of the efforts of the third-party collection agencies and attorneys. Based on portfolio performance guidelines, our management will reassign certain receivables from one third-party collection agency or attorney to another if we believe such change will enhance collections.

At September 30, 2013, approximately 28% of our portfolio face value was serviced by seven collection organizations. We have servicing agreements in place with these seven collection organizations as well as all other third-party collection agencies and attorneys. These servicing agreements cover standard contingency fees and servicing of the accounts.

Litigation Funding Business

On December 28, 2011, the Company purchased an 80%-interest in Pegasus. Pegasus Legal Funding ("PLF") holds the other 20% interest. The Company is committed to loan up to $21.8 million per year to Pegasus for a term of five (5) years, all of which is secured by the assets of Pegasus. These loans will provide financing for the personal injury litigation claims and operating expenses of Pegasus.

Pegasus is actively managed by personal injury litigation funders, Max Alperovich and Alexander Khanas, who rely upon strict underwriting criteria to provide legal funding to personal injury plaintiffs prior to the settlement of their claims or their resolution in court. The Pegasus business model entails the outlay of non-recourse advances to a plaintiff with an agreed-upon fee structure to be repaid from the plaintiff's recovery. Typically, such advances to a plaintiff approximate 10-20% of the anticipated recovery. These funds are generally used by the plaintiff for a variety of urgent necessities, ranging from surgical procedures to everyday living expenses.

Pegasus's profits and losses will be distributed at 80% to the Company and 20% to PLF. These distributions will be made only after the repayment of Fund Pegasus' principal amount loaned, plus an amount equal to advances for overhead expenses. While the overall returns to Pegasus are currently estimated to be in excess of 20% per annum, the Company reserves the right to terminate Pegasus if returns to the Company for any rolling twelve (12) month period, after the first year of operations, do not exceed 15%. As of September 30, 2013, the Company has invested approximately $35.8 million in personal injury cases.

The success of Pegasus is tied to several issues — the ability to obtain cases directly or through brokers as well as the ability to carefully assess the viability of each case in accordance with underwriting guidelines established by the management of Pegasus. See Risk Factor-Litigation Funding Business Risks.

On May 18, 2012, we announced the formation of BP Case Management, LLC ("Balance Point"), a joint venture (the "Venture") with California-based Balance Point Divorce Funding, LLC ("Balance Point Management"). The Venture provides non-recourse funding to a spouse in a matrimonial action where the marital assets exceed $2,000,000. Such funds can be used for legal fees, expert costs and necessary living expenses. The Venture receives an agreed percentage of the proceeds received by such spouse upon final resolution of the case. Balance Point's profits and losses will be distributed 60% to us and 40% to Balance Point Management, after the return of our investment on a case by case basis and after a 15% preferred return to us. Our initial investment in the Venture consists of up to $15 million to fund divorce claims to be fulfilled in three tranches of $5 million. Each 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 September 30, 2013, we have invested $1.6 million in cases managed by this Venture.

We provided a $1.0 million revolving line of credit to partially fund Balance Point Management's operations with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months, which may be extended under certain circumstances for an additional 24 month period. The revolving line of credit is collateralized by Balance Point Management's profits share in the Venture and other assets. At September 30, 2013, the balance on the revolving line of credit was approximately $917,000.

Operations

The Operations Servicing Division consists of the Collection Department, Media Department, Disputes Department, Correspondence Department, and Accounting and Finance Department:

Collection Department

The Collection Department is responsible for making and receiving contact with and from consumers for the purpose of collecting upon the accounts contained in our consumer receivables portfolios. Collection efforts are specific to accounts that are not yet being serviced by our network of external agencies and attorneys. The Collection Department uses a friendly, customer service approach to collect receivables and utilizes collection software, a dialer and telephone system to accomplish this goal. Each collector is responsible for:

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

Additionally, the Collection Department utilizes a series of collection letters, late payment reminders and settlement offers that are sent out at specific intervals or at the request of a member of the Collection Department.

If the Collection Department cannot contact the customer by either telephone or mail, the account is skip-traced through an automated process to obtain the most recent contact information for the customer. This process employs usage of data supplied by a variety of third party databases. Once new contact information is obtained, the account is referred back to the Collection Department and collection activity is once again initiated.

Other members of the Collection Department are responsible for:

- Coordinating customer inquiries and assisting the collection agencies in their processes, if needed;

- Handling the repurchase process of ineligible accounts received from a seller that may be included in a purchased portfolio;
- Working with buyers during the transition period and post-sale process;
- Handling any issues that may arise once a purchased receivable portfolio is sold; and
- Reading incoming correspondence for accounts that are currently assigned to the Collection Department, ensuring the account is handled properly, taking the initial action required and forwarding to a collector and/or manager for follow up action.

Other responsibilities of the Collection Department include media requests, dispute resolution and correspondence activities.

Accounting and Finance Department

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

- Making daily deposits of customer payments;
- Posting payments to customers accounts; and
- Providing senior management with daily, weekly and monthly receivable activity and performance reports.

Accounting and finance employees assist collection department employees in handling customer disputes relating to payment and balance information and handling the repurchase requests from companies to whom we have sold receivables. Additionally, the Accounting Department reviews the results of the collection of consumer receivable portfolios that are being serviced by third party collection agencies and attorneys.

Collections Represented by Account Sales

Certain collections represent account sales to other debt buyers to help maximize revenue and cash flows. We believe that our business model of not having a large number of collectors, coupled with a legal strategy which is focused on attempting to perfect liens and judgments against obligors, allows us the flexibility to sell accounts at prices that are attractive to us, and, just as important, sell the less desirable accounts within our collection portfolios. There are many factors that contribute to the decision as to which receivable to sell and which to service, including:

- the age of the receivable;
- the status of the receivable — whether paying or non-paying; and
- the selling price.

Net collections represented by account sales for the fiscal years ended September 30, 2013, 2012 and 2011 were $2.4 million, $0.1 million and $0.4 million, respectively. Collections represented by account sales as a percentage of total collections for the fiscal years ended September 30, 2013, 2012 and 2011 was 4.5%, 0.2%, and 0.5%, respectively.

Marketing

Over the last three years our consumer debt portfolio purchases have been reduced to one portfolio purchase in fiscal year 2013; however, we have maintained our established relationships with brokers who market consumer receivable portfolios from banks, finance companies and other credit providers. In addition, we subscribe to national publications that list consumer receivable portfolios for sale. We also directly contact banks, finance companies or other credit providers to solicit consumer receivables for sale.

Competition

Our business of purchasing distressed consumer receivables is highly competitive and fragmented, and we expect that competition from new and existing companies will continue. We compete with:

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

Some of our competitors are larger and more established and may have substantially greater financial, technological, personnel and other resources than we have, including greater access to the credit and capital markets. We believe that no individual competitor or group of competitors has a dominant presence in the market.

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

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

Our strategy is designed to capitalize on the market's lack of a dominant industry player. We believe that our management's experience and expertise in identifying, evaluating, pricing and acquiring consumer receivable portfolios and managing collections, coupled with our strategic alliances with third-party collection agencies and attorneys and our sources of financing, give us a competitive advantage. However, we cannot assure that we will be able to compete successfully against current or future competitors or that competition will not increase in the future.

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

- cost of funds lent;
- application Fee costs;
- broker's commissions and bonuses paid;
- reputation; and
- direct and on-line marketing.

We believe that the managements of Pegasus and BP Case Management have the expertise and experience in identifying, evaluating, pricing and acquisition of litigating funding cases. However, we cannot assure that our litigation funding businesses will be able to compete against current or future competitors or that competition will not increase in the future.

Seasonality and Trends

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

Technology

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

Due to our desire to increase productivity through automation, we periodically review our systems for possible upgrades and enhancements.

Government Regulation

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

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

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

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-

Frank Act that require the SEC to adopt additional rules and regulations in areas such as corporate governance, “say on pay” and proxy access. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management’s time from other business activities. We are subject to changing rules and regulations of federal and state governments, the Public Company Accounting Oversight Board (“PCAOB”) and NASDAQ, all of which have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress.

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

The CFPB published a final rule on October 24, 2012 that allows the agency to federally supervise the larger consumer debt collectors. The CFPB also released the field guide that examiners will use to ensure that companies and banks engaging in debt collection are following the law.

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

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

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

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

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

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

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

Additionally, the Dodd-Frank Act empowers state attorneys general (or the equivalent thereof) to bring civil actions in federal district court (or a state court that is located in that state and that has jurisdiction over the defendant), to enforce Title X of the Act or regulations issued by the Bureau thereunder. Therefore, we could also be the subject of investigations and enforcement actions by the Federal Trade Commission or by state agencies (e.g., state attorneys general) with powers to enforce Bureau regulations and the FCRA.

The Dodd-Frank Act authorized the CFPB to prescribe rules interpreting the FDCPA. On November 12, 2013, the CFPB signaled its intention to promulgate substantive rules under the FDCPA by publishing an Advance Notice of Proposed Rulemaking (ANPR) with regard to debt collection practices. The ANPR requests comments with regard to a wide array of issues relating to debt collection. Consumers, consumer groups, debt collectors, industry representatives and others have 90 days from the date of publication of the ANPR in which to submit comments. Final rules will likely be issued within the next 12 to 18 months.

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

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

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

The litigation funding business is becoming a growing focus for legislators and policy-makers. There are a variety of state laws in three substantive areas: (1) laws directly regulating funders; (2) the arcane doctrines of maintenance, champerty, and barratry; and (3) rules regulating attorney conduct and the application of attorney-client privilege. Pegasus monitors the state regulations affecting its business in all states where it is currently active in litigation funding. Pegasus believes that it currently complies with all applicable laws in the jurisdictions where it invests in litigation cases. It is also possible that Congress could seek to impose rules, regulations and fees on participants in the litigation funding business. We cannot predict the effect of any such regulation on our litigation funding business, results of operation or financial condition.

Employees

As of September 30, 2013, we had 72 full-time employees. We are not a party to any collective bargaining agreements.

Additional Information

Our web address is www.astafunding.com. Copies of our Form 10-Ks, 10-Qs, 8-Ks, proxy statements, amendments thereto, and other SEC reports are available on our website as soon as reasonably practical after filing electronically with the Securities and Exchange Commission . No part of our web site is incorporated by reference into this report.

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

Note Regarding Risk Factors

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

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act subjects us to substantial additional federal regulation, and we cannot predict the effect of such regulation on our business, results of operations, cash flows or financial condition.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas such as “say on pay” and proxy access. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management’s time from other business activities.

Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of business activities, require changes to certain business practices, or otherwise adversely affect our business. In particular, the potential impact of the Dodd-Frank Act on our operations and activities, both currently and prospectively, include, among others:

- increased cost of operations due to greater regulatory oversight, supervision and compliance with consumer debt issuance and collection practices; and
- the limitation on the ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations.

The Dodd-Frank Act establishes the CFPB, which has broad regulatory powers over debt collectors and virtually all other “covered persons” who have any connection to consumer financial products or services. The CFPB has exclusive rule-making authority with respect to all significant federal statutes that impact the collection industry, including the FDCPA, the FCRA, and others. This means, for example, that the CFPB has the ability to pass rules and regulations that interpret any of the provisions of the FDCPA, potentially impacting all facets of the collection channel. Federal agencies, including the CFPB, have been given significant discretion in drafting the rules and regulations that will implement the Dodd-Frank Act. Consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for some time. In addition, this legislation mandated multiple studies and reports for Congress, which could result in additional legislative or regulatory action.

The CFPB has the authority to conduct periodic examinations of “larger participants” in each market, and we believe it is likely that we will be subject to an examination.

We cannot predict the requirements of the regulations ultimately adopted under the Dodd-Frank Act, the effect such regulations will have on financial markets generally, or on our businesses specifically, the additional costs associated with compliance with such regulations, or any changes to our operations that may be necessary to comply with the Dodd-Frank Act, any of which could have a material adverse effect on our business, results of operations, cash flows or financial condition.

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

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

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

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

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

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

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

The current economic environment has slowed our ability to collect from our customers.

The recent worldwide financial turmoil has adversely affected all businesses, including our own. The current collection environment is particularly challenging as a result of factors in the economy over which we have no control. These factors include:

- a slowdown in the economy;
- severe problems in the credit and housing markets;
- higher unemployment;
- reductions in consumer spending;
- changes in the underwriting criteria by originators; and
- changes in laws and regulations governing consumer lending and the related collections.

Our litigation strategy is highly dependent on our ability to locate customers with jobs and/or homes. We believe that our customers are straining to pay their obligations owed to us. Higher unemployment rates particularly impact our customers' ability to pay obligations and our ability to get wage executions as a source of payment. Problems in the credit markets and lower home values have reduced the ability of our customers to secure financing through second mortgages and home equity lines to pay obligations owed to us. A continuation of the current problems in the credit and housing markets and general slowdown in the economy will continue to adversely affect the effectiveness of our litigation strategy, and the value of our portfolios and our financial performance.

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

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

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

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

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

Our future operating results will be negatively impacted as we have not replaced our defaulted consumer receivables at historic levels.

To operate profitably, we must continually acquire, or invest in a sufficient level of various types of receivables to generate continued revenue. Our investment in charged off consumer receivables during fiscal year 2013, 2012, and 2011 has slowed dramatically. As the economic environment deteriorated, we felt that pricing of portfolios had not fallen enough to offset the decline in ultimate collections. Accordingly, our investment in portfolios was $3.4 million in 2013, $2.5 million in 2012, and $7.5 million in 2011 compared to $8.0 million in 2010 and $19.6 million in 2009. In part, this led to our net cash collections in fiscal 2013 decreasing $15.9 million, or 22.7%, from $70.0 million in fiscal year 2012 to $54.1 million in fiscal year 2013. Furthermore, of those collections, $33.2 million for fiscal year 2013 and $36.4 million for fiscal year 2012 came from zero basis portfolios (whose carrying value has been reduced to zero). Our decreased level of buying new portfolios during fiscal years 2013, 2012, and 2011 will likely result in future reduced net cash collections in fiscal year 2014 and slow the growth of our future revenues and operating results in the consumer debt part of our business. Furthermore, we cannot predict how our ability to identify and invest in receivables, and evaluate the quality of those receivables, would be affected if there is a shift in consumer lending practices whether caused by changes in regulations or by a sustained economic downturn.

Our inability to invest in sufficient quantities of receivables portfolios may necessitate workforce reductions, which may harm our business.

Because fixed costs, such as personnel costs, constitute a significant portion of our overhead, we may be required to reduce the number of employees if we do not continually invest in receivables. Reducing the number of employees can adversely affect our business and lead to:

- lower employee morale, higher employee attrition rates, and fewer experienced employees;
- disruptions in our operations and loss of efficiency in collection functions;
- excess costs associated with unused space in collection facilities; and
- further reliance on our third party collection agencies and attorneys.

We have risks associated with the Portfolio Purchase, which has not met our expectations and may continue to adversely impact our financial position and results of operations.

Since the inception of the Portfolio Purchase, financed by the Receivables Financing Agreement, the Receivables Financing Agreement has been modified five times due to collections not meeting our expectations. The shortfall was exacerbated by the general economic downturn. We have recorded impairments on the Portfolio Purchase totaling $107.3 million ($30.3 million in fiscal year 2008, $53.9 million in fiscal year 2009, $13.0 million in fiscal year 2010 and $10.1 million in fiscal year 2013). The Portfolio Purchase was transferred to the cost recovery method effective with the third quarter of fiscal year 2008, as collections became increasingly more difficult to predict. Accordingly, we will recognize finance income only after we recover the carrying value of the asset. As a result, finance income since April 1, 2008 has been and will continue to be negatively impacted. There can be no assurance as to when or if the current carrying value will be recovered. The carrying value of the Portfolio Purchase as of September 30, 2013 is $43.4 million.

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

Although the carry forward period for income taxes is up to twenty years, such allowance period is outside a reasonable period to forecast full realization of the deferred tax asset. We continually monitor forecast information to ensure the valuation allowance is appropriate.

With portfolios classified under the interest method, our projections of future cash flows from our portfolio purchases may prove to be inaccurate, which could result in reduced revenues or the recording of impairment charges if we do not achieve the collections forecasted by our model. In addition, portfolios classified under the cost method may experience shortfalls in collections that may result in further impairments/write downs.

We use qualitative and quantitative analyses to project future cash flows from our portfolio purchases. There can be no assurance, however, that we will be able to achieve the collections forecasted by our analysis. If we are not able to achieve these levels of forecasted collections, our revenues will be reduced and we may be required to record additional impairment charges, which would result in a reduction of our earnings. We recorded impairment charges of $2.5 million, $1.4 million, and $0.7 million for the years ended September 30, 2013, 2012 and 2011, respectively.

As the mix of our portfolios has shifted to the cost recovery method, there is a negative impact on finance income as no finance income is recognized on the cost recovery portfolios until the carrying value has been recovered.

Historically, we have utilized the interest method to recognize finance income on most consumer receivable portfolios purchased. As the economy has impacted our business, making collections more unpredictable, we have transferred portfolios from the interest method to the cost recovery method, which delays the recognition of finance income until the carrying value has been fully recovered.

We use estimates for recognizing finance income on a portion of our consumer receivables acquired for liquidation and our earnings would be reduced if actual results are less than estimated.

We utilize the interest method of revenue recognition for determining a portion of our finance income recognized, which is based on projected cash flows that may prove to be less than anticipated and could lead to reductions in revenue or additional impairment charges under Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) 310, Receivables — Loans and Debt Securities Acquired with Deteriorated Credit Quality (“ASC 310”). Static pools of accounts are established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost and is accounted for as a single unit for the recognition of income, principal payments and loss provision. 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. ASC 310 initially freezes the internal rate of return (“IRR”), estimated when the accounts receivable are purchased, as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the IRR over a portfolio’s remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Rather than lowering the estimated IRR, if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current IRR. Any reduction in our earnings resulting from such a write down could materially adversely affect our stock price.

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

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

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

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

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

We are subject to competition for the purchase of consumer receivable portfolios which could result in an increase in prices of such portfolios.

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

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

Although we utilize our in-house collection staff to initiate the collection process to collect some of our receivables, we outsource a majority of our receivable servicing. As 28% of our portfolio face value is serviced by seven organizations, we are dependent upon the efforts of these collection agencies and attorneys to service and collect our consumer receivables. Any failure by our third-party collection agencies and attorneys to adequately perform collection services for us or remit such collections to us could materially reduce our finance income and our profitability. In addition, our finance income and profitability could be materially adversely affected if we are not able to secure replacement third party collection agencies and attorneys and redirect payments from the customers to our new third party collection agencies and attorneys promptly in the event our agreements with our third-party collection agencies and attorneys are terminated, our third-party collection agencies and attorneys fail to adequately perform their obligations or if our relationships with such third-party collection agencies and attorneys adversely change.

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

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

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

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

Our collections may decrease if bankruptcy filings increase.

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

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

Gary Stern, our Chairman, President and Chief Executive Officer, Robert J. Michel, our Chief Financial Officer, and Mary Curtin, our Senior Vice President, are responsible for making substantially all management decisions, including determining which portfolios to purchase, the purchase price and other material terms of such portfolio acquisitions. These decisions are instrumental to the success of our business. As of January 2009, Arthur Stern, former Chairman of the board of directors, now Chairman Emeritus, stepped down as an employee of the Company. Mr. Stern continues to serve on the board of directors and consults with our executives. Significant losses of the services of our executive officers or the inability to replace our officers with individuals who have experience in the industry or with the Company could disrupt our operations and adversely affect our ability to successfully acquire receivable portfolios.

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

Members of the Stern family own directly or indirectly, approximately 28.2% of our outstanding shares of common stock. As a result, the Stern family is able to significantly influence the actions that require stockholder approval, including:

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

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

An unfavorable government review of our tax returns could adversely affect our operating results.

Our tax filings are subject to review or audit by the IRS and state and local taxing authorities. In April 2010, we received notification from the Internal Revenue Service ("IRS") that our 2008 and 2009 federal income tax returns would be audited. This audit is currently in progress. The IRS examinations of our federal tax returns could result in significant proposed adjustments. Although we believe our tax estimates are reasonable, we can provide no assurance that any final determination in an audit will not be materially different than the treatment reflected in our historical income tax provisions and accruals. An assessment of additional taxes as a result of an audit could adversely affect our income tax provision and net income in the period or periods for which that determination is made. In addition, the Company signed a consent to extend the IRS review period through 2010.

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

Consumers are exposed to information from a number of sources that may cause them to be more reluctant to pay their debts or to pursue legal actions against us. On-line, print and other media publish stories about the debt collection industry which cite specific examples of abusive collection practices. These stories can lead to the rapid dissemination of the story, adding to the level of exposure to negative publicity about our industry. Various

Internet sites are maintained where consumers can list their concerns about the activities of debt collectors and seek guidance from other website posters on how to handle the situation. Advertisements by debt relief attorneys and credit counseling centers are becoming more common, adding to the negative attention given to our industry. As a result of this negative publicity, customers may be more reluctant to pay their debts or could pursue legal action against us regardless of whether those actions are warranted. These actions could impact our ability to collect on the receivables we acquire and affect our revenues and profitability.

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

Originators, debt purchasers and third-party collection agencies and attorneys in the consumer credit industry are frequently subject to putative class action lawsuits and other litigation. Claims include failure to comply with applicable laws and regulations and improper or deceptive origination and servicing practices. Being a defendant in such class action lawsuits or other litigation could materially adversely affect our results of operations and financial condition.

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

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

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

If we make such acquisitions, we cannot predict whether:

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

In addition, future acquisitions by us may result in:

- potentially dilutive issuances of our equity securities;
- the incurrence of additional debt; and
- the recognition of significant charges for depreciation and impairment charges related to goodwill and other intangible assets.

If our technology and phone systems are not operational, our operations could be disrupted and our ability to successfully acquire receivable portfolios and receive collections from customers could be adversely affected.

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

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

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

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

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

We have adopted a stockholder rights plan which could make it more difficult for a third-party to acquire us.

We adopted a stockholder rights plan which is intended to protect us from efforts to obtain control of us that are inconsistent with our best interests and the interests of our stockholders. The rights will be exercisable ten days following the earlier of the public announcement that a stockholder has acquired 20% or more of our common stock without board approval or the announcement of a tender offer which results in the ownership of 20% or more of our common stock. If the rights become exercisable, all rights holders (other than the person triggering the rights) will be entitled to acquire our securities at a substantial discount. Because the rights may substantially dilute the stock ownership of a person or group attempting to take over the Company without the approval of our board of directors, the rights plan could make it more difficult for a third-party to acquire us or a significant percentage of our outstanding capital stock, without first negotiating with the board of directors.

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

Sales of a substantial number of shares of our common stock in the public market could cause a decrease in the market price of our common stock. We had 12,974,239 shares of common stock issued and outstanding as of December 2, 2013. Of these shares, 3,663,441 are owned by our affiliates. In addition, options to purchase 1,622,771 shares of our common stock were outstanding as of September 30, 2013, of which 1,108,271 were exercisable. We may also issue additional shares in connection with our business and may grant additional stock options or restricted shares to our employees, officers, directors and consultants under our present or future equity compensation plans or we may issue warrants to third parties outside of such plans. As of September 30, 2013, there were 1,687,679 shares available for such purpose with such shares available under the 2012 Stock Option and Performance Award Plan. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

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

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

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

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

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

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

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

Item 1B. ***Unresolved Staff Comments.***

Not applicable.

Item 2. ***Properties***

Our executive and administrative offices are located in Englewood Cliffs, New Jersey, where we lease approximately 14,700 square feet of general office space for approximately $21,000 per month, plus utilities. The lease expires on July 31, 2015, with a two-year renewal option.

Our office in Houston, Texas occupies approximately 2,600 square feet of general office space for approximately $3,800 per month. The lease expires on August 18, 2016.

Our New York City office occupies approximately 6,600 square feet for approximately $19,000 per month, including electricity. The lease expires in September 2017.

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

Item 3. ***Legal Proceedings.***

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

Item 4. ***Mine Safety Disclosures.***

Not applicable.

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PART II

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

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "ASFI." On December 2, 2013 there were 15 holders of record of our common stock. High and low sales prices of our common stock since October 1, 2011 as reported by NASDAQ are set forth below (such quotations reflect inter-dealer prices without retail markup, markdown, or commission, and may not necessarily represent actual transactions):

	High	Low
2012		
October 1, 2011 to December 31, 2011	$ 8.70	$7.40
January 1, 2012 to March 31, 2012	8.44	7.22
April 1, 2012 to June 30, 2012	9.40	7.80
July 1, 2012 to September 30, 2012	10.05	8.55
2013		
October 1, 2012 to December 31, 2012	$10.49	$7.95
January 1, 2013 to March 31, 2013	9.82	9.16
April 1, 2013 to June 30, 2013	9.68	8.27
July 1, 2013 to September 30, 2013	9.11	8.33

Dividends

In December 2012, our Board of Directors approved the payment of a special accelerated annual dividend of $0.08 per share to stockholders of record on December 24, 2012. The aggregate dividend of $1,030,000 was paid on December 28, 2012. No additional dividends were declared during fiscal year 2013. During the year ended September 30, 2012, we declared quarterly cash dividends aggregating $1,111,000 ($0.02 per share, per quarter). Future dividend payments will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements and any other factors our board of directors deems relevant. In addition, our agreements with our lender may, from time to time, restrict our ability to pay dividends. Currently there are no restrictions in place.

Share Repurchase Program

On March 9, 2012, we adopted a Rule 10b5-1 Plan in conjunction with our share repurchase program that authorized us to purchase up to $20.0 million of shares of our common stock. Under that program, which expired in March 2013, we purchased 885,000 shares at an aggregate cost of approximately $7.9 million. The Rule 10b5-1 Plan superseded the authorization to repurchase shares in June 2011, pursuant to which we repurchased approximately 59,000 shares at an aggregate cost of approximately $457,000. Additionally, in June 2012, we repurchased 1.0 million shares for $9.4 million in a privately negotiated transaction. We repurchased an aggregate of approximately 1.9 million shares at an aggregate cost of approximately $17.8 million.

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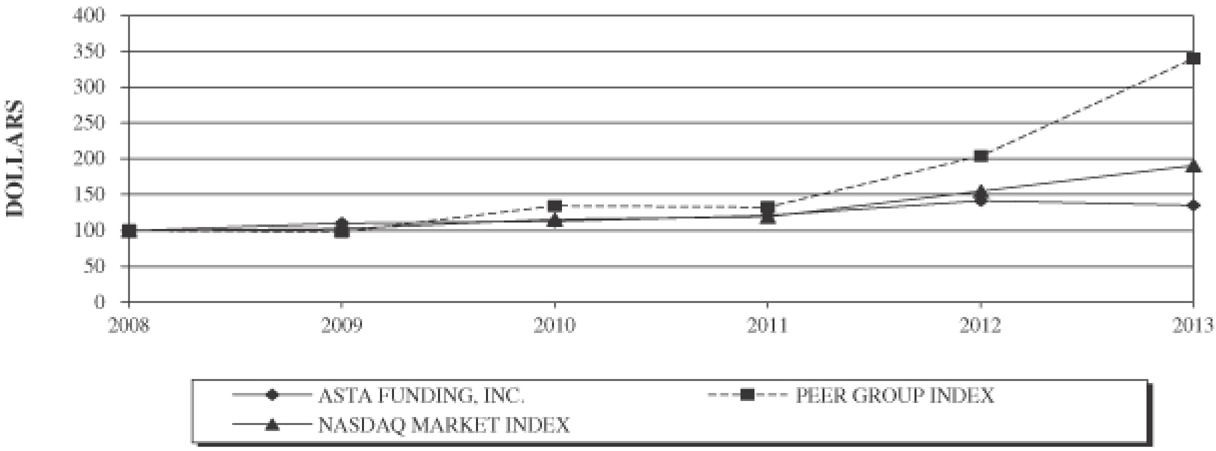
Performance Graph

Notwithstanding anything to the contrary set forth in any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate by reference this Form 10-K, in whole or in part, the following Performance Graph shall not be incorporated by reference into any such filings.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
September 2013



	2008	2009	2010	2011	2012	2013
ASTA FUNDING, INC.	$ 100.00	$ 110.36	$ 112.53	$ 120.80	$ 141.16	$ 134.77
NASDAQ MARKET INDEX	$ 100.00	$ 102.53	$ 115.45	$ 118.87	$ 155.16	$ 190.49
PEER GROUP INDEX	$ 100.00	$ 98.52	$ 133.90	$ 132.09	$ 203.62	$ 340.06

Item 6. *Selected Financial Data.*

The following tables set forth a summary of our consolidated financial data as of and for the five fiscal years ended September 30, 2013. The selected financial data for the five fiscal years ended September 30, 2013, have been derived from our audited consolidated financial statements. The selected financial data presented below should be read in conjunction with our consolidated financial statements, related notes, other financial information included elsewhere in this report, including the information set forth in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations". Certain items in prior years' information have been reclassified to conform to the current year's presentation.

	Year Ended September 30,				
	2013	2012	2011	2010	2009
	(In thousands, except per share data)				
Income Statement Data:					
Finance income, net	$34,363	$40,599	$42,610	$45,631	$ 70,156
Other income	8,049	3,903	557	218	199
	42,412	44,502	43,167	45,849	70,355
Costs and Expenses:					
General and administrative expenses	24,212	23,640	21,807	23,211	25,915
Interest expense	1,300	2,539	3,016	4,368	8,452
Impairments of consumer receivables acquired for liquidation	12,592	1,383	721	13,029	183,500
	38,104	27,562	25,544	40,608	217,867
Income (loss) before income tax	4,308	16,940	17,623	5,241	(147,512)
Provisions (benefit) for income tax	1,164	6,872	7,102	2,112	(56,787)
Net income (loss)	3,144	10,068	10,521	3,129	(90,725)
Less: net income attributable to non-controlling interest	406	31	—	—	—
Net income (loss) attributable to Asta Funding, Inc.	$ 2,738	$10,037	$10,521	$ 3,129	$ (90,725)
Basic net income (loss) per share	$ 0.21	$ 0.71	$ 0.72	$ 0.22	$ (6.36)
Diluted net income (loss) per share	$ 0.21	$ 0.70	$ 0.71	$ 0.22	$ (6.36)

	2013	2012	2011 (In millions)	2010	2009
Other Financial Data (Unaudited):					
For the Year ended September 30					
Cash collections	$ 51.7	$ 70.0	$ 81.2	$ 101.9	$ 147.4
Portfolio purchases, at cost	3.3	2.5	7.5	8.0	19.6
Portfolio purchases, at face	53.5	6.0	19.5	269.1	577.0
Return on average assets(1)	1.2%	4.2%	4.1%	1.1%	(23.5)%
Return on average stockholders' equity(1)	1.6%	5.9%	6.3%	2.0%	(44.8)%
Dividends declared per share	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.08
At September 30,					
Total assets	207.8	233.2	248.1	259.2	290.8
Total debt	35.8	61.5	71.6	94.9	130.9
Total stockholders' equity	169.6	168.5	173.0	161.9	157.4
Inception to date — September 30,					
Cumulative aggregate purchases, at face	31,975.0	31,921.5	31,915.5	31,896.0	31,626.9

(1) The return on average assets is computed by dividing net income by average total assets for the fiscal year. The return on average stockholders' equity is computed by dividing net income by the average stockholders' equity for the fiscal year. Both ratios have been computed using beginning and period-end balances.

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

Caution Regarding Forward-Looking Statements

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

Overview

We are primarily engaged in the business of acquiring, managing, servicing and recovering on portfolios of consumer receivables, and, through Pegasus Funding, LLC, and BP Case Management, LLC, funding of personal injury and matrimonial litigation claims, respectively.

Consumer Receivables

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

- *charged-off receivables* — accounts that have been written-off by the originators and may have been previously serviced by collection agencies;
- *semi-performing receivables* — accounts where the debtor is making partial or irregular monthly payments, but the accounts may have been written-off by the originators; and
- *performing receivables* — in limited circumstances accounts where the debtor is making regular monthly payments that may or may not have been delinquent in the past.

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

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

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

Litigation Funding

In December 2011, we entered into a joint venture with PLF pursuant to which we purchase interests in personal injury claims from claimants who are a party to personal injury litigation, with the expectation of a settlement in the future. Through the joint venture, we advance, to each personal injury claimant, funds on a non-recourse basis, at an agreed upon interest rate, in anticipation of a future settlement. The interest purchased by us 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.

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

In May 2012, we entered into a joint venture with Balance Point Management. The joint venture, through a newly-formed indirect subsidiary, Balance Point, provides non-recourse funding to claimants in matrimonial actions. Such funds can be used for legal fees, expert costs and necessary living expenses. The venture will receive an agreed percentage of the proceeds received by such claimant upon final resolution of the case. Balance Point's profits and losses will be distributed 60% to us and 40% to Balance Point Management, after the return of our investment, on a case by case basis, and after a 15% preferred return to us. 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.

Critical Accounting Policies

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

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

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

We account for our investment in finance receivables using the interest method under the guidance of ASC 310. Static pools of accounts are established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost and is accounted for as a single unit for the recognition of income, principal payments and loss provision. We currently consider for aggregation portfolios of accounts, purchased within the same fiscal quarter, that generally have the following characteristics:

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

After determining that an investment will yield an adequate return on our acquisition cost after servicing fees, including court costs, which are expensed as incurred, we use a variety of qualitative and quantitative factors to determine the estimated cash flows. 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 customers as there are better states to attempt to collect in and ultimately we have better predictability of the liquidations and the expected cash flows;
- financial wherewithal of the seller;
- jobs or property of the customers found within portfolios-with our business model. Customers with jobs or property are more likely to repay their obligation and conversely, customers 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 account's 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 customers. 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 acquisition costs including servicing expenses. Additionally, when considering larger portfolio purchases of accounts, or portfolios from issuers from whom we have little or limited experience, we have the added benefit of soliciting our third party collection agencies and attorneys for their input on liquidation rates and at times incorporate such input into the price we offer for a given portfolio and the estimates we use for our expected cash flows.

As a result of the current challenging economic environment and the impact it has had on collections, for the non-medical account portfolio purchases acquired since the beginning of fiscal year 2009, we extended our time frame of the expectation of recovering 100% of our invested capital to a 24-39 month period from an 18-28 month period, and the expectation of recovering 130-140% over seven years from the previous five year expectation. The 2009 time frame of expectations has remained in force for fiscal year 2013. We routinely monitor these expectations against the actual cash flows and, in the event the cash flows are below our expectations and we believe there are no reasons relating to mere timing differences or explainable delays (such as can occur particularly when the court system is involved) for the reduced collections, an impairment is recorded on portfolios accounted for under the interest method. Conversely, in the event the cash flows are in excess of our expectations and the reason is due to timing, we would defer the "excess" collection as deferred revenue.

We use the cost recovery method when collections on a particular pool of accounts cannot be reasonably predicted. Under the cost recovery method, no finance 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 finance income when received.

Results of Operations

The following discussion of our operations and financial condition should be read in conjunction with our financial statements and notes thereto included elsewhere in this report. In these discussions, most percentages and dollar amounts have been rounded to aid presentation. As a result, all such figures are approximations.

	Years Ended September 30, 2013	2012	2011
Finance income, net	81.0%	91.2%	98.7%
Other income	19.0%	8.8%	1.3%
Total revenue	100.0%	100.0%	100.0%
General and administrative expenses	57.1%	53.1%	50.5%
Interest expense	3.1%	5.7%	7.0%
Impairments of consumer receivables acquired for liquidation	29.7%	3.1%	1.7%
Income before income taxes	10.1%	38.1%	40.8%
Income tax expense	2.7%	15.5%	16.4%
Net income	7.4%	22.6%	24.4%
Less: net income attributable to non-controlling interest	0.9%	0.1%	—%
Net income attributable to Asta Funding, Inc.	6.5%	22.5%	24.4%

Year Ended September 30, 2013 Compared to the Year Ended September 30, 2012

Finance income. For the year ended September 30, 2013, finance income decreased $6.2 million, or 15.4%, to $34.4 million from $40.6 million for the year ended September 30, 2012. The decrease is primarily due to the lower level of portfolio purchases over the last three years and, as a result, an increased percentage of our portfolio balances are in the later stages of their yield curves. During the fiscal year ended September 30, 2013, we acquired $53.5 million in face value of new portfolios at a cost of $3.3 million as compared to $6.0 million of face value portfolios at a cost of approximately $2.5 million, during the fiscal year ended September 30, 2012. Finance income recognized from fully amortized portfolios (zero basis revenue) was $33.2 million for the year ended September 30, 2013 as compared to **$** 36.4 million for the year ended September 30, 2012.

Net collections decreased $15.9 million, or 22.7% to $54.1 million for the fiscal year ended September 30, 2013, from $70.0 million for the fiscal year ended September 30, 2012. During fiscal year 2013, gross collections decreased 21.2% to $85.5 million from $108.5 million for fiscal year 2012, reflecting the lower level of purchases and the age of our portfolios. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $7.1 million, or 18.3% as compared to the same period in the prior year and averaged 36.7% of collections for the fiscal year ended September 30, 2012 as compared to 35.5% in the same prior year period. The higher rate was the result of higher collections (of higher commissioned) out-of-statute paper coupled with increased asset search costs in the current fiscal year.

Further, as we have curtailed our purchases of new portfolios of consumer receivables in the last three fiscal years, finance income was negatively impacted and we expect will continue to be negatively impacted going forward since we have not been replacing our receivables acquired for liquidation. Instead, we focused on reducing our debt and being highly disciplined in our portfolio purchases. We continue to review potential portfolio acquisitions regularly and will purchase such portfolios when we believe the purchase will yield our desired rate of return, as we did with the purchase of a consumer debt portfolio during the fiscal year 2013. There were no accretable yield adjustments recorded during the fiscal years ended September 30, 2013 and 2012.

Other income. The following table summarizes other income for the years ended September 30, 2013 and 2012:

	2013	2012
Interest and dividend income	$1,583,000	$1,614,000
Personal injury fee income	6,438,000	1,647,000
Matrimonial fee income	34,000	165,000
Realized (losses) gains	(27,000)	339,000
Service fee income	25,000	92,000
Other	(4,000)	46,000
	$8,049,000	$3,903,000

General and administrative expenses. For the year ended September 30, 2013, general and administrative expenses increased $0.6 million, or 2.4%, to $24.2 million from $23.6 million for the year ended September 30, 2012. The increase is due primarily to increased expenses related to Pegasus Funding, LLC (12 months in fiscal year 2013 compared to nine months in fiscal year 2012) and other corporate initiatives, offset by lower collection expenses of the consumer debt operations which include lower salary and benefit costs, resulting from a headcount reduction in January 2013, and other collection expenses. The costs associated with the collection business decreased 16.0% from fiscal year 2012.

Interest expense. For the year ended September 30, 2013, interest expense decreased $1.2 million or 48.8% to $1.3 million from $2.5 million during the year ended September 30, 2012. The decrease was due primarily to the reduction in the balance of our Receivables Financing Agreement ("Receivables Financing Agreement") with the Bank of Montreal ("BMO") during the year ended September 30, 2013, as compared to the year ended September 30, 2012.

Impairments. We recorded impairments of $12,592,000 during the year ended September 30, 2013 of which $10,148,000 was recorded on the Great Seneca portfolio (i.e. "the Portfolio Purchase"). Impairments of $1,383,000 for the year ended September 30, 2012, as collections on various portfolios were short of expectations.

Income tax expense. Income tax expense of $1.2 million recorded for fiscal year 2013 consists of a $0.9 million current income tax expense and a $0.3 million deferred income tax expense. Income tax expense was lower primarily due to lower pre-tax income. In fiscal year 2012, income tax expense of $6.9 million consisted of a current income tax expense of $3.5 million and a deferred income tax expense of $3.4 million.

Net income. For the year ended September 30, 2013, net income decreased $ 6.9 million to $3.1 million from $10.0 million for the year ended September 30, 2012, primarily reflecting decreased total revenue, increased general and administrative expenses and impairments further offset by lower interest expense and income taxes.

Income attributable to non-controlling interest. Income to non-controlling interests increased to $0.4 million from $31 thousand due to the improvement in the results of the joint venture Pegasus Funding, LLC.

Net income attributable to Asta Funding, Inc . For the year ended September 30, 2013, net income attributable to Asta Funding, Inc decreased $7.3 million to $2.7 million from $10.0 million for the year ended September 30, 2012, primarily reflecting decreased total revenue, increased general and administrative expenses, impairments and income to non-controlling interests partially offset by lower interest expense and income taxes. Net income per diluted share for the year ended September 30, 2013 decreased to $0.21 per diluted share down from $0.70 per diluted share for the year ended September 30, 2012.

Year Ended September 30, 2012 Compared to the Year Ended September 30, 2011

Finance income. For the year ended September 30, 2012, finance income decreased $2.0 million, or 4.7%, to $40.6 million from $42.6 million for the year ended September 30, 2011. The decrease is primarily due to the lower level of portfolio purchases over the last two years and, as a result, an increased percentage of our portfolio balances are in the later stages of their yield curves. During the fiscal year ended September 30, 2012, we acquired $6.0 million in face value of new portfolios at a cost of $2.5 million as compared to $19.5 million of face value portfolios at a cost of approximately $7.5 million, during the fiscal year ended September 30, 2011. Finance income recognized from fully amortized portfolios (zero basis revenue) was $36.4 million for the year ended September 30, 2012 as compared to **$** 34.3 million for the year ended September 30, 2011.

Net collections decreased $11.2 million, or 13.8% to $70.0 million for the fiscal year ended September 30, 2012, from $81.2 million for the fiscal year ended September 30, 2011. During fiscal year 2011, gross collections decreased 16.3% to $108.5 million from $129.7 million for fiscal year 2011, reflecting the lower level of purchases, the age of our portfolios and the slowdown in the economy. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $10.0 million, or 20.7% as compared to the same period in the prior year and averaged 35.5% of collections for the fiscal year ended September 30, 2012 as compared to 37.4% in the same prior year period. The lower rate was the result of a one-time $1.3 million charge in the fourth quarter of fiscal year 2011 that impacted commissions and fees.

Further, as we have curtailed our purchases of new portfolios of consumer receivables in the last three fiscal years, finance income was negatively impacted and we expect will continue to be negatively impacted going forward since we have not been replacing our receivables acquired for liquidation. Instead, we focused on reducing our debt and being highly disciplined in our portfolio purchases. We continue to review potential portfolio acquisitions regularly and will purchase such portfolios when we believe the purchase will yield our desired rate of return. There were no accretable yield adjustments recorded during the fiscal years ended September 30, 2012 and 2011.

Other income. The following table summarizes other income for the years ended September 30, 2012 and 2011:

	2012	2011
Interest and dividend income	$1,614,000	$ 579,000
Personal injury fee income	1,647,000	—
Matrimonial fee income	165,000	—
Realized gains	339,000	—
Service fee income	92,000	86,000
Other	46,000	(108,000)
	$3,903,000	$ 557,000

General and administrative expenses. For the year ended September 30, 2012, general and administrative expenses increased $1.8 million, or 8.4%, to $23.6 million from $21.8 million for the year ended September 30, 2011. The increase is due primarily to increased professional fees related to acquisition activity and other corporate initiatives, offset by lower collection expenses which include lower salary and benefit costs. In addition, there were increased expenses related to the investment in the personal injury financing unit, Pegasus Funding, LLC.

Interest expense. For the year ended September 30, 2012, interest expense decreased $0.5 million or 15.8% to $2.5 million from $3.0 million during the year ended September 30, 2011. The decrease was due primarily to the reduction in the balance of our Receivables Financing Agreement (“Receivables Financing Agreement”) with the Bank of Montreal (“BMO”) during the year ended September 30, 2012, as compared to the year ended September 30, 2011. Additionally, the average interest rate during the year ended September 30, 2012 on the Receivable Financing Agreement was 3.76% as compared to 3.75% during the year ended September 30, 2011. Also, we repaid the outstanding borrowings on our subordinated debt during fiscal year 2011.

Impairments. We recorded impairments of $1,383,000 during the year ended September 30, 2012 as compared to $721,000 for the year ended September 30, 2011, as collections on various portfolios were short of expectations.

Income tax expense. Income tax expense for fiscal year 2012 of $6.9 million consists of a current tax expense of $3.5 million and a deferred tax expense of $3.4 million. The $3.4 million deferred tax expense consists of $1.8 million of federal tax expense and $1.6 million in state deferred expense. The true up adjustments for the fiscal years 2012 and 2011 federal tax returns were not material.

Net income. For the year ended September 30, 2012, net income decreased $0.5 million to $10.0 million from $10.5 million for the year ended September 30, 2011, primarily reflecting increased total revenue offset by increased general and administrative expenses and impairments further offset by lower interest expense and income taxes. Net income per diluted share for the year ended September 30, 2012 decreased slightly to $0.70 per diluted share down from $0.71 per diluted share for the year ended September 30, 2011.

Liquidity and Capital Resources

Our primary source of cash from operations is collections on the receivable portfolios we have acquired. 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

In March 2007, Palisades XVI borrowed approximately $227 million under the Receivables Financing Agreement, as amended, in order to finance the Portfolio Purchase. The Portfolio Purchase had a purchase price of $300 million (plus 20% of net payments after Palisades XVI recovers 150% of its purchase price plus cost of funds, which recovery has not yet occurred). Prior to the modification, discussed below, the debt was full recourse only to Palisades XVI and bore an interest rate of approximately 170 basis points over LIBOR. The original term of the agreement was three years. This term was extended by each of the Second, Third, Fourth and Fifth Amendments to the Receivables Financing Agreement as discussed below. The Portfolio Purchase is serviced by Palisades Collection LLC, our wholly owned subsidiary which has engaged unaffiliated subservicers for a majority of the Portfolio Purchase.

Since the inception of the Receivables Financing Agreement, amendments have been signed to revise various terms of the Receivables Financing Agreement. Currently, we are operating under the Settlement Agreement and Omnibus Amendment (“Settlement Agreement”).

On August 7, 2013, Palisades XVI, a 100% owned bankruptcy remote subsidiary, entered into a Settlement Agreement with BMO as an amendment to the Receivables Financing Agreement. In consideration for a $15 million prepayment funded by the Company, BMO has agreed to significantly reduce minimum monthly payment requirements and the interest rate. If and when BMO receives the next $15 million of collections from the Portfolio Purchase, less certain credits for payments made prior to the consummation of the Settlement Agreement, the Company is entitled to receive the next $15 million in net collections, thus recovering the prepayment that it funded. Thereafter, BMO will have the right to receive 30% of future net collections. No gain or loss was recognized with regard to the Settlement Agreement. Palisades XVI was in technical violation of the borrowing base covenant at June 30, 2013. The covenant was eliminated entirely from the Settlement Agreement.

On October 26, 2010, Palisades XVI entered into the Fifth Amendment to the Receivables Financing Agreement (the “Fifth Amendment”). The effective date of the Fifth Amendment is October 14, 2010. The Fifth Amendment (i) extends the expiration date of the Receivables Financing Agreement to April 30, 2014, (ii) reduces the minimum monthly total payment to $750,000, (iii) accelerates our guarantee credit enhancement of $8,700,000, which was paid upon execution of the Fifth Amendment, (iv) eliminated our limited guarantee of repayment of the loans outstanding by Palisades XVI, and (v) revises the definition of “Borrowing Base Deficit”, as defined in the Receivables Financing Agreement, to mean the excess, if any, of 105% of the loans outstanding over the borrowing base.

In connection with the Fifth Amendment, on October 26, 2010, we entered into the Omnibus Termination Agreement (the “Termination Agreement”). The limited recourse subordinated guaranty set forth in the Fourth Amendment, was eliminated upon signing the Termination Agreement.

On September 30, 2013 and 2012, the outstanding balance on this loan was approximately $35.8 million, and $61.5 million, respectively. The applicable interest rate at September 30, 2013 and 2012 was 0.43 % and 3.73%, respectively. Our average debt obligation for the fiscal years ended September 30, 2013 and 2012 was approximately $54.1 million and $66.8 million, respectively. The average interest rate of the Receivable Financing Agreement was 3.05% and 3.76% for the years ended September 30, 2013 and 2012, respectively.

Other significant amendments to the Receivables Financing Agreement are as follows:

Second Amendment — Receivables Financing Agreement, dated December 27, 2007 revised the amortization schedule of the loan from 25 months to approximately 31 months. BMO charged Palisades XVI a fee of $475,000 which was paid on January 10, 2008. The fee was capitalized and is being amortized over the remaining life of the Receivables Financing Agreement.

Third Amendment — Receivables Financing Agreement, dated May 19, 2008 extended the payments of the loan through December 2010. The lender also increased the interest rate from 170 basis points over LIBOR to approximately 320 basis points over LIBOR, subject to automatic reduction in the future if additional capital contributions are made by the parent of Palisades XVI.

Fourth Amendment — Receivables Financing Agreement, dated February 20, 2009, among other things, (i) lowered the collection rate minimum to $1 million per month (plus interest and fees) as an average for each period of three consecutive months, (ii) provided for an automatic extension of the maturity date from April 30, 2011 to April 30, 2012 should the outstanding balance be reduced to $25 million or less by April 30, 2011, and (iii) permanently waived the previous termination events. The interest rate remained unchanged at approximately 320 basis points over LIBOR, subject to automatic reduction in the future should certain collection milestones be attained.

Senior Secured Discretionary Credit Facility

On December 30, 2011, we and certain of our subsidiaries obtained a $20,000,000 Senior Secured Discretionary Credit Facility (the “Credit Facility”) from Bank Leumi pursuant to a Loan Agreement (the “Loan Agreement”) between certain of our subsidiaries and Bank Leumi. Under the Loan Agreement, certain of our subsidiaries issued a Revolving Note to Bank Leumi in the principal amount of up to $20,000,000. Any outstanding balance under the Credit Facility accrues interest at an annual rate equal to the Prime Rate plus 50 basis points. The Credit Facility was not utilized and expired on February 23, 2013.

Litigation Funding

During fiscal 2012, we entered into joint ventures with APH and Balance Point Management relating to the funding of personal injury and matrimonial claims. For a more detailed description of our litigation funding operations, see the section entitled “Litigation Funding Business” under “Item 1. Business.” As of the date of this report, we have invested $35.8 million and $1.6 million in the APH and Balance Point Management joint ventures, respectively. We have also provided a $1.0 million revolving line of credit to partially fund Balance Point Management’s operations. The line of credit accrues interest at the prevailing prime rate and has 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 share of the profits in our joint venture and other assets. The revolving line of credit is approximately $917,000 at September 30, 2013.

Cash Flow

As of September 30, 2013, our cash and cash equivalents increased $30.2 million to $35.2 million, from $5.0 million at September 30, 2012. Although our cash flow remains strong, we have diversified some of our cash flow into other investments.

Net cash provided by operating activities was $19.1 million during the fiscal year ended September 30, 2013, compared to $17.4 million for the fiscal year ended September 30, 2012. The increase is primarily due to higher net income, net of non-cash impairment charges and lower tax payments, partially offset by a decrease in due from third party collection agencies and attorneys. Net cash provided by investing activities was $40.1 million during the fiscal year ended September 30, 2013, as compared to net cash used in investing activities of $69.9 million during the fiscal year ended September 30, 2012. The change in cash provided by / (used in) investing activities is primarily due to the investing activity in other than cash and cash equivalents depository accounts and lower collections of consumer receivables acquired for liquidation during the year ended September 30, 2013 as compared to the same 2012 period. We increased our investment in available for sale securities and investments in personal injury claims. Net cash used in financing activities was $28.9 million during the fiscal year ended September 30, 2013, as compared to $26.9 million in the same 2012 period. The increase in net cash used in financing activities was primarily due to an increase in the pay down of the non-recourse debt offset by lower purchases of treasury stock in the fiscal year ended September 30, 2013 as compared to the prior period.

Our cash requirements have been and will continue to be significant and have, in the past, depended on external financing to acquire consumer receivables and operate the business. Significant requirements include repayments under our non-recourse debt facilities, investment in personal injury claims, costs involved in the collections of consumer receivables, 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 in the short-term, as our cash flow from operations will be sufficient to invest in personal injury claims, purchase portfolios and operate the business. However, as the collection environment remains challenging, we may seek additional funding.

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.

Share Repurchase Program

On March 9, 2012, we adopted a Rule 10b5-1 Plan in conjunction with our share repurchase program that authorized us to purchase up to $20.0 million of shares of our common stock. Under that program, which expired in March 2013, we purchased 885,000 shares at an aggregate cost of approximately $7.9 million. The Rule 10b5-1 Plan superseded the authorization to repurchase shares in June 2011, pursuant to which we repurchased approximately 59,000 shares at an aggregate cost of approximately $457,000. Additionally, in June 2012, we repurchased 1.0 million shares for $9.4 million in a privately negotiated transaction. We repurchased an aggregate of approximately 1.9 million shares at an aggregate cost of approximately $17.8 million.

Contractual Obligations

The following table summarizes our contractual obligations in future fiscal years:

Payments Due By Period

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long Term Debt Obligations	$ 9,659,000	$4,600,000	$5,059,000	$ —	$ —
Operating Lease Obligations	1,588,000	540,000	800,000	248,000	—
Total	$11,247,000	$5,140,000	$5,859,000	$248,000	$ —

The Company and its subsidiary Fund Pegasus are committed under the Pegasus Operating Agreement to lend up to $21,800,000 to Pegasus per year for a term of five (5) years beginning in December 2011. The sum of $20,000,000 is to be used for funding investments in litigation matters and the balance is to be used for operating expenses of Pegasus which are to be returned to Fund Pegasus before any profit distribution is to be made. The loan is secured by the assets of Pegasus. These loans provide financing for the personal injury litigation claims and operating expenses of Pegasus. As of September 30, 2013, the Company had an invested balance of approximately $35.8 million in personal injury cases.

In connection with the divorce funding business, the Company may invest up to $15 million in the Venture to fund divorce cases, consisting of three tranches of $5 million. At our option, we may invest additional funds in the Venture, provided that the first $35 million in additional investment must be provided in tranches of $10 million, $10 million, and $15 million, respectively. We are entitled to a 15% cash-on-cash return in each particular tranche. If the Venture is unable to provide the 15% preferred return to us on any initial $5 million tranche, BPCM’s profit and loss distribution will be adjusted from the current 60% and 40% split to provide us with the equivalent of a 15% preferred return, if possible. To date, we have an invested balance of $1.5 million in matrimonial cases.

Off-Balance Sheet Arrangements

As of September 30, 2013, we did not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, 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.

The following table shows the changes in finance receivables, including amounts paid to acquire new portfolios:

	Year Ended September 30,				
	2013	2012	2011 (In millions)	2010	2009
Balance at beginning of period	$ 86.9	$115.2	$147.0	$208.3	$ 449.0
Acquisitions of finance receivables, net of buybacks	3.3	2.5	7.5	8.0	19.6
Cash collections from customers applied to principal(1)	(19.7)	(29.3)	(38.4)	(55.1)	(69.1)
Cash collections represented by account sales applied to principal (1)	—	(0.1)	(0.2)	(1.2)	(8.1)
Impairments/Portfolio write down	(12.6)	(1.4)	(0.7)	(13.0)	(183.5)
Effect of foreign exchange	—	—	—	—	0.4
Balance at end of period	$ 57.9	$ 86.9	$115.2	$147.0	$ 208.3

(1) Cash collections applied to principal consists of cash collections less income recognized on finance receivables plus amounts received by us from the sale of consumer receivable portfolios to third parties.

Supplementary Information on Consumer Receivables Portfolios:

Portfolio Purchases

	Year Ended September 30,		
	2013	2012 (In millions)	2011
Aggregate Purchase Price	$ 3.3	$ 2.5	$ 7.5
Aggregate Portfolio Face Amount	53.5	6.0	19.5

The prices we pay for our consumer receivable portfolios are dependent on many criteria including the age of the portfolio, the number of third party collection agencies and attorneys that have been involved in the collection process and the geographical distribution of the portfolio. When we pay higher prices for portfolios which are performing or fresher, we believe it is not at the sacrifice of our expected returns. Price fluctuations for portfolio purchases from quarter to quarter or year to year are primarily indicative of the overall mix of the types of portfolios we are purchasing.

Schedule of Portfolios by Income Recognition Category

	September 30, 2013		September 30, 2012		September 30, 2011	
	Cost Recovery Portfolios	Interest Method Portfolios	Cost Recovery Portfolios	Interest Method Portfolios	Cost Recovery Portfolios	Interest Method Portfolios
			(In millions)			
Original Purchase Price (at period end)	$ 466.2	$ 783.4	$ 466.0	$ 780.0	$ 443.3	$ 787.2
Cumulative Aggregate Managed Portfolios (at period end)	13,940.1	18,018.2	13,940.1	17,964.8	13,915.3	17,985.0
Receivable Carrying Value (at period end)	49.8	8.1	74.6	12.3	84.0	31.2
Finance Income Earned (for the respective period)	4.4	30.0	3.0	37.6	2.7	39.9
Total Cash Flows (for the respective period)	19.0	35.1	20.2	49.8	19.6	61.6

The original purchase price reflects what we paid for the receivables from 1998 through the end of the respective period. The cumulative aggregate managed portfolio balance is the original aggregate amount owed by the borrowers at the end of the respective period. Additional differences between year to year period end balances may result from the transfer of portfolios between the interest method and the cost recovery method. We purchase consumer receivables at substantial discounts from the face amount. We record finance income on our receivables under either the cost recovery or interest method. The receivable carrying value represents the current basis in the receivables after collections and amortization of the original price.

Collections Represented by Account Sales

Year	Collections Represented By account Sales	Finance Income Recognized
2013	$2,448,000	$2,015,000
2012	117,000	50,000
2011	$ 390,000	$ 155,000

Portfolio Performance (1)

The following table summarizes our historical portfolio purchase price and cash collections on interest method portfolios on an annual vintage basis since October 1, 2012 through September 30, 2013.

Purchase Period	Purchase Price(2)	Net Cash Collections Including Cash Sales(3)	Estimated Remaining Collections(4)	Total Estimated Collections(5)	Total Estimated Collections as a Percentage of Purchase Price
2001	$ 65,120,000	$105,748,000	$ —	$105,748,000	162%
2002	36,557,000	48,318,000	—	48,318,000	132%
2003	115,626,000	224,044,000	—	224,044,000	194%
2004	103,743,000	194,156,000	19,000	194,175,000	187%
2005	126,023,000	229,781,000	407,000	230,188,000	183%
2006	163,392,000	275,330,000	992,000	276,322,000	169%
2007	109,235,000	110,355,000	3,679,000	114,034,000	104%
2008	26,626,000	53,595,000	—	53,595,000	201%
2009	19,127,000	41,017,000	—	41,017,000	214%
2010	7,212,000	23,704,000	—	23,704,000	329%
2011	—	—	—	—	0%
2012	—	—	—	—	0%
2013	3,340,000	253,000	4,090,000	4,343,000	130%

(1) Total collections do not represent full collections of the Company with respect to this or any other year.

(2) Purchase price refers to the cash paid to a seller to acquire a portfolio less the purchase price refunded by a seller due to the return of non-compliant accounts (referred to as “put-backs”), plus third party commissions.

(3) Cash collections include net collections from our third-party collection agencies and attorneys, collections from our in-house efforts and collections represented by account sales.

(4) Does not include estimated collections from portfolios that are zero basis.

(5) Total estimated collections refer to the actual net cash collections, including cash sales, plus estimated remaining collections.

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 finance income 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 the year ended September 30, 2013, we recognized finance income of $4.4 million under the cost recovery method because of $4.4 million of collections in excess of our purchase price on certain portfolios. In addition, we earned $30.0 million of finance income under the interest method based on actuarial computations which, in turn, are based on actual collections during the period and on what we project to collect in future periods. During the year ended September 30, 2013, we purchased portfolios with an aggregate purchase price of $3.3 million with a face value (gross contracted amount) of $53.5 million.

Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-11 “ *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.”* There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the amendments in this Update is to eliminate that diversity in practice. This standard becomes effective for fiscal years and interim periods beginning after December 15, 2013. The Company is reviewing the affects of implementation of this standard.

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-02 " *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income"*. The amendments require an entity to present, either in the income statement or the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. Generally Accepted Accounting Principles ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety, an entity is required to cross-reference to other disclosures that might provide additional details about the amounts. This ASU was effective for annual and interim periods beginning January 1, 2013. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements (see Note 3: Investments).

Inflation

We believe that inflation has not had a material impact on our results of operations for the years ended September 30, 2013, 2012 and 2011.

Item 7A. *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. A material change in these rates could adversely affect our operating results and cash flows. At September 30, 2013, our Receivables Financing Agreement, under the new Settlement Agreement, all of which is variable rate debt, had an outstanding balance of $35.8 million. A 25 basis-point increase in interest rates would have increased our annual interest expense by approximately $135,000 based on the average debt obligation outstanding during the fiscal year. We do not currently invest in derivative, financial or commodity instruments.

Item 8. *Financial Statements And Supplementary Data.*

The Financial Statements of the Company, the Notes thereto and the Report of Independent Registered Public Accounting Firm thereon required by this item begin on page F-1 of this report located immediately preceding the signature page.

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

During the fiscal year ended September 30, 2013, the Company changed Independent Registered Public Accounting Firms. Grant Thornton LLP was replaced by WeiserMazars LLP.

Item 9A. *Controls and Procedures.*

Disclosure Controls and Procedures

An evaluation of the effectiveness of the our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) as of the end of the period ended September 30, 2013 was carried out by us under the supervision and with the participation of our chief executive officer and chief financial officer. Based upon that evaluation, our chief executive officer and chief financial officer concluded that as of September 30, 2013, our disclosure controls and procedures were effective to ensure (i) that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) that such information is accumulated and communicated to management, including our president, in order to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including its principal executive officer and principal financial officer, we conducted an assessment of the effectiveness of its internal control over financial reporting. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework. Based on management's assessment, and based on the criteria of the COSO, we believe that, as of September 30, 2013, our internal control over financial reporting is effective at the reasonable assurance level.

Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the U.S. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the U.S., and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Our independent registered public accounting firm, WeiserMazars LLP, audited our internal control over financial reporting as of September 30, 2013 and their report dated December 13, 2013 expresses an unqualified opinion on our internal control over financial reporting and is included in this Item 9A.

Changes in Internal Controls over Financial Reporting

There have not been any changes in our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Asta Funding, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control — Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of September 30, 2013 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year ended September 30, 2013, and our report dated December 13, 2013, expressed an unqualified opinion on those consolidated financial statements.

/s/ WeiserMazars LLP

New York, New York
December 13, 2013

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

None.

PART III

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

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of stockholders to be filed not later than 120 days after September 30, 2013 and is incorporated herein by this reference.

Item 11 . ***Executive Compensation.***

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of stockholders to be filed not later than 120 days after September 30, 2013 and is incorporated herein by this reference.

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

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of stockholders to be filed not later than 120 days after September 30, 2013 and is incorporated herein by this reference.

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

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of stockholders to be filed not later than 120 days after September 30, 2013 and is incorporated herein by this reference.

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

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of stockholders to be filed not later than 120 days after September 30, 2013 and is incorporated herein by this reference.

Part IV

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

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

Exhibit Number	
3.1	Certificate of Incorporation(1)
3.2	Amendment to Certificate of Incorporation(2)
3.3	Certificate of Designation of Series A Preferred Stock(3)
3.4	Bylaws(4)
3.5	Amendments to Article IX of the By-Laws of Asta Funding, Inc.(5)
4.1	Rights Agreement, dated as of August 23, 2012, between Asta Funding, Inc. and American Stock Transfer & Trust Co., LLC(6)
10.1	Asta Funding, Inc 1995 Stock Option Plan as Amended(1)
10.2	Asta Funding, Inc. 2002 Stock Option Plan(2)
10.3	Asta Funding, Inc. Equity Compensation Plan(7)
10.4	Asta Funding, Inc. 2012 Stock Option and Performance Award Plan(8)

Exhibit Number	
10.5	Receivables Finance Agreement dated March 2, 2007 between the Company and the Bank of Montreal(9)
10.6	Subservicing Agreement between the Company and the Subservicer dated March 2, 2007(12)
10.7	Purchase and Sale Agreement dated February 5, 2007(10)
10.8	First Amendment to the Receivables Finance Agreement dated July 1, 2007 between the Company and Bank of Montreal(11)
10.9	Second Amendment to the Receivables Financing Agreement dated December 27, 2007(13)
10.10	Third Amendment to the Receivables Financing Agreement dated May 19, 2008(14)
10.11	Amended and Restated Servicing Agreement dated May 19, 2008 between the Company and The Bank of Montreal(14)
10.12	Subordinated Promissory Note between Asta Funding, Inc and Asta Group, Inc. dated April 29, 2008(15)
10.13	Fourth Amendment to the Receivables Financing Agreement dated February 20, 2009 between the Company and Bank of Montreal(16)
10.14	Subordinated Guarantor Security Agreement dated February 20, 2009 to Bank of Montreal(17)
10.15	Subordinated Limited Recourse Guaranty Agreement dated February 20, 2009(18)
10.16	Subordinated Guarantor Security Agreement dated February 20, 2009 to Asta Group, Inc.(19)
10.17	Subordinated Limited Recourse Guaranty Agreement dated February 20, 2009 to Asta Group, Inc.(20)
10.18	Form of Intercreditor Agreement between Asta Funding and IDB as lending agent(21)
10.19	Amended and Restated Management Agreement, dated as of January 16, 2009, between Palisades Collection, L.L.C., and [*](22)
10.20	Amended and Restated Master Servicing Agreement, dated as of January 16, 2009, between Palisades Collection, L.L.C., and [*] (23)
10.21	First Amendment to Amended and Restated Master Servicing Agreement, dated as of September 16, 2007, by and among Palisades Collection, L.L.C., and [*], and [*](24)
10.22	Loan Agreement Between Asta Funding and Bank Leumi dated December 14, 2009.(25)
10.23	Indemnification agreement between Asta Funding and GMS Family Investors LLC. (26)
10.24	Fifth Amendment to the Receivables Financing Agreement dated October 26, 2010 between the Company and Bank of Montreal (27)
10.25	Omnibus Termination Agreement, by and among Palisades Acquisition XVI, LLC, BMO Capital Markets Corp., as collateral agent, Asta Group, Incorporated, and each guarantor set forth therein. (28)
10.26	Settlement Agreement and Omnibus Amendment among Asta Funding, Inc., Palisades Acquisition XVI and BMO Capital Markets dated August 7, 2013. (40)
10.27	Lease agreement between the Company and ESL200 LLC dated August 2, 2010 (29)
10.28	Revolving Credit Agreement, dated December 28, 2011, by and between Pegasus Funding, LLC and Fund Pegasus, LLC(30)
10.29	Security Agreement, dated December 28, 2011, by and between Pegasus Funding, LLC and Fund Pegasus, LLC(31)
10.30	Secured Revolving Credit Note, dated December 28, 2011, by Pegasus Funding, LLC in favor of Fund Pegasus, LLC(32)
10.31	Operating Agreement of Pegasus Funding, LLC, dated December 28, 2011(33)
10.32	Loan Agreement, dated December 30, 2011, by and between certain subsidiaries of the Company and Bank Leumi USA(34)
10.33	Form of Revolving Note(35)

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Exhibit Number	
10.34	Form of Guaranty(36)
10.35	Form of Security Agreement(37)
10.36	Form of Pledge Agreement(38)
10.37	Consulting Agreement, dated December 12, 2011, by and between the Company and A.L. Piccolo & Co., Inc.(39)
21.1	Subsidiaries of the Registrant*
23.1	Consent of Independent Registered Public Accounting Firm*
23.2	Consent of Independent Registered Public Accounting Firm*
31 .1	Certification of Registrant’s Chief Executive Officer, Gary Stern, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31 .2	Certification of 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.*

* Filed herewith

(1) Incorporated by reference to an Exhibit to Asta Funding’s Registration Statement on Form SB-2 (File No. 33-97212).

(2) Incorporated by reference to an Exhibit to Asta Funding’s Quarterly Report on Form 10-QSB for the three months ended March 31, 2002.

(3) Incorporated by reference to Exhibit 3.1 to Asta Funding’s Current Report on Form 8-K filed August 24, 2012.

(4) Incorporated by reference to Exhibit 3.1 to Asta Funding’s Annual Report on Form 10-KSB for the year ended September 30, 1998.

(5) Incorporated by reference to Exhibit 3.2 to Asta Funding’s Current Report on Form 8-K filed August 24, 2012.

(6) Incorporated by reference to Exhibit 4.1 to Asta Funding’s Current Report on Form 8-K filed August 24, 2012.

(7) Incorporated by reference to Exhibit 10.1 to Asta Funding’s Current Report on Form 8-K filed March 3, 2006.

(8) Incorporated by reference to Appendix A to Asta Funding’s Definitive Proxy Statement filed on February 17, 2012 for the March 21, 2012 Annual Meeting of Stockholders

(9) Incorporated by reference to Exhibit 10.1 to Asta Funding’s Quarterly Report on Form 10-Q for the three months ended March 31, 2007.

(10) Incorporated by reference to Exhibit 10.1 to Asta Funding’s Current Report on Form 8-K filed February 9, 2007.

(11) Incorporated by reference to Exhibit 10.2 to Asta Funding’s Quarterly Report on Form 10-Q for the Three Months Ended June 30, 2007.

(12) Incorporated by reference to Exhibit 10.4 to Asta Funding’s Quarterly Report on Form 10-Q for the Three Months Ended March 31, 2007.

(13) Incorporated by reference to Exhibit 10.15 to Asta Funding’s Annual Report on Form 10-K for the year ended September 30, 2007.

(14) Incorporated by reference to Exhibit 10.15 to Asta Funding’s Quarterly Report on Form 10-Q for the three months ended March 31, 2008.

(15) Incorporated by reference to Exhibit 10.18 to Asta Funding's Current Report on Form 8-K filed May 1, 2008.
(16) Incorporated by reference to Exhibit 10.21 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008.
(17) Incorporated by reference to Exhibit 10.22 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008.
(18) Incorporated by reference to Exhibit 10.23 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008.
(19) Incorporated by reference to Exhibit 10.24 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008.
(20) Incorporated by reference to Exhibit 10.25 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008.
(21) Incorporated by reference to Exhibit 10.26 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008
(22) Incorporated by reference to Exhibit 10.27 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008.
(23) Incorporated by reference to Exhibit 10.28 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008.
(24) Incorporated by reference to Exhibit 10.29 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2008.
(25) Incorporated by reference to Exhibit 10.1 to Asta Funding's Current Report on Form 8-K filed December 18, 2009.
(26) Incorporated by reference to Exhibit 10.32 to Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2009.
(27) Incorporated by reference to Exhibit 10.1 to Asta Funding's Current Report on Form 8-K filed November 1, 2010.
(28) Incorporated by reference to Exhibit 10.2 to Asta Funding's Current Report on Form 8-K filed November 22, 2010.
(29) Incorporated by reference to Exhibit 10.2 to Asta Funding's Current Report on Form 8-K filed August 5, 2010.
(30) Incorporated by reference to Exhibit 10.1 to Asta Funding's Current Report on Form 8-K filed January 4, 2012.
(31) Incorporated by reference to Exhibit 10.2 to Asta Funding's Current Report on Form 8-K filed January 4, 2012.
(32) Incorporated by reference to Exhibit 10.3 to Asta Funding's Current Report on Form 8-K filed January 4, 2012.
(33) Incorporated by reference to Exhibit 10.4 to Asta Funding's Current Report on Form 8-K filed January 4, 2012.
(34) Incorporated by reference to Exhibit 10.1 to Asta Funding's Current Report on Form 8-K filed January 6, 2012.
(35) Incorporated by reference to Exhibit 10.2 to Asta Funding's Current Report on Form 8-K filed January 6, 2012.
(36) Incorporated by reference to Exhibit 10.3 to Asta Funding's Current Report on Form 8-K filed January 6, 2012.
(37) Incorporated by reference to Exhibit 10.4 to Asta Funding's Current Report on Form 8-K filed January 6, 2012.

(38) Incorporated by reference to Exhibit 10.5 to Asta Funding's Current Report on Form 8-K filed January 6, 2012.

(39) I Incorporated by reference to Exhibit 10.1 to Asta Funding's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011

(40) Incorporated by reference to Exhibit 10.1 to Asta Funding's Current Report on Form 8-K filed August 9, 2013.

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SIGNATURES

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

ASTA FUNDING, INC.

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

Dated: December 13, 2013

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

Signature	Title	Date
/s/ Gary Stern Gary Stern	Chairman of the Board, President, and Chief Executive Officer	December 13, 2013
/s/ Robert J. Michel Robert J. Michel	Chief Financial Officer (Principal Financial Officer and Accounting Officer)	December 13, 2013
/s/ Arthur Stern Arthur Stern	Chairman Emeritus and Director	December 13, 2013
/s/ Herman Badillo Herman Badillo	Director	December 13, 2013
/s/ Edward Celano Edward Celano	Director	December 13, 2013
/s/ Harvey Leibowitz Harvey Leibowitz	Director	December 13, 2013
/s/ David Slackman David Slackman	Director	December 13, 2013
/s/ Louis A. Piccolo Louis A. Piccolo	Director	December 13, 2013

ASTA FUNDING, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013, 2012 and 2011

ASTA FUNDING, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Asta Funding, Inc. and subsidiaries (the “Company”) as of September 30, 2013, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for the year ended September 30, 2013. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2013, and the consolidated results of their operations and their cash flows for the year ended September 30, 2013 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of September 30, 2013, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated December 13, 2013 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ WeiserMazars LLP

New York, New York
December 13, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Asta Funding, Inc.

We have audited the accompanying consolidated balance sheet of Asta Funding, Inc. and subsidiaries (the “Company”) as of September 30, 2012, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the two years in the period ended September 30, 2012. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Asta Funding, Inc. and subsidiaries as of September 30, 2012, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York
January 18, 2013

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ASTA FUNDING, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2013	September 30, 2012
ASSETS		
Cash and cash equivalents	$ 35,179,000	$ 4,953,000
Investments:		
Available-for-sale	58,035,000	58,712,000
Certificates of deposit	—	42,682,000
Restricted cash	968,000	1,088,000
Consumer receivables acquired for liquidation (at net realizable value)	57,900,000	86,887,000
Other investments, net	35,758,000	18,596,000
Due from third party collection agencies and attorneys	1,169,000	2,042,000
Prepaid and income taxes receivable	1,496,000	2,057,000
Furniture and equipment (net of accumulated depreciation of $4,136,000 in 2013 and $3,696,000 in 2012)	1,106,000	821,000
Deferred income taxes	10,443,000	10,410,000
Other assets	5,793,000	4,916,000
Total assets	$207,847,000	$233,164,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Non-recourse debt	$ 35,760,000	$ 61,463,000
Other liabilities	2,486,000	2,920,000
Dividends payable	—	260,000
Total liabilities	38,246,000	64,643,000
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; authorized 5,000,000; issued and outstanding — none	—	—
Common stock, $.01 par value, authorized 30,000,000 shares; issued — 14,917,977 at September 30, 2013 and 14,778,956 at September 30, 2012; and outstanding — 12,974,239 at September 30, 2013 and 13,006,918 at September 30, 2012	149,000	148,000
Additional paid-in capital	79,104,000	77,024,000
Retained earnings	109,011,000	107,303,000
Accumulated other comprehensive (loss) income, net of income taxes	(674,000)	241,000
Treasury stock (at cost), 1,943,738 shares at September 30, 2013 and 1,772,038 shares at September 30, 2012	(17,805,000)	(16,226,000)
Non-controlling interest	(184,000)	31,000
Total stockholders' equity	169,601,000	168,521,000
Total liabilities and stockholders' equity	$207,847,000	$233,164,000

See notes to the accompanying consolidated financial statements

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ASTA FUNDING, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	Year Ended September 30, 2013	2012	2011
Revenues:			
Finance income, net	$34,363,000	$40,599,000	$42,610,000
Other income (includes ($252,000), $339,000, and $0 during the years ended September 30, 2013, 2012 and 2011, respectively, of accumulated other comprehensive income reclassifications for unrealized net (losses) / gains on available for sale securities).	8,049,000	3,903,000	557,000
	42,412,000	44,502,000	43,167,000
Expenses:			
General and administrative expenses	24,212,000	23,640,000	21,807,000
Interest expense (related party — 2013, $0; 2012, $0; 2011, $86,000)	1,300,000	2,539,000	3,016,000
Impairments of consumer receivables acquired for liquidation	12,592,000	1,383,000	721,000
	38,104,000	27,562,000	25,544,000
Income before income tax	4,308,000	16,940,000	17,623,000
Income tax expense (includes (taxes) / tax benefit of ($100,000), $137,000 and $0 during the years ended September 30, 2013, 2012, and 2011, respectively)	1,164,000	6,872,000	7,102,000
Net income	3,144,000	10,068,000	10,521,000
Less: net income attributable to non-controlling interest	406,000	31,000	—
Net income attributable to Asta Funding, Inc.	$ 2,738,000	$10,037,000	$10,521,000
Net income per share attributable to Asta Funding, Inc.:			
Basic	$ 0.21	$ 0.71	$ 0.72
Diluted	$ 0.21	$ 0.70	$ 0.71
Weighted average number of common shares outstanding:			
Basic	12,952,150	14,077,650	14,626,973
Diluted	13,216,051	14,321,381	14,827,608

See notes to the accompanying consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended September 30,		
	2013	2012	2011
Comprehensive income is as follows:			
Net income	$ 3,144,000	$10,068,000	$10,521,000
Net unrealized securities (loss) / gain, net of tax benefit / (taxes) of $705,000, ($495,000) and $196,000, during the years ended September 30, 2013, 2012 and 2011, respectively.	(1,067,000)	733,000	(290,000)
Reclassification adjustments for securities sold, net of (taxes) / tax benefit of ($100,000) and $137,000, during years ended September 30, 2013 and 2012, respectively.	152,000	(202,000)	—
Foreign currency translation, net	—	—	(9,000)
Other comprehensive (loss) income	(915,000)	531,000	(299,000)
Total comprehensive income	$ 2,229,000	$10,599,000	$10,222,000

See notes to the accompanying consolidated financial statements

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ASTA FUNDING, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the years ended September 30, 2013, 2012 and 2011

	Common Stock							
	Issued Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock(1)	Non-Controlling Interest	Total Stockholders' Equity
Balance, September 30, 2010	14,600,423	$146,000	$72,717,000	$ 89,026,000	$ 9,000	$ —	$ —	$ 161,898,000
Exercise of options	6,268		21,000					21,000
Stock based compensation expense			2,055,000					2,055,000
Restricted stock	32,765							—
Dividends				(1,170,000)				(1,170,000)
Purchase of treasury stock						(70,000)		(70,000)
Net income				10,521,000				10,521,000
Foreign currency translation					(9,000)			(9,000)
Unrealized loss on marketable securities					(290,000)			(290,000)
Balance, September 30, 2011	14,639,456	146,000	74,793,000	98,377,000	(290,000)	(70,000)	—	172,956,000
Exercise of options	139,500	2,000	608,000					610,000
Stock based compensation expense			1,623,000					1,623,000
Dividends				(1,111,000)				(1,111,000)
Purchase of treasury stock						(16,156,000)		(16,156,000)
Net income				10,037,000			31,000	10,068,000
Unrealized gain on marketable securities					531,000			531,000
Balance, September 30, 2012	14,778,956	148,000	77,024,000	107,303,000	241,000	(16,226,000)	31,000	168,521,000
Exercise of options	36,700		125,000					125,000
Stock based compensation expense			1,956,000					1,956,000
Restricted stock	102,321	1,000	(1,000)					—
Dividends				(1,030,000)				(1,030,000)
Purchase of treasury stock						(1,579,000)		(1,579,000)
Net income				2,738,000			406,000	3,144,000
Unrealized loss on marketable securities					(915,000)			(915,000)
Distributions to non-controlling interest							(621,000)	(621,000)
Balance, September 30, 2013	14,917,977	$149,000	$79,104,000	$109,011,000	$ (674,000)	$(17,805,000)	$ (184,000)	$ 169,601,000

(1) Treasury shares are as follows: September 30, 2011, 8,900; Purchase of treasury stock, 1,763,138; September 30, 2012, 1,772,038.
30, 2012, 1,772,038; Purchase of treasury stock, 171,700; September 30, 2013, 1,943,738.
September

See notes to the accompanying consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended September 30,		
	2013	2012	2011
Cash flows from operating activities:			
Net income	$ 3,144,000	$ 10,068,000	$ 10,521,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	440,000	380,000	262,000
Deferred income taxes	326,000	3,393,000	4,611,000
Impairments of consumer receivables acquired for liquidation	12,592,000	1,383,000	721,000
Stock based compensation	1,956,000	1,623,000	2,055,000
Loss (gain) on sale of available-for-sale securities	252,000	(339,000)	—
Changes in:			
Prepaid and income tax receivable	561,000	1,281,000	(3,142,000)
Due from third party collection agencies and attorneys	873,000	42,000	1,444,000
Other assets	(631,000)	(190,000)	(771,000)
Other liabilities	(434,000)	(247,000)	1,041,000
Net cash provided by operating activities	19,079,000	17,394,000	16,742,000
Cash flows from investing activities:			
Purchase of consumer receivables acquired for liquidation	(3,340,000)	(2,495,000)	(7,435,000)
Principal collected on consumer receivables acquired for liquidation	19,302,000	29,353,000	38,360,000
Principal collected on consumer receivable accounts represented by account sales	433,000	67,000	235,000
Effect of foreign exchange on consumer receivables acquired for liquidation	—	—	(45,000)
Purchase of available-for-sale securities	(34,171,000)	(66,625,000)	(14,000,000)
Proceeds from sales of available-for-sale securities	33,076,000	22,656,000	—
Purchase of certificates of deposit	—	(45,121,000)	(3,980,000)
Proceeds from maturities of certificates of deposit	42,682,000	11,499,000	3,854,000
Other investments — advances	(30,963,000)	(22,549,000)	—
Other investments — receipts	13,801,000	3,953,000	—
Capital expenditures	(725,000)	(638,000)	(475,000)
Net cash provided by (used in) investing activities	40,095,000	(69,900,000)	16,514,000
Cash flows from financing activities:			
Proceeds from exercise of stock options	125,000	610,000	21,000
Purchase of treasury stock	(1,579,000)	(16,156,000)	(70,000)
Change in restricted cash	120,000	(57,000)	273,000
Dividends paid	(1,290,000)	(1,144,000)	(1,169,000)
Distributions to non-controlling interest	(621,000)	—	—
Repayments of non-recourse debt, net	(25,703,000)	(10,141,000)	(18,879,000)
Repayments under subordinated debt — related party	—	—	(4,386,000)
Net cash used in financing activities	(28,948,000)	(26,888,000)	(24,210,000)
Net increase (decrease) in cash and cash equivalents	30,226,000	(79,394,000)	9,046,000
Cash and cash equivalents at beginning of year	4,953,000	84,347,000	75,301,000
Cash and cash equivalents at end of year	$ 35,179,000	$ 4,953,000	$ 84,347,000
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest (related party: 2013 — $0; 2012 — $0; 2011 — $122,000)	$ 1,822,000	$ 2,570,000	$ 3,114,000
Income taxes	$ —	$ 2,002,000	$ 5,647,000

See notes to the accompanying consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE A — THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

[1] The Company:

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"), and other subsidiaries, not all wholly owned, and not considered material (collectively, the "Company"), is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged-off receivables, semi-performing receivables, performing receivables and investment in litigation related 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 whereby 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 whereby the debtor is making regular monthly payments that may or may not have been delinquent in the past. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. A large portion of the Company's distressed consumer receivables are, MasterCard ®, Visa ®, and other credit card 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 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.

In addition, the Company, owns 80% of Pegasus Funding, LLC ("Pegasus"), which invests in funding personal injury claims.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and industry practices.

[1A] Liquidity:

The Company's cash requirements have been and will continue to be significant. In the past, we have depended upon external financing to acquire consumer receivables, fund operating expenses, interest and income taxes. If approved, dividends paid is also a significant use of cash. We have depended solely on operating cash flow to fund the acquisition of portfolios, pay operating expenses, dividends, and taxes. As of September 30, 2013, the outstanding amount on the Bank of Montreal ("BMO") facility ("Receivables Financing Agreement") that financed the $6.9 billion in face value receivables for a purchase price of $300 million, (the "Portfolio Purchase") is $35.8 million. We continue to pay down the balance and the interest from the collections of the receivables under the Portfolio Purchase. See Note F — Non-Recourse Debt for further information on the Settlement Agreement signed in August 2013.

Net collections decreased $15.9 million or 22.7% from $70.0 million in fiscal year 2012 to $54.1 million in fiscal year 2013. Although the Company's collections decreased from the prior year, the Company believes its net cash collections over the next twelve months, coupled with its current liquid cash balances, will be sufficient to cover its operating expenses, service debt and pay interest.

[2] Principles of consolidation:

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

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE A — THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3] Cash and cash equivalents and restricted cash:

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

Cash balances are maintained at various depository institutions and are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company had cash balances with 7 banks that exceeded the balance insured by the FDIC by approximately $31.1 million at September 30, 2013. The Company had cash balances with 2 banks which amounted to $26.4 million at September 30, 2013.

The restricted cash at September 30, 2013 represents cash on hand, substantially all of which is designated to be paid to our lender subsequent to September 30, 2013. The lender has mandated in which depository institutions the cash is to be maintained.

[4] Investments

Available-for-Sale

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

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

Certificates of Deposit

There were no certificates of deposit at September 30, 2013. Certificates of deposit at September 30, 2012 had maturities greater than three months at the date of purchase.

[5] Income recognition, Impairments and Accretable yield adjustments:

Income Recognition

The Company accounts for its investment in consumer receivables acquired for liquidation using the interest method under the guidance of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310, *Receivables — Loans and Debt Securities Acquired with Deteriorated Credit Quality* , ("ASC 310"). In ASC 310 static pools of accounts are established. These pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost and is accounted for as a single unit for the recognition of income, principal payments and loss provision.

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. ASC 310 initially freezes the internal rate of return ("IRR"), estimated when the accounts receivable are purchased, as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows are recognized prospectively through an upward adjustment of

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE A — THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

the IRR over a portfolio's remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Under ASC 310, rather than lowering the estimated IRR if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current IRR.

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

The Company accounts for its investments in personal injury claims at an agreed upon interest rate, in anticipation of a future settlement. The interest purchased by Pegasus in each claim 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 reward with respect to such claimant's claim. Open case revenue is estimated, recognized and accrued at a rate based on the expected realization and underwriting guidelines and facts and circumstances for each individual case. These personal injury claims are non-recourse.

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

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

Impairments and accretable yield adjustments

The Company accounts for its impairments in accordance with ASC 310, which provides guidance on how to account for differences between contractual and expected cash flows from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. 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. Impairments of approximately $12.6 million were recorded in the fiscal year ended September 30, 2013. An impairment of approximately $1.4 million was recorded in the fiscal year ended September 30, 2012 and $0.7 million was recorded in fiscal year 2011. Finance income is not recognized on cost recovery method portfolios until the cost of the portfolio is fully recovered. Collection projections are performed on both interest method and cost recovery method portfolios. With regard to the cost recovery portfolios, if collection projections indicate the carrying value will not be recovered, a write down in value is required. There were no accretable yield adjustments recorded in the fiscal years ended September 30, 2013, 2012 and 2011.

The recognition of income under ASC 310 is dependent on the Company having the ability to develop reasonable expectations of both the timing and amount of cash flows to be collected. In the event the Company cannot develop a reasonable expectation as to both the timing and amount of cash flows expected to be collected, ASC 310 permits the change to the cost recovery method. The Company will recognize income only after it has recovered its carrying value. As of September 30, 2013, the carrying value of the Portfolio Purchase was approximately $43.4 million. There can be no assurance as to when or if the carrying value will be recovered.

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

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

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE A — THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- the average balance of the receivables influences our analysis in that lower average balance portfolios tend to be more collectible in the short-term and higher average balance portfolios are more appropriate for the Company's lawsuit strategy and thus yield better results over the longer term. As the Company has significant experience with both types of balances, it can factor these variables into its initial expected cash flows;
- the age of the receivables, the number of days since charge-off, any payments since charge-off, and the credit guidelines of the credit originator also represent factors taken into consideration in our estimation process. For example, older receivables might be more difficult and/or require more time and effort to collect;
- past history and performance of similar assets acquired. As the Company purchases portfolios of like assets, it accumulates a significant historical data base on the tendencies of debtor repayments and factor this into its initial expected cash flows;
- the Company's ability to analyze accounts and resell accounts that meet its criteria;
- jobs or property of the customers found within portfolios. With our business model, this is of particular importance. Customers with jobs or property are more likely to repay their obligation through the lawsuit strategy and, conversely, customers without jobs or property are less likely to repay their obligation. The Company believes that customers with jobs or property are more likely to repay because courts have mandated the debtor must pay the debt. Ultimately, the debtor with property will pay to clear title or release a lien. The Company also believes that these customers generally might take longer to repay and that is factored into its initial expected cash flows; and
- credit standards of the issuer.

The Company acquires accounts that have experienced deterioration of credit quality between origination and the date of its acquisition of the accounts. The amount invested in 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. The Company considers the expected payments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each acquired portfolio coupled with expected cash flows from accounts available for sale. The excess of this amount over the cost of the portfolio, representing the excess of the accounts' cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables accounted for on the interest method over the expected remaining life of the portfolio.

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

As a result of the challenging economic environment and the impact it has had on collections, for portfolio purchases acquired in fiscal year 2013, the Company's expectation of recovering 100% of its invested capital is a

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE A — THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

24-39 month period, with the expectation of recovering 130-140% over 7 years. The 2013 time frame of expectations have remained unchanged from fiscal year 2012. The Company routinely monitors these expectations against the actual cash flows and, in the event the cash flows are below expectations and the Company believes there are no reasons relating to mere timing differences or explainable delays (such as can occur particularly when the court system is involved) for the reduced collections, an impairment is recorded on portfolios accounted for on the interest method. Conversely, in the event the cash flows are in excess of its expectations and the reason is due to timing, the Company would defer the “excess” collection as deferred revenue.

[6] 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.

[7] Furniture, equipment and leasehold improvements:

Furniture and equipment is stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (5 to 7 years). Amortization on leasehold improvements is provided by the straight line-method of the remaining life of the respective lease. An accelerated depreciation method is used for tax purposes.

[8] Income taxes:

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

[9] Net income per share:

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

The following table presents the computation of basic and diluted per share data for the fiscal years ended September 30, 2013, 2012 and 2011:

	2013			2012			2011		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic	$2,738,000	12,952,150	$ 0.21	$10,037,000	14,077,650	$ 0.71	$10,521,000	14,626,973	$ 0.72
Dilutive effect of stock options		263,901			243,731	(0.01)		200,635	(0.01)
Diluted	$2,738,000	13,216,051	$ 0.21	$10,037,000	14,321,381	$ 0.70	$10,521,000	14,827,608	$ 0.71

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE A — THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Net income per share: (Continued)

At September 30, 2013, 606,332 options at a weighted average exercise price of $8.01 were not included in the diluted earnings per share calculation as they were anti-dilutive. At September 30, 2012, 1,210,396 options at a weighted average exercise price of $12.23 were not included in the diluted earnings per share calculation as they were anti-dilutive. At September 30, 2011, 986,732 options at a weighted average exercise price of $13.18 were not included in the diluted earnings per share calculation as they were anti-dilutive.

[10] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. With respect to income recognition under the interest method, the Company takes into consideration the relative credit quality of the underlying receivables constituting the portfolio acquired, the strategy involved to maximize the collections thereof, the time required to implement the collection strategy as well as other factors to estimate the anticipated cash flows. Actual results could differ from those estimates including management's estimates of future cash flows and the resultant allocation of collections between principal and interest resulting therefrom. Downward revisions to estimated cash flows will result in impairments.

[11] Stock-based compensation:

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

[12] Impact of Recently Issued Accounting Standards:

In July 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-11 " *Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists."* There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the amendments in this Update is to eliminate that diversity in practice. This standard becomes effective for fiscal years and interim periods beginning after December 15, 2013. The Company is reviewing the affects of implementation of this standard.

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-02 " *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income".* The amendments require an entity to present, either in the income statement or the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. Generally Accepted Accounting Principles ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety, an entity is required to cross-reference to other disclosures that might provide additional details about

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE A — THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[12] Impact of Recently Issued Accounting Standards: (Continued)

the amounts. This ASU was effective for annual and interim periods beginning January 1, 2013. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements (see Note B: Investments).

[13] Reclassifications:

Certain items in prior years' financial statements have been reclassified to conform to the current year's presentation, principally related to certain cash flow items.

NOTE B — INVESTMENTS

Available-for-Sale

Mutual funds investments classified as available-for-sale at September 30, 2013 and 2012 consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2013	$59,151,000	$ 27,000	$(1,143,000)	$58,035,000
2012	$58,308,000	$404,000	$ —	$58,712,000

The available-for-sale investments did not have any contractual maturities. The Company sold four investments during the year ended September 30, 2013, with an aggregate realized loss of $252,000. Additionally, the Company received $225,000 in capital gains distributions during fiscal year 2013. The Company sold five investments in fiscal year 2012, resulting in an aggregate realized gain of approximately $339,000. The realized gains and losses are all included as part of other income.

At September 30, 2013, there were six investments, five of which were in an unrealized loss position. Each of the five investments had current unrealized losses existing for 12 months or less. At September 30, 2012, there were six investments, all in an unrealized gain position. All of these securities were considered to be acceptable credit risks. Based on the evaluation of the available evidence at that time, including changes in market rates and credit rating information, management believed that any decline in fair value for these instruments would be temporary. In addition, management had the ability but did not believe it would be required to sell those investment securities for a period of time sufficient to allow for an anticipated recovery or maturity. Should the impairment of any of those securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment were identified.

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

Certificates of Deposit

Other investments consist of the following:

	September 30, 2013	September 30, 2012
Certificates of deposits in banks	$ —	$42,682,000

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE B — INVESTMENTS (CONTINUED)

Certificates are generally nonnegotiable and nontransferable, and may incur substantial penalties for withdrawal prior to maturity, which will be within one year.

NOTE C — CONSUMER RECEIVABLES ACQUIRED FOR LIQUIDATION

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

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

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

The Company accounts for its investment in finance receivables using the interest method under the guidance of ASC 310. Under the guidance of ASC 310, static pools of accounts are established and these pools are aggregated based on certain common risk criteria. Each static pool is recorded at cost and is accounted for as a single unit for the recognition of income, principal payments and loss provision.

Once a static pool is established for a quarter, individual 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. ASC 310 initially freezes the internal rate of return, referred to as IRR, estimated when the accounts receivable are purchased, as the basis for subsequent impairment testing. Significant increases in actual or expected future cash flows may be recognized prospectively through an upward adjustment of the IRR over a portfolio's remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Rather than lowering the estimated IRR if the collection estimates are not received or projected to be received, the carrying value of a pool would be impaired, or written down to maintain the then current IRR. Under the interest method, income is recognized on the effective yield method based on the actual cash collected during a period and future estimated cash flows and timing of such collections and the portfolio's cost. Revenue arising from collections in excess of anticipated amounts attributable to timing differences is deferred until such time as a review results in a change in the expected cash flows. 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 uses the interest method 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 where the Company does not possess the same expertise or history, or the Company cannot reasonably estimate the timing of the cash flows, the Company utilizes the cost recovery method of accounting for those portfolios of receivables. At September 30, 2013, approximately $8.1 million of the consumer receivables acquired for liquidation are accounted for using the interest method, while approximately $49.8 million are accounted for using the cost recovery method, of which $43.4 million is concentrated in one portfolio, the Portfolio Purchase.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE C — CONSUMER RECEIVABLES ACQUIRED FOR LIQUIDATION (CONTINUED)

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

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

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

- the number of collection agencies previously attempting to collect the receivables in the portfolio;
- the average balance of the receivables, as higher balances might be more difficult to collect while low balances might not be cost effective to collect;
- the age of the receivables, as older receivables might be more difficult to collect or might be less cost effective. On the other hand, the passage of time, in certain circumstances, might result in higher collections due to changing life events of some individual customers;
- past history of performance of similar assets;
- time since charge-off;
- payments made since charge-off;
- the credit originator and its credit guidelines;
- the Company’s ability to analyze accounts and resell accounts that meet our criteria for resale;
- the locations of the customers, 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;
- jobs or property of the customers found within portfolios. In the Company’s business model, this is of particular importance. Customers with jobs or property are more likely to repay their obligation and conversely, customers 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 further evidentiary matter, to assist in evaluating and developing collection strategies and in evaluating and modeling the expected cash flows for a given portfolio.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE C — CONSUMER RECEIVABLES ACQUIRED FOR LIQUIDATION (CONTINUED)

The following tables summarize the changes in the balance sheet of the investment in receivable portfolios during the following periods:

	For the Year Ended September 30, 2013		
	Interest Method Portfolios	Cost Recovery Portfolios	Total
Balance, beginning of period	$ 12,326,000	$ 74,561,000	$ 86,887,000
Acquisitions of receivable portfolios	3,340,000	—	3,340,000
Net cash collections from collection of consumer receivables acquired for liquidation	(34,128,000)	(17,522,000)	(51,650,000)
Cash collections represented by account sales of consumer receivables acquired for liquidation	(989,000)	(1,459,000)	(2,448,000)
Impairments	(2,444,000)	(10,148,000)	(12,592,000)
Finance income recognized(1)	29,966,000	4,397,000	34,363,000
Balance, end of period	$ 8,071,000	$ 49,829,000	$ 57,900,000
Finance income as a percentage of collections	85.3%	23.2%	63.5%

(1) Includes $33.2 million derived from fully amortized pools. Finance income recognized from account sales amounted to $2.0 million.

	For the Year Ended September 30, 2012		
	Interest Method Portfolios	Cost Recovery Portfolios	Total
Balance, beginning of period	$ 31,193,000	$ 84,002,000	$115,195,000
Acquisitions of receivable portfolios	1,278,000	1,217,000	2,495,000
Net cash collections from collection of consumer receivables acquired for liquidation	(49,723,000)	(20,179,000)	(69,902,000)
Cash collections represented by account sales of consumer receivables acquired for liquidation	(117,000)	—	(117,000)
Transfer to cost recovery	(6,484,000)	6,484,000	—
Impairments	(1,383,000)	—	(1,383,000)
Finance income recognized(1)	37,562,000	3,037,000	40,599,000
Balance, end of period	$ 12,326,000	$ 74,561,000	$ 86,887,000
Revenue as a percentage of collections	75.4%	15.1%	58.0%

(1) Includes $36.4 million derived from fully amortized pools. Finance income recognized from account sales amounted to $0.1 million.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE C — CONSUMER RECEIVABLES ACQUIRED FOR LIQUIDATION (CONTINUED)

As of September 30, 2013, the Company had $57,900,000 in consumer receivables acquired for liquidation, of which $8,071,000 are accounted for on the interest method. Based upon current projections, net cash collections, applied to principal for interest method portfolios are estimated as follows for the twelve months in the periods ending:

September 30, 2014	$4,291,000
September 30, 2015	1,051,000
September 30, 2016	813,000
September 30, 2017	636,000
September 30, 2018	536,000
September 30, 2019	463,000
September 30, 2020	281,000
Total	$8,071,000

Accretable yield represents the amount of income the Company can expect to generate over the remaining amortizable life of its existing portfolios based on estimated future net cash flows as of September 30, 2013. The Company adjusts the accretable yield upward when it believes, based on available evidence, that portfolio collections will exceed amounts previously estimated. There were no accretable yield adjustments in fiscal years 2013 and 2012. Projected accretable yield for the fiscal years ended September 30, 2013 and 2012 are as follows:

	Year Ended September 30, 2013
Balance at beginning of period, October 1, 2012	$ 2,086,000
Income recognized on finance receivables, net	(29,966,000)
Additions representing expected revenue from purchases	983,000
Reclassifications from non-accretable difference(1)	28,013,000
Balance at end of period, September 30, 2013	$ 1,116,000

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

	Year Ended September 30, 2012
Balance at beginning of period, October 1, 2011	$ 7,473,000
Income recognized on finance receivables, net	(37,561,000)
Additions representing expected revenue from purchases	361,000
Transfers to Cost Recovery	(1,840,000)
Reclassifications from non-accretable difference(1)	33,653,000
Balance at end of period, September 30, 2012	$ 2,086,000

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE C — CONSUMER RECEIVABLES ACQUIRED FOR LIQUIDATION (CONTINUED)

During the year ended September 30, 2013, the Company purchased $53.5 million in face value receivables at a cost of $3.3 million. During the year ended September 30, 2012, the Company purchased $6.0 million in face value receivables at cost of $2.5 million.

The following table summarizes collections received by the Company's third-party collection agencies and attorneys, less commissions and direct costs for the years ended September 30, 2013, 2012 and 2011, respectively.

	For the Years Ended, September 30,		
	2013	2012	2011
Gross collections(1)	$85,512,000	$108,487,000	$129,688,000
Less: commissions and fees(2)	31,414,000	38,468,000	48,483,000
Net collections	$54,098,000	$ 70,019,000	$ 81,205,000

(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 commissions 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 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.

Finance income recognized on net collections represented by account sales was $2.0 million, $0.1 million and $0.2 million for the fiscal years ended September 30, 2013, 2012 and 2011, respectively.

NOTE D — FURNITURE AND EQUIPMENT

Furniture and equipment as of September 30, 2013 and 2012 consist of the following:

	2013	2012
Furniture	$ 310,000	$ 310,000
Equipment	3,622,000	3,470,000
Software	1,211,000	638,000
Leasehold improvements	99,000	99,000
	5,242,000	4,517,000
Less accumulated depreciation	4,136,000	3,696,000
	$1,106,000	$ 821,000

Depreciation expense for the years ended September 30, 2013, 2012 and 2011 aggregated $440,000, $380,000 and $250,000, respectively.

NOTE E — OTHER INVESTMENTS

Personal Injury Claims

Pegasus purchases interests in claims from claimants who are a party to personal injury litigation. Pegasus advances, to each claimant, funds, on a non-recourse basis at an agreed upon interest rate, in anticipation of a

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE E — OTHER INVESTMENTS (CONTINUED)

Personal Injury Claims (Continued)

future settlement. The interest in each claim purchased by Pegasus consists of the right to receive, from such claimant, part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant's claims. The Company, through Pegasus, earned $6.4 million in interest and fees during fiscal year 2013 compared to $1.6 million in interest and fees during fiscal year 2012. These amounts are recorded as part of other income. The Company had a net invested balance in personal injury claims of $35.8 million and $18.6 million on September 30, 2013 and 2012, respectively. The collections yielded net income attributable to non-controlling interest of $406,000 for the year-ended September 30, 2013 compared to $31,000 for the year ended September 30, 2012. Pegasus records reserves for bad debts, which, at September 30, 2013, amounted to $2.2 million.

Matrimonial Claims

On May 18, 2012, the Company formed BP Case Management, LLC ("BPCM"), a joint venture with California-based Balance Point Divorce Funding, LLC ("BP Divorce Funding"). BPCM provides non-recourse funding to a spouse in a matrimonial action. The Company provides a $1.0 million revolving line of credit to partially fund BPCM's operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. The revolving line of credit is collateralized by BP Divorce Funding's profits share in BPCM and other assets. As of September 30, 2013, the Company's investment in cases through BPCM was approximately $1.6 million. The Company recognized $34,000 in revenue during fiscal year 2013 compared to $165,000 during fiscal year 2012.

NOTE F — NON-RECOURSE DEBT

Receivables Financing Agreement

In March 2007, Palisades XVI borrowed approximately $227 million under the Receivables Financing Agreement, as amended in July 2007, December 2007, May 2008 and February 2009, from BMO, in order to finance the Portfolio Purchase. The Portfolio Purchase had a purchase price of $300 million (plus 20% of net payments after Palisades XVI recovers 150% of its purchase price plus cost of funds, which recovery has not yet occurred). Prior to the modifications, discussed below, the debt was full recourse only to Palisades XVI and bore an interest rate of approximately 170 basis points over LIBOR. The original term of the agreement was three years. This term was extended by each of the Second, Third, Fourth and Fifth Amendments to the Receivables Financing Agreement as discussed below. The Receivables Financing Agreement contained cross default provisions related to the IDB Credit Facility. This cross default could only occur in the event of a non-payment in excess of $2.5 million of the IDB Credit Facility. Proceeds received as a result of the net collections from the Portfolio Purchase are applied to interest and principal of the underlying loan. The Portfolio Purchase is serviced by Palisades Collection LLC, a wholly owned subsidiary of the Company, which has engaged unaffiliated subservicers for a majority of the Portfolio Purchase.

Since the inception of the Receivables Financing Agreement amendments have been signed to revise various terms of the Receivables Financing Agreement. Currently, the Settlement Agreement and Omnibus Amendment ("Settlement Agreement") is in effect on August 7, 2013, Palisades XVI, a 100% owned bankruptcy remote subsidiary, entered into a Settlement Agreement with BMO as an amendment to the Receivables Financing Agreement. In consideration for a $15 million prepayment funded by the Company, BMO has agreed to significantly reduce minimum monthly payment requirements and the interest rate. If and when BMO receives the next $15 million of collections from the Portfolio Purchase, less certain credits for payments made prior to the

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE F — NON-RECOURSE DEBT (CONTINUED)

Receivables Financing Agreement (Continued)

consummation of the Settlement Agreement, the Company is entitled to recover from future net collections the $15 million prepayment that it funded. Thereafter, BMO will have the right to receive 30% of future net collections. No gain or loss was recognized with regard to the Settlement Agreement.

The aggregate minimum repayment obligations required under the Settlement Amendment, including interest and principal, for the fiscal years ended September 30, 2014, 2015 and 2016 is $4.6 million, $3.6 million and, $1.5 million, respectively. All cash collections received on the Portfolio Purchase are used to repay the non-recourse debt and the interest.

On September 30, 2013 and 2012, the outstanding balance on this loan was approximately $35.8 million and $61.5 million, respectively. The applicable interest rate at September 30, 2013 and 2012 was 0.43% and 3.73%, respectively. The average interest rate of the Receivables Financing Agreement was 3.05% and 3.76% for the years ended September 30, 2013 and 2012, respectively.

The Company's average debt obligation for the years ended September 30, 2013 and 2012 was approximately $54.1 million and $66.8 million, respectively.

Other significant amendments to the Receivables Financing Agreement are as follows:

Second Amendment — Receivables Financing Agreement, dated December 27, 2007 revised the amortization schedule of the loan from 25 months to approximately 31 months. BMO charged Palisades XVI a fee of $475,000 which was paid on January 10, 2008. The fee was capitalized and is being amortized over the remaining life of the Receivables Financing Agreement.

Third Amendment — Receivables Financing Agreement, dated May 19, 2008 extended the payments of the loan through December 2010. The lender also increased the interest rate from 170 basis points over LIBOR to approximately 320 basis points over LIBOR, subject to automatic reduction in the future if additional capital contributions are made by the parent of Palisades XVI.

Fourth Amendment — Receivables Financing Agreement, dated February 20, 2009, among other things, (i) lowered the collection rate minimum to $1 million per month (plus interest and fees) as an average for each period of three consecutive months, (ii) provided for an automatic extension of the maturity date from April 30, 2011 to April 30, 2012 should the outstanding balance be reduced to $25 million or less by April 30, 2011 and (iii) permanently waived the previous termination events. The interest rate remains unchanged at approximately 320 basis points over LIBOR, subject to automatic reduction in the future should certain collection milestones be attained.

As additional credit support for repayment by Palisades XVI of its obligations under the Receivables Financing Agreement and as an inducement for BMO to enter into the Fourth Amendment, the Company provided BMO a limited recourse, subordinated guaranty, secured by the assets of the Company, in an amount not to exceed $8.0 million plus reasonable costs of enforcement and collection. Under the terms of the guaranty, BMO could not exercise any recourse against the Company until the earlier of (i) five years from the date of the Fourth Amendment and (ii) the termination of the Company's existing senior lending facility or any successor senior facility.

Fifth Amendment — Receivables Financing Agreement, dated October 14, 2010, (i) extended the expiration date of the Receivables Financing Agreement to April 30, 2014, (ii) reduced the minimum monthly total payment to $750,000, (iii) accelerated the Company's guarantee credit enhancement of $8,700,000, which was paid upon execution of the Fifth Amendment, (iv) eliminated the Company's limited guarantee of repayment of the loans

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE F — NON-RECOURSE DEBT (CONTINUED)

Receivables Financing Agreement (Continued)

outstanding by Palisades XVI, and (v) revised the definition of “Borrowing Base Deficit”, as defined in the Receivables Financing Agreement, to mean the excess, if any, of 105% of the loans outstanding over the borrowing base.

In connection with the Fifth Amendment, on October 26, 2010, the Company entered into the Omnibus Termination Agreement (the “Termination Agreement”). The limited recourse subordinated guaranty set forth in the Fourth Amendment was eliminated upon signing the Termination Agreement.

Senior Secured Discretionary Credit Facility

On December 30, 2011, the Company and certain of its subsidiaries obtained a $20,000,000 Senior Discretionary Credit Facility (the “Credit Facility”) from Bank Leumi pursuant to a Loan Agreement (the “Loan Agreement”) between certain of the Company’s subsidiaries and Bank Leumi. Under the Loan Agreement, certain subsidiaries issued a Revolving Note (the “Note”) to Bank Leumi in the principal amount of up to $20 million. Any outstanding balance under the Credit Facility would accrue interest at an annual rate equal to the Prime Rate plus 50 basis points. The Company and certain subsidiaries had agreed to serve as guarantors of the obligations to the borrower subsidiaries and entered into Guarantee Agreements. Pursuant to a series of Security Agreements and Pledge Agreements, the Credit Facility was collateralized by the first priority perfected liens on substantially all of the Company’s assets and the assets of its subsidiaries, except those of Palisades XVI. The Credit Facility was subject to an administrative fee of $75,000 upon the first drawdown of the Credit Facility. The Loan Agreement contained standard and customary representations and warranties, covenants, events of default and other provisions, including financial covenants that required the Company to: (i) maintain a minimum net worth of $150 million; and (ii) incur no net loss in any fiscal year. The term of the Credit Facility expired February 23, 2013. The Company never utilized this facility.

NOTE G — OTHER LIABILITIES

Other liabilities as of September 30, 2013 and 2012 are as follows:

	2013	2012
Accounts payable and accrued expenses	$2,274,000	$2,091,000
Accrued interest payable	4,000	192,000
Other	208,000	637,000
Total other liabilities	$2,486,000	$2,920,000

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE H — INCOME TAXES

The components of the provision for income taxes for the years ended September 30, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Current:			
Federal	$ 561,000	$3,437,000	$2,418,000
State	383,000	—	—
Federal true up		42,000	73,000
	944,000	3,479,000	2,491,000
Deferred:			
Federal	212,000	1,813,000	2,963,000
State	8,000	1,580,000	1,648,000
	220,000	3,393,000	4,611,000
Provision for income taxes	$1,164,000	$6,872,000	$7,102,000

The difference between the statutory federal income tax rate on the Company's pre-tax income and the Company's effective income tax rate is summarized for the years ended September 30, 2013, 2012 and 2011 as follows:

	2013	2012	2011
Statutory federal income tax rate	34.0%	34.0%	34.0%
State income tax, net of federal benefit	6.1	6.1	6.3
Deferred tax valuation allowance	—	—	1.8
Permanent difference in municipal interest	(7.5)	—	—
Permanent difference other	(0.7)	—	—
Federal prior year provision to tax return difference	(2.1)	.2	—
Other	(2.8)	.3	(1.8)
Effective income tax rate	27.0%	40.6%	40.3%

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE H — INCOME TAXES (CONTINUED)

The Company recognized a net deferred tax asset of $10,443,000 and $10,410,000 as of September 30, 2013 and 2012, respectively. The components are as follows:

	September 30, 2013	September 30, 2012
Deferred and accrued revenue	$ (414,000)	$ (116,000)
Impairments/bad debt reserves	5,241,000	5,449,000
State tax net operating loss carryforward	9,524,000	9,671,000
Stock based compensation	2,133,000	1,737,000
Depreciation, amortization and other	(312,000)	(571,000)
Deferred income taxes	16,172,000	16,170,000
Deferred tax valuation allowance	(5,729,000)	(5,760,000)
Deferred income taxes	$10,443,000	$10,410,000

The Company files consolidated Federal and state income tax returns. Substantially all of the Company's subsidiaries are single member limited liability companies and, therefore, do not file separate tax returns. Majority and minority owned subsidiaries file separate partnership tax returns. The expiration date for state net operating loss carryforwards (from September 30, 2009) is September 30, 2029. There are no federal net operating loss carryforwards.

The Company accounts for income taxes using the asset and liability method which requires the recognition of deferred tax assets and, if applicable, deferred tax liabilities, for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and, if applicable, liabilities. Additionally, the Company would adjust deferred taxes to reflect estimated tax rate changes, if applicable. The Company conducts periodic evaluations to determine whether it is more likely than not that some or all of its deferred tax assets will not be realized. Among the factors considered in this evaluation are estimates of future earnings, the future reversal of temporary differences and the impact of tax planning strategies that we can implement if warranted. The Company is required to provide a valuation allowance for any portion of our deferred tax assets that, more likely than not, will not be realized at September 30, 2013. Based on this evaluation, the Company has a deferred tax asset valuation allowance of approximately $5.7 million as of September 30, 2013. The deferred tax valuation allowance decreased by $31,000 from 2012. Although the carryforward period for state income tax purposes is up to twenty years, given the economic conditions, such economic environment could limit growth over a reasonable time period to realize the deferred tax asset. The Company determined the time period allowance for carryforward is outside a reasonable period to forecast full realization of the deferred tax asset, therefore recognized the deferred tax asset valuation allowance. The Company continually monitors forecast information to ensure the valuation allowance is at the appropriate value. As required by FASB ASC 740, Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Interest and penalties arising from uncertain tax positions will be presented as a component of income taxes. No amounts of interest or penalties were recognized in the Company's consolidated financial statements for 2013 and 2012.

The corporate federal income tax returns of the Company for 2009, 2010, 2011 and 2012 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.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE H — INCOME TAXES (CONTINUED)

In April 2010, the Company received notification from the IRS that the Company's 2008, 2009 and 2010 federal income tax returns would be audited. This audit is currently in progress. Although the Company believes that its tax estimates and positions are reasonable, the Company can provide no assurance that any final determination in an audit will be materially different than the treatment reflected in its historical income tax provisions and accruals.

NOTE I — COMMITMENTS AND CONTINGENCIES

Employment Agreements

In January 2007, the Company entered into an employment agreement (the "Employment Agreement") with Gary Stern, its Chairman, President and Chief Executive Officer, which expired on December 31, 2009. Mr. Stern is continuing in his current roles at the discretion of the Board of Directors until a new agreement is signed.

Leases

The Company leases its facilities in (i) Englewood Cliffs, New Jersey, (ii) Houston, Texas and (iii) New York, New York. The leases are operating leases, and the Company incurred related rent expense in the amounts of $554,000, $413,000 and $305,000 during the years ended September 30, 2013, 2012 and 2011, respectively. The future minimum lease payments are as follows:

Year Ending September 30,	
2014	$ 540,000
2015	505,000
2016	295,000
2017	248,000
	$1,588,000

Contingencies

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 and financial condition. The Company is not involved in any material litigation in which it was a defendant.

During fiscal year 2013, the Company received subpoenas from two jurisdictions seeking information and/or documentation regarding its business practices. One jurisdiction closed its investigation during fiscal year 2013 without taking any action against the Company. The Company is fully cooperating with the issuing agency in the other jurisdiction. The Company has not made any provision with respect to these matters in the financial statements because the Company does not believe that they are material to its business and financial condition.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE J — CONCENTRATIONS

At September 30, 2013, approximately 28% of the Company's portfolio face value was serviced by seven collection organizations. The Company has servicing agreements in place with these seven collection organizations as well as all of the Company's other third party collection agencies and attorneys that cover standard contingency fees and servicing of the accounts.

NOTE K — STOCK OPTION PLANS

2012 Stock Option and Performance Award Plan

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

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

The Company authorized 2,000,000 shares of Common Stock for issuance under the 2012 Plan. In December 2012, the Company granted options to purchase shares of the Company and an award of restricted stock totaling 262,321 shares. Additionally, the Company granted 50,000 shares of the Company to non-executive employees in June 2013, leaving 1,687,679 shares available as of September 30, 2013. As of September 30, 2013, approximately 48 of the Company's employees were eligible to participate in the 2012 Plan.

Equity Compensation Plan

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

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

The Company authorized 1,000,000 shares of Common Stock for issuance under the Equity Compensation Plan. As of March 21, 2012, no 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 was approved by the Company's stockholders on May 1, 2002. The 2002 Plan was adopted in order to attract and retain qualified directors, officers and employees of, and consultants to, the Company.

The 2002 Plan 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 for issuance under the 2002 Plan. As of March 5, 2012, no more awards could be issued under this plan.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE K — STOCK OPTION PLANS (CONTINUED)

1995 Stock Option Plan

In 1995, the Board of Directors adopted the Company's 1995 Stock Option Plan (the "1995 Plan"), which expired on September 14, 2005. The plan was adopted in order to attract and retain qualified directors, officers and employees of, and consultants to, the Company.

The 1995 Plan authorizes the granting of incentive stock options (as defined in 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 1,840,000 shares of Common Stock for issuance under the 1995 Plan. As of September 14, 2005, no more awards could be issued under this plan. All outstanding options under this plan expired in November 2013.

Stock Based Compensation

The Company accounts for stock-based employee compensation under ASC 718, *Compensation — Stock Compensation* ("ASC 718"). ASC 718 requires that compensation expense associated with stock options and other stock based awards be recognized in the income statement rather than a disclosure in the notes to the Company's consolidated financial statements.

In June 2013, through a previous action of the Compensation Committee of the board of directors of the Company (the "Compensation Committee") authorizing the Chief Executive Officer of the Company the discretion to grant stock option awards to non-officer employees, the Chief Executive Officer awarded 50,000 stock options to non-officer employees. The exercise price of these options, issued on June 13, 2013, was at the market price on that date. The options vest in three equal installments, accounted for as one graded vesting award, starting on the first anniversary of the grant. The assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.10%
Expected term (years)	6.2
Expected volatility	99.7%
Dividend yield	0.92%

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

Risk-free interest rate	0.16%
Expected term (years)	6.0
Expected volatility	101.0%
Dividend yield	1.67%

In addition, the Company granted 102,321 restricted shares to the Chief Executive Officer of the Company. The shares vest in three equal installments, starting on the first anniversary of the grant.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE K — STOCK OPTION PLANS (CONTINUED)

Stock Based Compensation (Continued)

In December 2011, the Compensation Committee granted 360,000 stock options, of which 150,000 options were awarded to the Chief Executive Officer, and 30,000 stock options were rewarded to both the Chief Financial Officer and the Senior Vice President. 60,000 shares were issued to five non-employee directors of the Company. The exercise price of these options, issued December 13, 2011, was at the market price on that date. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.08%
Expected term (years)	10.0
Expected volatility	103.9%
Dividend yield	1.03%

On December 22, 2011, the remaining 90,000 stock options were granted to selected non-officer employees of the Company. The exercise price of all stock options was at the market price on the date of the grant. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.08%
Expected term (years)	10.0
Expected volatility	95.7%
Dividend yield	1.03%

In June 2011, the Compensation Committee granted 50,000 stock options to a consultant. The exercise price of these options was above the market price on the date of the grant. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.09%
Expected term (years)	10.0
Expected volatility	105.4%
Dividend yield	0.95%

In March 2011, the Compensation Committee granted 10,000 stock options to an employee. The exercise price of these options was at the market price on the date of the grant. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.10%
Expected term (years)	10.0
Expected volatility	106.2%
Dividend yield	0.94%

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE K — STOCK OPTION PLANS (CONTINUED)

Stock Based Compensation (Continued)

In December 2010, the Compensation Committee granted 324,800 stock options, of which 30,000 options were issued to each non-employee independent director for a total of 150,000 stock options. 60,000 stock options were awarded to the Chief Executive Officer and 30,000 stock options were awarded to the Chief Financial Officer and the Senior Vice President. The remaining 54,800 stock options were granted to full time employees of the Company, who had been employed at the Company for at least six months prior to the date of grant. The grants to employees excluded officers of the Company. The exercise price of these options was at the market price on the date of the grant. The exercise price of all stock options was at the market price on the date of the grant. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.17%
Expected term (years)	10.0
Expected volatility	106.9%
Dividend yield	0.98%

The following table summarizes stock option transactions under the plans:

	Year Ended September 30,					
	2013		2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding options at the beginning of year	1,499,471	$ 11.27	1,294,271	$ 11.41	922,039	$ 12.70
Options granted	210,000	9.36	360,000	7.87	384,800	7.53
Options cancelled	(50,000)	7.77	(15,300)	6.00	(6,300)	6.07
Options exercised	(36,700)	3.41	(139,500)	4.36	(6,268)	3.35
Outstanding options at the end of year	1,622,771	$ 11.31	1,499,471	$ 11.27	1,294,271	$ 11.41
Exercisable options at the end of year	1,108,271	$ 12.62	1,000,904	$ 12.93	992,607	$ 12.41

The Company recognized $1,683,000 of compensation expense related to stock options, for fiscal year 2013, including approximately $161,000 for non-vested options cancelled during the third quarter. The Company recognized $1,538,000 and $1,906,000 of compensation expense related to stock options in the fiscal years ended September 30, 2012 and 2011, respectively. As of September 30, 2013, there was $2,003,000 of unrecognized compensation cost related to unvested stock options. The weighted average remaining period over which such costs are expected to be recognized is 1.8 years.

The intrinsic value of the outstanding and exercisable options as of September 30, 2013 was approximately $974,000 and $654,000, respectively. The intrinsic value of the options exercised during fiscal years 2013 and 2012 was approximately $213,000 and $691,000, respectively. The fair value of the options exercised during the fiscal years ended September 30, 2013 and 2012 was approximately $339,000 and $1,299,000, respectively. The weighted average remaining contractual life of exercisable options is 3.9 years. The fair value of the stock options that vested during the 2013 fiscal year was approximately $1,289,000. The fair value of the awards granted during the fiscal year ended September 30, 2013 was $1,702,000. During 2013, proceeds from the exercise of stock options amounted to $125,000. There is no tax effect associated with these exercises.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE K — STOCK OPTION PLANS (CONTINUED)

Stock Based Compensation (Continued)

The following table summarizes information about the plans' outstanding options as of September 30, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.8751 - $ 5.7500	18,700	5.6	$ 2.95	18,700	$ 2.95
$ 5.7501 - $ 8.6250	790,800	7.4	7.81	486,300	7.77
$ 8.6251 - $14.3750	260,000	9.0	9.77	50,000	11.50
$14.3751 - $17.2500	198,611	0.1	14.88	198,611	14.88
$17.2501 - $20.1250	339,660	1.1	18.23	339,660	18.23
$25.8751 - $28.7500	15,000	3.2	28.75	15,000	28.75
	1,622,771	5.4	$ 11.31	1,108,271	$ 12.62

The following table summarizes information about restricted stock transactions:

	Year Ended September 30, 2013 Shares	Weighted Average Grant Date Fair Value	Year Ended September 30, 2012 Shares	Weighted Average Grant Date Fair Value
Unvested at the beginning of period	10,922	$ 7.63	21,843	$ 7.63
Awards granted	102,321	9.57	—	0.00
Vested	(10,922)	7.63	(10,921)	7.63
Forfeited	—	0.00	—	0.00
Unvested at the end of period	102,321	$ 9.57	10,922	$ 7.63

The Company recognized $273,000, $83,000 and $149,000 of compensation expense during the fiscal years ended September 30, 2013, 2012 and 2011, respectively, for restricted stock. As of September 30, 2013, there was a total of $723,000 of unrecognized compensation cost related to unvested restricted stock. The weighted average remaining period over which such costs are recognized is 2.2 years. The fair value of the awards granted during the fiscal year ended September 30, 2013 was $979,000. The fair value of the awards vested during the fiscal year ended September 30, 2013 was $83,000.

The Company recognized an aggregate total of $1,956,000, $1,623,000 and $2,055,000 in compensation expense for the fiscal years ended September 30, 2013, 2012 and 2011, respectively, for the stock options and restricted stock grants. As of September 30, 2013, there was a total of $2,726,000 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 L — STOCKHOLDERS' EQUITY

In December 2012, the Board of Directors of the Company approved the payment of a special accelerated annual dividend of $0.08 per share to stockholders of record on December 24, 2012. The aggregate dividend of $1,030,000 was paid on December 28, 2012. No additional dividends were declared during fiscal year 2013.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE L — STOCKHOLDERS' EQUITY (CONTINUED)

During the year ended September 30, 2012, the Company declared quarterly cash dividends aggregating $1,111,000, which includes $0.02 per share, per quarter, of which $260,000 was accrued as of September 30, 2012 and paid November 1, 2012.

The Company expects to pay a regular cash dividend in future quarters, but the amount has not yet been determined. This will be at the discretion of the board of directors and will depend upon the Company's financial condition, operating results, capital requirements and any other factors the board of directors deems relevant. In addition, agreements with the Company's lenders may, from time to time, restrict the ability to pay dividends. As of September 30, 2012, there were no such restrictions.

On March 9, 2012, the Company adopted a Rule 10b5-1 Plan in conjunction with its share repurchase program. The Board of Directors approved the purchase of up to $20 million of the Company's common stock, which was effective through March 11, 2013. The Company purchased approximately 885,000 shares at an aggregate cost of approximately $7.9 million under the March 2012 Rule 10b5-1 Plan. Additionally, in June 2012, the Company repurchased 1.0 million shares of its common stock for $9.4 million in a privately negotiated transaction outside of the Rule 10b5-1 Plan. This share repurchase authorization superseded the authorization to repurchase shares in June 2011, pursuant to which the Company repurchased approximately 59,000 shares at an aggregate cost of approximately $457,000.

NOTE M — RETIREMENT PLAN

The Company maintains a 401(k) Retirement Plan covering all of its eligible employees. Matching contributions made by the employees to the plan are made at the discretion of the board of directors each plan year. Contributions for the years ended September 30, 2013, 2012 and 2011 were $88,000, $108,000 and $106,000, respectively.

NOTE N — 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:

	September 30, 2013		September 30, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Available-for-sale investments (Level 1)	$58,035,000	$58,035,000	$58,712,000	$ 58,712,000
Certificates of deposit (Level 1)	—	—	42,682,000	42,682,000
Consumer receivables acquired for liquidation (Level 3)	57,900,000	70,875,000	86,887,000	100,706,000
Financial liabilities				
Non-Recourse Debt (Level 3)	35,760,000	27,000,000	61,463,000	61,463,000

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE N — FAIR VALUE OF FINANCIAL MEASUREMENTS AND DISCLOSURES (CONTINUED)

Disclosures about Fair Value of Financial Instruments (Continued)

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:

Certificates of deposit — The carrying amount approximates fair value due to the short-term nature of the deposits.

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

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

Non-Recourse Debt — carries a variable rate. The fair value at September 30, 2013 is based on the discounted weighted average forecasted future collections of the Portfolio Purchase. The carrying value at September 30, 2012 approximated fair value because of the short term nature of the remaining loan term of the then-existing Receivable Finance Agreement.

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 September 30, 2013, as required by FASB ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

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

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

Level 3 — Unobservable inputs that are supported by little or no market activity and significant to the fair value of the assets or 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 any transfers into (out of) Level 1 investments during the fiscal year ended September 30, 2013. The Company had no Level 2 or Level 3 available-for-sale investments during the fiscal year ended September 30, 2013.

ASTA FUNDING, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 2013 and 2012

NOTE O — RELATED PARTY TRANSACTIONS

On December 12, 2011, the Company and A.L. Piccolo & Co., Inc. (“Piccolo”), which is owned by Louis Piccolo, a director of the Company, entered into a Consulting Agreement, pursuant to which Piccolo will provide consulting services which include, but are not limited to, analysis of proposed debt and equity transactions, due diligence and financial analysis and management consulting services (“Services”). The Consulting Agreement shall be for a period of two years and Piccolo will receive compensation of $150,000 per annum payable monthly, a bonus of $25,000 per new transaction closed by the Company with Piccolo’s assistance (excluding any potential pending transactions) and 30,000 options per year, with such options vesting in three equal annual installments on the first, second and third anniversaries of the first grant date. The total expense recognized related to this agreement during the year ended September 30, 2013 amounted to $279,000.

NOTE P — SUMMARIZED QUARTERLY DATA (UNAUDITED)

Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2013					
Total revenue	$10,552,000	$10,085,000	$12,668,000	$ 9,107,000	$42,412,000
Income (loss) before income taxes	4,390,000	1,560,000	(4,543,000)	2,901,000	4,308,000
Net income attributable to Asta Funding, Inc.	2,588,000	882,000	(2,737,000)	2,005,000	2,738,000
Basic net income (loss) per share attributable to Asta Funding, Inc.	$ 0.20	$ 0.07	$ (0.21)	$ 0.16	$ 0.21
Diluted net income (loss) per share attributable to Asta Funding, Inc.	$ 0.20	$ 0.07	$ (0.21)	$ 0.15	$ 0.21
2012					
Total revenue	$10,439,000	$11,470,000	$11,571,000	$11,022,000	$44,502,000
Income before income taxes	4,999,000	4,181,000	5,136,000	2,624,000	16,940,000
Net income attributable to Asta Funding, Inc.	2,977,000	2,460,000	3,048,000	1,552,000	10,037,000
Basic net income per share attributable to Asta Funding, Inc.	$ 0.20	$ 0.17	$ 0.22	$ 0.12	$ 0.71
Diluted net income per share attributable to Asta Funding, Inc.	$ 0.20	$ 0.17	$ 0.21	$ 0.12	$ 0.70

* Due to rounding the sum of quarterly totals for earnings per share may not add to the yearly total.

Exhibit 21.1

Subsidiary Companies

Name	Jurisdiction Under Which Organized	Percentage Owned
Asta Funding, Inc.	Delaware	
Asta Funding Acquisition I, LLC	Delaware	100%
Asta Funding Acquisition II, LLC	Delaware	100%
Asta Commercial, LLC	Delaware	100%
Asta Funding.com, LLC	Delaware	100%
Palisades Acquisition I, LLC	Delaware	100%
Palisades Acquisition II, LLC	Delaware	100%
Palisades Acquisition IV, LLC	Delaware	100%
Computer Finance, LLC	Delaware	100%
Palisades Collection, LLC	Delaware	100%
Palisades Acquisition VIII, LLC	Delaware	100%
Option Card, LLC	Colorado	100%
Palisades Acquisition IX, LLC	Delaware	100%
VATIV Recovery Solutions LLC	Texas	100%
Palisades Acquisition X, LLC	Delaware	100%
Cliffs Portfolio Acquisition I, LLC	Delaware	100%
Sylvan Acquisition I. LLC	Delaware	100%
Palisades Acquisition XI LLC	Delaware	100%
Palisades Acquisition XII LLC	Delaware	100%
Palisades Acquisition XIII LLC	Delaware	100%
Palisades Acquisition XIV LLC	Delaware	100%
Palisades Acquisition XV LLC	Delaware	100%
Palisades Acquisition XVI LLC	Delaware	100%
Palisades Acquisition XVII LLC	Delaware	100%
Palisades Acquisition XVIII LLC	Delaware	100%
Brook Mays Joint Venture	Massachusetts	25%
LBLINY, LLC	Delaware	100%
ELR Holdings LLC	Delaware	100%
Asta GFN LLC	Delaware	100%
Prestiga Funding, LLC	Delaware	100%
ASFI Litigation Holdings LLC	Delaware	100%
ASFI Pegasus Holdings, LLC	Delaware	100%
Pegasus Funding, LLC	Delaware	80%
Disability Help Center, LLC	Delaware	100%
EMIRIC LLC	Delaware	100%
Inst-A-Lease, LLC	Delaware	100%

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (File No. 333-185175, effective November 28, 2012, File No. 333-142201, effective April 18, 2007, File No. 333-99911, effective September 20, 2002, and File No. 333-38836, effective June 8, 2000); and Form S-3 (File No. 333-166212, effective May 12, 2010) of our reports dated December 13, 2013 on (i) the consolidated financial statements of Asta Funding, Inc. and subsidiaries as of and for the year ended September 30, 2013 and (ii) the effectiveness of internal control over financial reporting as of September 30, 2013, all of which appear in the Annual Report on Form 10-K of Asta Funding, Inc. for the year ended September 30, 2013.

/s/ WeiserMazars LLP

New York, New York
December 13, 2013

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated January 18, 2013, with respect to the consolidated financial statements included in the Annual Report of Asta Funding, Inc. on Form 10-K for the year ended September 30, 2013. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Asta Funding, Inc. on Forms S-8 (File No. 333-142201, effective April 18, 2007, File No. 333-99911, effective September 20, 2002, and File No. 333-38836, effective June 8, 2000) and on Form S-3 (File No. 333-166212, effective May 12, 2010).

/s/ GRANT THORNTON

New York, New York
December 13, 2013

Exhibit 31.1

CERTIFICATION

I, Gary Stern, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Gary Stern
Gary Stern
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

December 13, 2013

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

Exhibit 31.2

CERTIFICATION

I, Robert J. Michel, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Robert J. Michel
Robert J. Michel
Chief Financial Officer
(Principal Financial Officer)

December 13, 2013

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

EXHIBIT 32.1

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

In connection with the Annual Report of Asta Funding, Inc. (the "Company") on Form 10-K for the year ended September 30, 2013 as filed with the Securities and Exchange Commission (the "Report"), I, Gary Stern, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

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

Dated: December 13, 2013

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

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

EXHIBIT 32.2

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

In connection with the Annual Report of Asta Funding, Inc. (the "Company") on Form 10-K for the year ended September 30, 2013 as filed with the Securities and Exchange Commission (the "Report"), I, Robert J. Michel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

/s/ Robert J. Michel
Robert J. Michel
Chief Financial Officer
(Principal Financial Officer)

Dated: December 13, 2013

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

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