ASTA FUNDING INC
Form 10-Q
August 09, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

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

**For the quarterly period ended June 30, 2012**

**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: 0-26906**

# ASTA FUNDING, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **Delaware** | **22-3388607** |
| **(State or Other Jurisdiction of** | **(IRS Employer** |
| **Incorporation or Organization)** | **Identification No.)** |
| **210 Sylvan Ave., Englewood Cliffs, New Jersey** | **07632** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**Registrant s Telephone Number, Including Area Code: (201) 567-5648**

**Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report: N/A**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of July 31, 2012, the registrant had 12,980,841 common shares outstanding.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | June 30, 2012 (Unaudited) | September 30, 2011 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 23,981,000 | $ 84,347,000 |
| Investments: | | |
| Available-for-sale | 58,075,000 | 13,515,000 |
| Certificates of Deposit | 27,566,000 | 9,060,000 |
| Restricted cash | 1,230,000 | 1,031,000 |
| Consumer receivables acquired for liquidation (at net realizable value) | 93,740,000 | 115,195,000 |
| Other investments | 13,036,000 | |
| Due from third party collection agencies and attorneys | 2,031,000 | 2,084,000 |
| Prepaid and income taxes receivable | | 3,369,000 |
| Furniture and equipment, net | 216,000 | 563,000 |
| Deferred income taxes | 12,747,000 | 14,358,000 |
| Other assets | 4,899,000 | 4,529,000 |
| Total assets | $ 237,521,000 | $ 248,051,000 |
| **LIABILITIES** | | |
| Non recourse debt | $ 64,283,000 | $ 71,604,000 |
| Other liabilities | 2,775,000 | 3,167,000 |
| Dividends payable | 268,000 | 293,000 |
| Income taxes payable | 1,052,000 | 31,000 |
| Total liabilities | 68,378,000 | 75,095,000 |
| Commitments and contingencies | | |
| **STOCKHOLDERS EQUITY** | | |
| Preferred stock, $.01 par value; authorized 5,000,000 shares; issued and outstanding none | | |
| Common stock, $.01 par value; authorized 30,000,000 shares; issued and outstanding 14,658,789 at June 30, 2012 and 14,639,456 at September 30, 2011 | 146,000 | 146,000 |
| Additional paid-in capital | 76,035,000 | 74,793,000 |
| Retained earnings | 106,012,000 | 98,377,000 |
| Accumulated other comprehensive income (loss), net of tax | 60,000 | (290,000) |
| Treasury stock, at cost, 1,446,238 shares at June 30, 2012 and 8.900 shares at September 30, 2011 | (13,176,000) | (70,000) |
| Total stockholders equity | 169,077,000 | 172,956,000 |
| Non-controlling interest | 66,000 | |
| Total Equity | 169,143,000 | 172,956,000 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 237,521,000 | $ 248,051,000 |

See accompanying notes to condensed consolidated financial statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Nine Months Ended June 30, 2012 | Nine Months Ended June 30, 2011 |
|---|---|---|---|---|
| Revenues: | | | | |
| Finance income, net | $ 10,501,000 | $ 11,170,000 | $ 30,761,000 | $ 33,066,000 |
| Other income | 1,070,000 | 127,000 | 2,719,000 | 303,000 |
| | 11,571,000 | 11,297,000 | 33,480,000 | 33,369,000 |
| Expenses: | | | | |
| General and administrative | 5,694,000 | 4,971,000 | 16,492,000 | 16,103,000 |
| Interest (Related party Period ended June 30, 2011 Nine months, $86,000) | 619,000 | 711,000 | 1,939,000 | 2,329,000 |
| Impairments of consumer receivables acquired for liquidation | 122,000 | | 733,000 | 49,000 |
| | 6,435,000 | 5,682,000 | 19,164,000 | 18,481,000 |
| Income before income tax | 5,136,000 | 5,615,000 | 14,316,000 | 14,888,000 |
| Income tax expense | 2,071,000 | 2,271,000 | 5,765,000 | 6,023,000 |
| Net Income | 3,065,000 | 3,344,000 | 8,551,000 | 8,865,000 |
| Less: net income attributable to non-controlling interest | 17,000 | | 66,000 | |
| Net income attributable to Asta Funding, Inc. | $ 3,048,000 | 3,344,000 | $ 8,485,000 | $ 8,865,000 |
| Net income per share attributable to Asta Funding, Inc.: | | | | |
| Basic | $ 0.22 | $ 0.23 | $ 0.59 | $ 0.61 |
| Diluted | $ 0.21 | $ 0.23 | $ 0.58 | $ 0.60 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 14,170,575 | 14,620,190 | 14,440,224 | 14,624,685 |
| Diluted | 14,429,043 | 14,858,059 | 14,683,641 | 14,824,152 |

See accompanying notes to condensed consolidated financial statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

**(Unaudited)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock [(1)] | Total Stockholders Equity | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance, September 30, 2011 | 14,639,456 | $ 146,000 | $ 74,793,000 | $ 98,377,000 | $ (290,000) | $ (70,000) | $ 172,956,000 | $ | $ 172,956,000 |
| Exercise of options | 19,333 | | 61,000 | | | | 61,000 | | 61,000 |
| Stock based compensation expense | | | 1,181,000 | | | | 1,181,000 | | 1,181,000 |
| Dividends | | | | (850,000) | | | (850,000) | | (850,000) |
| Accumulated other comprehensive income, net of tax | | | | | 350,000 | | 350,000 | | 350,000 |
| Net income | | | | 8,485,000 | | | 8,485,000 | | 8,485,000 |
| Purchase of Treasury Stock | | | | | | (13,106,000) | (13,106,000) | | (13,106,000) |
| Non-controlling interest | | | | | | | | 66,000 | 66,000 |
| Balance, June 30, 2012 | 14,658,789 | $ 146,000 | $ 76,035,000 | $ 106,012,000 | $ 60,000 | $ (13,176,000) | $ 169,077,000 | $ 66,000 | $ 169,143,000 |

[(1)] Treasury shares are as follows: September 30, 2011, 8,900; Purchase of treasury stock, 1,437,338; June 30, 2012, 1,446,238.

**Comprehensive income is as follows:**

| | | Nine Months Ended June 30, 2012 | Nine Months Ended June 30, 2011 |
|---|---|---|---|
| Net income | | $ 8,485,000 | $ 8,865,000 |
| Other comprehensive income , net of tax | foreign currency translation | | 96,000 |
| Other comprehensive income, net of tax | unrealized gain on marketable securities | 350,000 | |
| Other comprehensive income, net of tax | earnings attributable to non-controlling interest | 65,000 | |
| Comprehensive income | | $ 8,900,000 | $ 8,961,000 |
| Accumulated other comprehensive income | | $ 60,000 | $ 105,000 |

**Non-controlling interest is as follows:**

| | Nine Months Ended June 30, 2012 | Nine Months Ended June 30, 2011 |
|---|---|---|
| Beginning balance | $ | $ |
| Earnings attributable to non-controlling interest | 65,000 | |
| Ending balance | $ 65,000 | $ |

See accompanying notes to condensed consolidated financial statements

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Nine Months Ended June 30, 2012 | Nine Months Ended June 30, 2011 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 8,485,000 | $ 8,865,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 410,000 | 214,000 |
| Deferred income taxes | 1,375,000 | 1,455,000 |
| Impairments of consumer receivables acquired for liquidation | 733,000 | 49,000 |
| Stock based compensation | 1,181,000 | 1,723,000 |
| Changes in: | | |
| Other assets | (370,000) | (505,000) |
| Due from third party collection agencies and attorneys | 53,000 | 468,000 |
| Income taxes payable and receivable | 4,390,000 | 4,600,000 |
| Other liabilities | (392,000) | (543,000) |
| Net cash provided by operating activities | 15,865,000 | 16,326,000 |
| **Cash flows from investing activities:** | | |
| Purchase of consumer receivables acquired for liquidation | (2,675,000) | (6,836,000) |
| Principal collected on receivables acquired for liquidation | 23,344,000 | 31,462,000 |
| Principal collected on receivable accounts represented by account sales | 53,000 | 211,000 |
| Foreign exchange effect on receivables acquired for liquidation | | (56,000) |
| Investment in available-for-sale securities | (43,974,000) | |
| Net investment in certificates of deposits | (18,506,000) | |
| Other investments | (13,036,000) | |
| Capital expenditures | (63,000) | (195,000) |
| Non-controlling interest | 66,000 | |
| Net cash (used in) provided by investing activities | (54,791,000) | 24,586,000 |
| **Cash flows from financing activities:** | | |
| Proceeds from exercise of options | 61,000 | 12,000 |
| Purchase of treasury stock | (13,106,000) | |
| Change in restricted cash | (199,000) | 189,000 |
| Dividends paid | (875,000) | (878,000) |
| Repayments of debt, net | (7,321,000) | (20,641,000) |
| Net cash used in financing activities | (21,440,000) | (21,318,000) |
| **Net (decrease) increase in cash and cash equivalents** | (60,366,000) | 19,594,000 |
| Cash and cash equivalents at the beginning of period | 84,347,000 | 84,235,000 |

| | | |
|---|---|---|
| **Cash and cash equivalents at end of period** | $ 23,981,000 | $ 103,829,000 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid during the period | | |
| Interest (fiscal year 2012 Related Party $0; 2011 Related Party $122,000) | $ 1,961,000 | $ 2,420,000 |
| Income taxes | $ 2,000 | $ 33,000 |

See accompanying notes to condensed consolidated financial statements.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Business***

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC ( Palisades XVI ), VATIV Recovery Solutions LLC ( VATIV ) and other subsidiaries, not all wholly owned, and not considered material (the Company , we or us ) is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged-off receivables, semi-performing receivables and performing receivables. The primary charged-off receivables are accounts that have been written-off by the originators and may have been previously serviced by collection agencies. Semi-performing receivables are accounts where the debtor is currently making partial or irregular monthly payments, but the accounts may have been written-off by the originators. Performing receivables are accounts where the debtor is making regular monthly payments that may or may not have been delinquent in the past. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. A large portion of the Company s distressed consumer receivables are MasterCard®, Visa®, other credit card accounts, and telecommunication accounts which were charged-off by the issuers for non-payment. The Company acquires these portfolios at substantial discounts from their face values. The discounts are based on the characteristics (issuer, account size, debtor residence and age of debt) of the underlying accounts of each portfolio.

On December 28, 2011, the Company, through a newly-formed indirect subsidiary, ASFI Pegasus Holdings, LLC ( APH ), entered into a joint venture (the Venture ) with Pegasus Legal Funding, LLC ( PLF ). The Venture was formed to 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. The personal injury claims are purchased by Pegasus Funding, LLC ( Pegasus ), a newly-formed subsidiary in which APH owns 80% and PLF owns 20% of the outstanding membership interests. Pegasus advances to each claimant funds on a non-recourse basis at an agreed upon interest rate in anticipation of a future settlement. The interest purchased by Pegasus in each claim consists of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant s claim.

In May 2012, the Company continued its expansion into the litigation funding industry by entering into a joint venture (the BP Venture ) with Balance Point Divorce Funding, LLC ( Balance Point ). The BP Venture, through a newly-formed indirect subsidiary, BP Case Management, LLC ( BPCM ), will provide non-recourse funding to claimants in matrimonial actions. Such funds can be used for legal fees, expert costs and necessary living expenses. The BP Venture will receive an agreed percentage of the proceeds received by such claimant upon final resolution of the case. BPCM s profits and losses will be distributed 60% to us and 40% to Balance Point, after the return of our investment, on a case by case basis, and after a 15% preferred return to us.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Basis of Presentation***

The condensed consolidated balance sheet as of June 30, 2012, the condensed consolidated statements of operations for the nine and three month periods ended June 30, 2012 and 2011, the condensed consolidated statement of stockholders equity as of and for the nine months ended June 30, 2012 and the condensed consolidated statements of cash flows for the nine month periods ended June 30, 2012 and 2011 are unaudited. The September 30, 2011 financial information included in this report has been extracted from our audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position at June 30, 2012 and September 30, 2011, the results of operations for the nine and three month periods ended June 30, 2012 and 2011 and cash flows for the nine month periods ended June 30, 2012 and 2011 have been made. The results of operations for the nine and three month periods ended June 30, 2012 and 2011 are not necessarily indicative of the operating results for any other interim period or the full fiscal year.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and, therefore, do not include all information and note disclosures required under generally accepted accounting principles. The Company suggests that these financial statements be read in conjunction with the financial statements and notes thereto included in its Annual Report on Form 10-K for the fiscal year ended September 30, 2011 filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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

***Recent Accounting Pronouncements***

In December 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-12, amended Accounting Standards Codification ( ASC ) Topic 220 Comprehensive Income. The amendments defer certain disclosure requirements regarding reclassifications within ASU No. 2011-05, until the FASB can deliberate further on these requirements. The amendments in this update are effective for the annual period beginning on or after December 15, 2012 and must be applied retrospectively. The implementation of ASU 2011-12 is not expected to have a material effect on the Company s consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update ( ASU ) No. 2011-08, *Intangibles Goodwill and Other (Topic 350)*, which amends and simplifies the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity s events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. As allowed by ASU 2011-08, the Company chose to early adopt this guidance for its fiscal year 2011 goodwill impairment test. Adoption of this guidance did not have a material effect on the Company s result of operations or financial condition.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220)*, in order to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. This update requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This update is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. Adoption of this update did not have a material effect on the Company s results of operations or financial condition.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820)*, which results in common fair value measurement and disclosure requirements for US GAAP and International Financial Reporting Standards. ASU No. 2011-04 is effective for the first annual period beginning on or after December 15, 2011. Adoption of this update is not expected to have a material effect on the Company s results of operations or financial condition but may have an effect on disclosures.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805)*, to improve consistency in how the pro forma disclosures are calculated. Additionally, ASU 2010-29 enhances the disclosure requirements and requires description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to a business combination. The guidance became effective for us with the reporting period beginning October 1, 2011, and should be applied prospectively to business combinations for which the acquisition date is after the effective date. Early adoption is permitted. Other than requiring disclosures for prospective business combinations, the adoption of this guidance is not expected to have a material effect on the Company s results of operations or financial condition.

In January 2010, the FASB issued ASU No. 2010-06, which amends the authoritative accounting guidance under ASC Topic 820, Fair Value Measurements and Disclosures. The update requires the following additional disclosures:

a. Separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers;

b. Information about purchases, sales, issuances and settlements need to be disclosed separately in the reconciliation for fair value measurements using Level 3.

The update provides for amendments to existing disclosures as follows:

a. Fair value measurement disclosures are to be made for each class of assets and liabilities

b. Disclosures about valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The update also includes conforming amendments to guidance on employers disclosures about postretirement benefit plan assets.

The update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

The adoption in fiscal year 2011 did not have a material effect and future adoption is not expected to have a material effect on the Company s results of operations or financial condition.

In December 2009, the FASB issued ASU 2009-17, *Consolidations (Topic 810)*, which represents a revision to former FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities , and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. ASU 2009-17 is effective for fiscal years beginning after November 15, 2009 and for interim periods within the first annual reporting period. The Company adopted ASU 2009-17 as of October 1, 2010, which did not have a significant effect on its financial statements.

***Subsequent Events***

The Company has evaluated events and transactions occurring subsequent to the Condensed Balance Sheet date of June 30, 2012, for items that should potentially be recognized or disclosed in these financial statements. The Company did not identify any items which would require disclosure in or adjustment to the Financial Statements.

***Reclassifications***

Certain items in the prior period s financial statements have been reclassified to conform to the current period s presentation.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 2: Principles of Consolidation**

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

**Note 3: Investments**

***Available-for-Sale***

Investments classified as available-for-sale at June 30, 2012 and September 30, 2011 consist of the following:

| Mutual Funds | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| June 30, 2012 | $ 57,974,000 | $ 101,000 | $ | $ 58,075,000 |
| September 30, 2011 | $ 14,000,000 | $ | $ (485,000) | $ 13,515,000 |

The available-for-sale investments did not have any contractual maturities. There was one sale during fiscal year 2012, resulting in a realized gain of approximately $117,000.

At June 30, 2012, the Company was in an unrealized gain position. At September 30, 2011, there were three investments in an unrealized loss position. All of these securities are considered to be acceptable market risks.

***Certificates of deposit***

Certificates of deposit consist of the following:

| | June 30, 2012 | September 30, 2011 |
|---|---|---|
| Certificates of deposits in banks | $ 27,566,000 | $ 9,060,000 |

Certificates are generally nonnegotiable and nontransferable, and may incur substantial penalties for withdrawal prior to maturity, which will be within one year. Of the amounts shown above, the following amounts are classified as brokered certificates of deposits:

| | June 30, 2012 | September 30, 2011 |
|---|---|---|
| Brokered certificates of deposits | $ | $ 1,483,000 |

Brokered certificates of deposit are subject to market fluctuations if sold prior to maturity; however, it is the Company s intention to hold all certificates of deposit to maturity. All of the brokered securities referenced above are FDIC insured for the principal investment.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

Accounts acquired for liquidation are stated at their net estimated realizable value and consist primarily of defaulted consumer loans to individuals throughout the country and in Central and South America.

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

the interest method; or

the cost recovery method.

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

Once a static pool is established for a quarter, individual 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 such case, all cash collections are recognized as revenue when received. During the third quarter of fiscal year 2012, as a result of the unpredictability of the timing of future cash flows, the Company transferred that portion of its medical account portfolio that had been accounted for under the interest method ($6.5 million) to the cost recovery method.

The Company has liquidating experience in the fields of distressed credit card receivables, telecommunication receivables, consumer loan receivables, retail installment contracts, consumer receivables, litigation-related medical accounts, 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 in which 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 June 30, 2012, approximately $15.2 million of the consumer receivables acquired for liquidation are accounted for using the interest method, while approximately $78.5 million are accounted for using the cost recovery method, of which $68.5 million is concentrated in one portfolio, a $300 million portfolio purchase in March 2007 (the Portfolio Purchase ).

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

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

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

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

payments made since charge-off;

the credit originator and its credit guidelines;

our ability to analyze accounts and resell accounts that meet our criteria for resale;

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

financial condition of the seller;

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

the ability to obtain timely customer statements from the original issuer.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

The Company obtains and utilizes, as appropriate, inputs, including, but not limited to, monthly collection projections and liquidation rates from its 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.

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

| | For the Nine Months Ended June 30, 2012 | | |
|---|---|---|---|
| | Interest Method | Cost Recovery Method | Total |
| Balance, beginning of period | $ 31,193,000 | $ 84,002,000 | $ 115,195,000 |
| Acquisitions of receivable portfolios, net | 1,278,000 | 1,397,000 | 2,675,000 |
| Net cash collections from collection of consumer receivables acquired for liquidation | (38,550,000) | (15,519,000) | (54,069,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (89,000) | | (89,000) |
| Transfer to Cost Recovery | (6,484,000) | 6,484,000 | |
| Impairment | (733,000) | | (733,000) |
| Finance income recognized (1) | 28,641,000 | 2,120,000 | 30,761,000 |
| Balance, end of period | $ 15,256,000 | $ 78,484,000 | $ 93,740,000 |
| Finance income as a percentage of collections | 74.1% | 13.7% | 56.8% |

(1) Includes approximately $27.4 million derived from fully amortized portfolios.

| | For the Nine Months Ended June 30, 2011 | | |
|---|---|---|---|
| | Interest Method | Cost Recovery Method | Total |
| Balance, beginning of period | $ 46,348,000 | $ 100,683,000 | $ 147,031,000 |
| Acquisitions of receivable portfolios, net | 6,146,000 | 690,000 | 6,836,000 |
| Net cash collections from collection of consumer receivables acquired for liquidation | (48,834,000) | (15,556,000) | (64,390,000) |
| | (349,000) | | (349,000) |

| | | | |
|---|---|---|---|
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | | | |
| Impairment | (49,000) | | (49,000) |
| Effect of foreign currency translation | | 56,000 | 56,000 |
| Finance income recognized (1) | 30,998,000 | 2,068,000 | 33,066,000 |
| Balance, end of period | $ 34,260,000 | $ 87,941,000 | $ 122,201,000 |
| Finance income as a percentage of collections | 63.0% | 13.3% | 51.1% |

(1) Includes approximately $26.9 million derived from fully amortized portfolios.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

| | For the Three Months Ended June 30, 2012 | | |
|---|---|---|---|
| | Interest Method | Cost Recovery Method | Total |
| Balance, beginning of period | $ 24,897,000 | $ 76,939,000 | $ 101,836,000 |
| Acquisitions of receivable portfolios, net | | | |
| Net cash collections from collections of consumer receivables acquired for liquidation | (12,672,000) | (5,792,000) | (18,464,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (11,000) | | (11,000) |
| Transfer to Cost Recovery | (6,484,000) | 6,484,000 | |
| Impairment | (122,000) | | (122,000) |
| Finance income recognized (1) | 9,648,000 | 853,000 | 10,501,000 |
| Balance, end of period | $ 15,256,000 | $ 78,484,000 | $ 93,740,000 |
| Finance income as a percentage of collections | 76.1% | 14.7% | 56.8% |

(1) Includes approximately $9.6 million derived from fully amortized portfolios.

| | For the Three Months Ended June 30, 2011 | | |
|---|---|---|---|
| | Interest Method | Cost Recovery Method | Total |
| Balance, beginning of period | $ 38,814,000 | $ 92,090,000 | $ 130,904,000 |
| Acquisitions of receivable portfolios, net | 1,616,000 | 217,000 | 1,833,000 |
| Net cash collections from collections of consumer receivables acquired for liquidation | (16,553,000) | (5,077,000) | (21,630,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (106,000) | | (106,000) |
| Impairment | | | |
| Effect of foreign currency translation | | 30,000 | 30,000 |
| Finance income recognized (1) | 10,489,000 | 681,000 | 11,170,000 |
| Balance, end of period | $ 34,260,000 | $ 87,941,000 | $ 122,201,000 |
| Finance income as a percentage of collections | 63.0% | 13.4% | 51.4% |

(1) Includes approximately $9.1 million derived from fully amortized portfolios.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

As of June 30, 2012, the Company had $93,740,000 in Consumer Receivables acquired for Liquidation, of which $15,256,000 are being accounted for on the interest method. Based upon current projections, net cash collections, applied to principal for accrual basis portfolios will be as follows for the twelve months in the periods ending:

| | |
|---|---|
| September 30, 2012 (three months ending) | $ 3,353,000 |
| September 30, 2013 | 7,120,000 |
| September 30, 2014 | 3,608,000 |
| September 30, 2015 | 746,000 |
| September 30, 2016 | 618,000 |
| September 30, 2017 | 30,000 |
| September 30, 2018 | |
| September 30, 2019 | |
| Subtotal | 15,475,000 |
| Deferred revenue | (219,000) |
| Total | $ 15,256,000 |

Accretable yield represents the amount of income the Company can expect to generate over the remaining life of its existing portfolios based on estimated future net cash flows as of June 30, 2012. The Company adjusts the accretable yield upward when it believes, based on available evidence, that portfolio collections will exceed amounts previously estimated. Changes in accretable yield for the nine months and three months ended June 30, 2012 and 2011 are as follows:

| | Nine Months Ended June 30, 2012 | Nine Months Ended June 30, 2011 |
|---|---|---|
| Balance at beginning of period | $ 7,473,000 | $ 15,255,000 |
| Income recognized on finance receivables, net | (28,536,000) | (30,998,000) |
| Additions representing expected revenue from purchases | 362,000 | 1,698,000 |
| Transfers to Cost Recovery | (1,840,000) | |
| Reclassifications from nonaccretable difference | 25,880,000 | 24,597,000 |
| Balance at end of period | $ 3,339,000 | $ 10,552,000 |

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 |
|---|---|---|
| Balance at beginning of period | $ 6,107,000 | $ 12,342,000 |
| Income recognized on finance receivables, net | (9,543,000) | (10,488,000) |
| Additions representing expected revenue from purchases | | 460,000 |
| Transfers to Cost Recovery | (1,840,000) | |
| Reclassifications from nonaccretable difference | 8,615,000 | 8,238,000 |
| Balance at end of period | $ 3,339,000 | $ 10,552,000 |

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

During the three and nine month periods ended June 30, 2012, the Company purchased $0 and $6.0 million, respectively, of face value of charged-off consumer receivables at a cost of $0 and $2.7 million, respectively.

The following table summarizes collections on a gross basis as received by our third-party collection agencies and attorneys, less commissions and direct costs for the nine and three month periods ended June 30, 2012 and 2011, respectively:

| | For the Nine Months Ended June 30, 2012 | For the Nine Months Ended June 30, 2011 |
|---|---|---|
| Gross collections (1) | $ 83,379,000 | $ 100,566,000 |
| Commissions and fees (2) | 29,221,000 | 35,827,000 |
| Net collections | $ 54,158,000 | $ 64,739,000 |

| | For the Three Months Ended June 30, 2012 | For the Three Months Ended June 30, 2011 |
|---|---|---|
| Gross collections (1) | $ 28,023,000 | $ 33,559,000 |
| Commissions and fees (2) | 9,548,000 | 11,824,000 |
| Net collections | $ 18,475,000 | $ 21,735,000 |

(1) Gross collections include: collections by third-party collection agencies and attorneys, collections from our internal efforts and collections represented by account sales.

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

**Note 5: Other Investments**

***Personal Injury Claims***

On December 28, 2011, the Company, through a newly-formed indirect subsidiary, ASFI Pegasus Holdings, LLC ( APH ), entered into a joint venture (the Venture ) with Pegasus Legal Funding, LLC ( PLF ). The Venture purchases interests in personal injury claims from claimants who are a party to a personal injury litigation with the expectation of a settlement in the future. The personal injury claims are purchased by Pegasus, a newly-formed subsidiary in which APH owns 80% and PLF owns 20% of the outstanding membership interests, which resulted in $ net income attributable to non-controlling interest of $17,000 and $66,000 during the three and nine month period, respectively, ended June 30, 2012. The Venture advances to each claimant funds on a non-recourse basis at an agreed upon interest rate in anticipation of a future settlement. The interest purchased by Pegasus in each claim will consist of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant s claim.

The Company invested in $8.3 million in personal injury claims, through Pegasus and individual portfolios prior to the closing of the Venture. The investment in the Venture and individual cases invested in before the closing of the venture, earned $999,000 in interest and fees through the nine month period ended June 30, 2012. As of June 30, 2012, the Company s invested balance in personal injury claims was $13.0 million including interest and fees receivable.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 5: Other Investments** (*continued*)

***Divorce Funding***

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. Such funds can be used for legal fees, expert costs and necessary living expenses. BPCM receives an agreed percentage of the proceeds received by such spouse upon final resolution of the case. BPCM s profits will be distributed 60% to the Company and 40% to BP Divorce Funding, after the return of the Company s investment on a case by case basis, and after a 15% preferred return to the Company. The Company s initial investment in BPCM consists of up to $15 million to fund divorce claims to be fulfilled in three tranches of $5 million. Each tranche is contingent upon a minimum 15% cash-on-cash return to the Company. At the Company s 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 exceed a total of $50 million at the Company s 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 the Company s priority to a 15% preferred return.

The Company provided a $1.0 million revolving line of credit to partially fund BP Divorce Funding s operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months, and which may be extended, under certain circumstances, for an additional 24 month period. The revolving line of credit is collateralized by BP Divorce Funding s profits share in BPCM and other assets. As of June 30, 2012, the Company s investment in the cases through BPCM was approximately $455,000.

**Note 6: Furniture and Equipment**

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

| | June 30, 2012 | September 30, 2011 |
|---|---|---|
| Furniture | $ 310,000 | $ 310,000 |
| Equipment | 3,353,000 | 3,290,000 |
| Software | 180,000 | 180,000 |
| Leasehold improvements | 99,000 | 99,000 |
| Total | 3,942,000 | 3,879,000 |
| Less accumulated depreciation | 3,726,000 | 3,316,000 |
| Furniture and equipment balance, end of period | $ 216,000 | $ 563,000 |

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 7: Non Recourse Debt**

***Receivables Financing Agreement***

In March 2007, Palisades XVI borrowed approximately $227 million under the Receivable Financing Agreement, as amended in July 2007, December 2007, May 2008, February 2009 and October 2010, 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 accrued interest at the 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. 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, 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 Fifth Amendment is in effect.

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 was October 14, 2010. The Fifth Amendment (i) extended the expiration date of the Receivables Financing Agreement to April 14, 2014; (ii) reduced the minimum monthly total payment to $750,000; (iii) accelerated the Company s guaranty credit enhancement of $8,700,000, which was paid upon execution of the Fifth Amendment; (iv) eliminated the Company s limited guaranty of repayment of the loans 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, discussed under the Fourth Amendment, was eliminated upon signing the Termination Agreement.

The aggregate minimum repayment obligations required under the Fifth Amendment, including interest and principal for fiscal years ending September 30, 2012 through 2014, is $2.3 million, $9.0 million, and $53.0 million, respectively.

On June 30, 2012 and September 30, 2011, the outstanding balance on this loan was approximately $64.3 million and $71.6 million, respectively. The applicable interest rate at June 30, 2012 and September 30, 2011 was 3.74% and 3.76%, respectively. The average interest rate of the Receivable Financing Agreement was 3.75% for the nine month period ended June 30, 2012 as compared to a 3.75% average interest rate for the fiscal year ended September 30, 2011.

The Company s average debt obligation for the nine month period ended June 30, 2012, was approximately $68.1 million as compared to a $77.2 million average debt obligation for the fiscal year ended September 30, 2011. The average interest rate for the three month periods ended June 30, 2012 was 3.74%.

Other significant amendments to the Receivable 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.

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.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 7: Non Recourse Debt** *(continued)*

***Receivables Financing Agreement*** *(continued)*

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 then-existing senior lending facility or any successor senior facility.

***Senior Secured Discretionary Credit Facility***

On December 30, 2011, the Company and certain of its 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 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 $20,000,000. Any outstanding balance under the Credit Facility accrues interest at an annual rate equal to the Prime Rate plus 50 basis points. The Company and certain subsidiaries have agreed to serve as guarantors of the obligations of the borrower subsidiaries and have entered into Guaranty Agreements. Pursuant to a series of Security Agreements and Pledge Agreements, the Credit Facility is collateralized by 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 is subject to an administrative fee of $75,000 upon the first drawdown of the Credit Facility. The Loan Agreement contains standard and customary representations and warranties, covenants, events of default and other provisions including financial covenants that require us 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 is through February 23, 2013. As of June 30, 2012, the Company has not utilized the Credit Facility.

**Note 8: Commitments and Contingencies**

***Employment Agreements***

In January 2007, the Company entered into an employment agreement (the Employment Agreement ) with Gary Stern, its Chairman, President and Chief Executive, which expired on December 31, 2009. This Employment Agreement was not renewed and Mr. Stern is continuing in his current roles at the discretion of the Board of Directors until a new agreement is signed. The Company intends to negotiate a new employment agreement with Mr. Stern during fiscal year 2012.

***Leases***

The Company leases its facilities in Englewood Cliffs, New Jersey and Houston, Texas. Please refer to our consolidated financial statements and notes thereto in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, for additional information.

***Litigation***

In the ordinary course of its business, the Company is involved in numerous legal proceedings. The Company regularly initiates collection lawsuits against consumers, using its network of third party law firms. In addition, consumers initiate litigation against the Company from time to time, alleging 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 is a defendant.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 9: Income Recognition and Impairments**

***Income Recognition***

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

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. 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. During the third quarter of fiscal year 2012, as a result of the uncertainty of future cash flows, the Company transferred that portion of its medical account portfolio that had been accounted for under the interest method ($6.5 million) to the cost recovery method.

The Company accounts for its investment in personal injury claims on a non-recourse basis at an agreed-upon interest rate in anticipation of a future settlement. The interest purchased by the Venture in each claim will consist of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant s claim.

The Company accounts for its investment in divorce funding claims on a non-recourse basis at an agreed-upon percentage of the proceeds received by such claimant upon final resolution of the case.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 9: Income Recognition and Impairments** (*continued*)

***Impairments***

The Company accounts for its impairments in accordance with ASC 310, which provides guidance on how to account for differences between contractual and expected cash flows from an investor s initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. Increases in expected cash flows are recognized prospectively through an adjustment of the internal rate of return while decreases in expected cash flows are recognized as impairments. ASC 310 makes it more likely that impairment losses and accretable yield adjustments for portfolios performances which exceed original collection projections will be recorded, as all downward revisions in collection estimates will result in impairment charges, given the requirement that the IRR of the affected pool be held constant. An impairment of $122,000 and $733,000 was recorded during the three and nine month periods ended June 30, 2012, respectively. An impairment of $0 and $49,000 was recorded during the same corresponding periods ended June 30, 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.

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

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

- the average balance of the receivables influences the 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 lawsuit strategy and thus yield better results over the longer term. As the Company has significant experience with both types of balances, it is able to factor these variables into the 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 the 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 database on the tendencies of debtor repayments and factor this into initial expected cash flows;

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

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

credit standards of the issuer.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 9: Income Recognition and Impairments** (*continued*)

***Impairments*** *(continued)*

The Company acquires 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 the Company s determination that it is probable collection of all amounts due according to the portfolio of accounts contractual terms will not occur. The Company considers the expected payments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for each acquired portfolio, coupled with expected cash flows from accounts available for sales. The excess of this amount over the cost of the portfolio, representing the excess of the accounts cash flows expected to be collected over the amount paid, is accreted into income recognized on finance receivables 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 debtors. The Company acquires these portfolios only after both qualitative and quantitative analyses of the underlying receivables are performed and a calculated purchase price is paid. The estimated cash flow offers it an adequate return on its acquisition costs after its servicing expenses. Additionally, when considering larger portfolio purchases of accounts, or portfolios from issuers with whom the Company has limited experience, the Company has the added benefit of soliciting the Company s third party servicers 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 recent and current challenging economic environment and the impact it has had on the collections, for portfolio purchases acquired since the beginning of fiscal year 2009, the Company has extended the time frame of the expectation of recovering 100% of the invested capital to within a 24-29 month period from an 18-28 month period, and the expectation of recovering 130-140% of invested capital to a period of seven years. Portfolios acquired during the first nine months of fiscal year 2012 and 2011 include semi-performing litigation-related medical accounts receivable portfolios whereby the Company is assigned the revenue stream. As a portion of the accounts are performing, the cost of the portfolio is higher than the traditional charged off non-performing assets. The expectation of recovering 130% of the investment is projected to be over a three year period. The Company monitors expectations routinely against the actual cash flows and, in the event the cash flows are below the 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 would be recorded as a provision for credit losses. Conversely, in the event the cash flows are in excess of the expectations and the reason is due to timing, we would defer the excess collection as deferred revenue.

***Commissions and Fees***

Commissions and fees are the contractual commissions earned by third party collection agencies and attorneys, and direct costs associated with the collection effort generally court costs. The Company expects to continue to purchase portfolios and utilize third party collection agencies and attorney networks.

**Note 10: Income Taxes**

Deferred federal and state taxes principally arise from (i) recognition of finance income collected for tax purposes, but not yet recognized for financial reporting; (ii) provision for impairments/credit losses; and (iii) stock based compensation for stock option grants and restricted stock awards recorded in the statement of operations for which no cash distribution has been made. Other components consist of state net operating loss ( NOL ) carryforwards. The provision for income tax expense for the three month periods ending June 30, 2012 and 2011, respectively, reflects income tax expense at an effective rate of 40.3% and 40.5%. The provision for income tax expense for the nine month periods ending June 30, 2012 and 2011, respectively, reflects income tax expense at an effective rate of 40.3% and 40.5%.

The Company s tax filings are subject to review or audit by the IRS and state and local taxing authorities. In April 2010, the Company received notification from the IRS that the Company s 2008 and 2009 federal income tax returns would be audited. This audit is currently in progress. In addition, the Company s 2010 federal income tax return has been included in the ongoing audit. The IRS has preliminarily raised a material issue in the course of its examination. The Company is working with the IRS to resolve the issue. 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 not be materially different than the treatment reflected in its historical income tax provisions and accruals.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 11: Net Income Per Share attributable to Asta Funding, Inc.**

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. With respect to the assumed proceeds from the exercise of dilutive options, the treasury stock method is calculated using the average market price for the period.

The following table presents the computation of basic and diluted per share data for the nine and three months ended June 30, 2012 and 2011:

| | Nine Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | Net Income | Weighted Average Shares | Per Share Amount | Net Income | Weighted Average Shares | Per Share Amount |
| Basic | $ 8,485,000 | 14,440,224 | $ 0.59 | $ 8,865,000 | 14,624,685 | $ 0.61 |
| Effect of Dilutive Stock | | 243,417 | (0.01) | | 199,467 | (0.01) |
| Diluted | $ 8,485,000 | 14,683,641 | $ 0.58 | $ 8,865,000 | 14,824,152 | $ 0.60 |

At June 30, 2012, options to purchase 1,351,492 shares at a nine-month weighted average exercise price of $11.82 were not included in the diluted earnings per share calculation as they were antidilutive.

At June 30, 2011, options to purchase 952,810 shares at a nine-month weighted average exercise price of $13.33 were not included in the diluted earnings per share calculation as they were antidilutive.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | Net Income | Weighted Average Shares | Per Share Amount | Net Income | Weighted Average Shares | Per Share Amount |
| Basic | $ 3,048,000 | 14,170,575 | $ 0.22 | $ 3,344,000 | 14,620,190 | $ 0.23 |
| Effect of Dilutive Stock | | 258,468 | (0.01) | | 237,869 | |
| Diluted | $ 3,048,000 | 14,429,043 | $ 0.21 | $ 3,344,000 | 14,858,059 | $ 0.23 |

At June 30, 2012, options to purchase 1,283,875 shares at a three-month weighted average exercise price of $12.02 were not included in the diluted earnings per share calculation as they were antidilutive.

At June 30, 2011, options to purchase 1,046,162 shares at a three-month weighted average exercise price of $12.85 were not included in the diluted earnings per share calculation as they were antidilutive.

**Note 12: Stock Based Compensation**

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

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 12: Stock Based Compensation** *(continued)*

In December 2011, the Compensation Committee of the Board of Directors of the Company (   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 awarded to both the Chief Financial Officer and the Senior Vice President. Additionally, an aggregate of 60,000 shares were issued to five non-employee directors of the Company. The exercise price of these options, issued on 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 full time employees of the Company, who had been employed at the Company for at least nine months prior to the date of 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 | 0.08% |
| 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 of the Company. The exercise of these options was $11.50 with a term of three years. The weighted average assumptions used in the option pricing model were as follows:

| | |
|---|---|
| Risk-free interest rate | 0.09% |
| Expected term (years) | 3.0 |
| Expected volatility | 105.4% |
| Dividend yield | 1.03% |

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% |

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 nine 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. Additionally, in December 2010, the Compensation Committee issued 32,765 shares of restricted stock to the Chief Executive Officer. 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% |

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 13: 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 following description does not purport to be complete and is qualified in its entirety by reference to the full text of the 2012 Stock Option Plan, which is included as an exhibit to the Company s reports filed with the SEC.

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. Two million shares were authorized for issuance under the 2012 Plan.

No awards have been issued under the 2012 Plan. As such, there are 2,000,000 shares available as of June 30, 2012. As of June 30, 2012, approximately 78 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 existing 2002 Stock Option Plan. The following description does not purport to be complete and is qualified in its entirety by reference to the full text of the Equity Compensation Plan, which is included as an exhibit to the Company s reports filed with the SEC.

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

The Company authorized 1,000,000 shares of Common Stock for issuance under the Equity Compensation Plan. All but 265,569 shares were utilized. 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 Asta Funding, Inc. 2002 Stock Option Plan (the 2002 Plan ), which plan 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 following description does not purport to be complete and is qualified in its entirety by reference to the full text of the 2002 Stock Option Plan, which is included as an exhibit to the Company s reports filed with the SEC.

The 2002 Plan authorized the granting of incentive stock options (as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the Code )) and non-qualified stock options to eligible employees of the Company for a ten-year period, 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. All but 6,034 shares were utilized. As of March 5, 2012, no more awards could be issued under this plan.

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 13: Stock Option Plans** *(continued)*

***1995 Stock Option Plan***

The 1995 Stock Option Plan 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 following description does not purport to be complete and is qualified in its entirety by reference to the full text of the 1995 Stock Option Plan, which is included as an exhibit to the Company s reports filed with the SEC.

The 1995 Stock Option Plan authorized the granting of incentive stock options (as defined in Section 422 of 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 to the Company.

The Company authorized 1,840,000 shares of Common Stock for issuance under the 1995 Stock Option Plan. All but 96,002 shares were utilized. As of September 14, 2005, no more awards could be issued under this plan.

The following table summarizes stock option transactions under the plans:

| | Nine Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding options at the beginning of period | 1,294,271 | $ 11.41 | 922,039 | 12.70 |
| Options granted | 360,000 | 7.87 | 384,800 | 7.53 |
| Options exercised | (19,333) | 3.15 | (3,268) | 3.71 |
| Options forfeited | (8,300) | 6.02 | (1,400) | 5.79 |
| Outstanding options at the end of period | 1,626,638 | $ 10.75 | 1,302,171 | 11.37 |
| Exercisable options at the end of period | 1,126,871 | $ 12.00 | 997,174 | 12.36 |

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |

| | | | | |
|---|---|---|---|---|
| Outstanding options at the beginning of period | 1,649,538 | $ 10.66 | 1,254,505 | $ 11.17 |
| Options granted | | | 50,000 | 11.50 |
| Options exercised | (16,000) | 2.95 | (2,334) | 2.95 |
| Options forfeited | (6,900) | 6.05 | | |
| Outstanding options at the end of period | 1,626,638 | $ 10.75 | 1,302,171 | $ 11.37 |
| Exercisable options at the end of period | 1,126,871 | $ 12.00 | 997,174 | $ 12.36 |

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Note 13: Stock Option Plans** *(continued)*

The Company recognized $1,117,000 and $416,000 of compensation expense related to stock options during the nine month and three month periods ended June 30, 2012. The Company recognized $1,595,000 and $398,000 of compensation expense related to stock options during the nine month and three month periods ended June 30, 2011. As of June 30, 2012, there was $2,404,000 of unrecognized compensation expense related to stock option awards. There is no intrinsic value of the outstanding and exercisable options as of June 30, 2012. The intrinsic value of the stock options exercised during the three month period ended June 30, 2012 was approximately $105,000.

The following table summarizes information about the Plans outstanding options as of June 30, 2012:

| | 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 | 170,667 | 2.8 | $ 4.06 | 170,667 | $ 4.06 |
| $5.7501 $8.6250 | 852,700 | 8.6 | $ 7.77 | 369,600 | 7.93 |
| $8.6251 $14.3750 | 50,000 | 9.0 | 11.50 | 33,333 | 11.50 |
| $14.3751 $17.2500 | 198,611 | 1.4 | 14.88 | 198,611 | 14.88 |
| $17.2501 $20.1250 | 339,660 | 2.3 | 18.23 | 339,660 | 18.23 |
| $20.1251 $28.7500 | 15,000 | 4.5 | 28.75 | 15,000 | 28.75 |
| | 1,626,638 | 5.8 | $ 10.75 | 1,126,871 | $ 12.00 |

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**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 13: Stock Option Plans** *(continued)*

The following table summarizes information about restricted stock transactions:

| | Nine Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Unvested at the beginning of period | 21,843 | $ 7.63 | 17,669 | $ 19.73 |
| Awards granted | | | 32,765 | 7.63 |
| Vested | (10,921) | 7.63 | (28,591) | 15.11 |
| Forfeited | | | | |
| Unvested at the end of period | 10,922 | $ 7.63 | 21,843 | $ 7.63 |

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Unvested at the beginning of period | 10,922 | $ 7.63 | 21,843 | $ 7.63 |
| Awards granted | | | | |
| Vested | | | | |
| Forfeited | | | | |
| Unvested at the end of period | 10,922 | $ 7.63 | 21,843 | $ 7.63 |

The Company recognized $64,000 and $21,000 of compensation expense related to the restricted stock awards during the nine-month and three month periods ended June 30, 2012. The Company recognized $128,000 and $21,000 of compensation expense related to restricted stock awards during the nine and three month periods ended June 30, 2011. As of June 30, 2012, there was $38,000 of unrecognized compensation cost related to unvested restricted stock.

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 14: Stockholders Equity**

For the nine months ended June 30, 2012, the Company declared dividends of $850,000, or $.02 per share per quarter. Of this amount $583,000 was paid during the nine months ended June 30, 2012 and $267,000 was accrued as of June 30, 2012 and paid August 1, 2012. As of June 30, 2012, stockholders equity includes an amount for other comprehensive income of $60,000, which relates to unrealized gains. In addition, $66,000 related to the non-controlling interest in Pegasus, has been included in Stockholders Equity On March 9, 2012, the Company adopted a Rule 10b5-1 Plan in conjunction with its share repurchase program. The Board of Directors approved the repurchase of up to $20 million of the Company s common stock, which is effective through March 11, 2013. This share repurchase authorization supersedes the authorization to repurchase shares in June 2011, pursuant to which the Company purchased approximately 59,000 shares of its common stock for an aggregate cost of $457,000. The Company has purchased approximately 388,000 shares at an aggregate cost of approximately $3,319,000 under the new 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.

**Note 15: Fair Value of Financial Instruments**

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

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

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

| | June 30, 2012 | | September 30, 2011 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Cash and cash equivalents (Level 1) | $ 23,981,000 | $ 23,981,000 | $ 84,347,000 | $ 84,347,000 |
| Available-for-sale investments (Level 1) | 58,075,000 | 58,075,000 | 13,515,000 | 13,515,000 |
| Certificates of deposit (Level 1) | 27,566,000 | 27,566,000 | 9,060,000 | 9,060,000 |
| Consumer receivables acquired for liquidation (Level 3) | 93,740,000 | 111,182,000 | 115,195,000 | 135,234,000 |
| Financial liabilities | | | | |
| Non Recourse Debt (Level 2) | 64,283,000 | 64,283,000 | 71,604,000 | 71,604,000 |

**ASTA FUNDING, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 15: 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:

Cash and cash equivalents The carrying amount approximates fair value.

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

Certificates of deposit The carrying amount approximates fair value.

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

Debt and subordinated debt (related party) The carrying value of debt and subordinated debt (related party) approximates fair value as the majority of these loan balances are variable rate and short-term in nature.

*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, 2011, as required by FASB ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ). There were no available-for-sale investments as of September 30, 2011. 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. There have been no transfers in or out of Level 1. Additionally, there have been no investments in Level 2 or Level 3 to date.

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**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**
**Caution Regarding Forward Looking Statements**

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of 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 objective of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expects, intends, plans, projects, estimates, anticipates, or negative thereof or any variation there on or similar terminology or expressions.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors which could materially affect our results and our future performance include, without limitation, our ability to purchase defaulted consumer receivables at appropriate prices, changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables, our ability to employ and retain qualified employees, changes in the credit or capital markets, changes in interest rates, deterioration in economic conditions, negative press regarding the debt collection industry which may have a negative impact on a debtor s willingness to pay the debt we acquire, and statements of assumption underlying any of the foregoing, as well as other factors set forth under Item 1A. Risk Factors in our annual report on Form 10-K for the fiscal year ended September 30, 2011.

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

**Overview**

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC ( Palisades XVI ), VATIV Recovery Solutions LLC ( VATIV ) and other subsidiaries, not all wholly owned, including Pegasus Funding, LLC ( Pegasus ), and others not considered material (collectively, the Company, we or us ), is 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.

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

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

We purchase receivables from credit grantors and others through privately negotiated direct sales 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, collection agencies, investors and our financing sources;
- brokers who specialize in the sale of consumer receivable portfolios; and
- other sources.

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Litigation Funding Business

We have recently entered into a joint venture with Pegasus Legal Funding, LLC, forming Pegasus Funding, LLC, 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.

In May 2012, we entered into entered into a joint venture with Balance Point Divorce Funding, LLC ( Balance Point ). The venture, through a newly-formed indirect subsidiary, BP Case Management, LLC ( BPCM ), will provide 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. BPCM s profits and losses will be distributed 60% to us and 40% to Balance Point, after the return of our investment on a case by case basis, and after a 15% preferred return to us.

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

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

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

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

- the number of collection agencies previously attempting to collect the receivables in the portfolio;
- the average balance of the receivables;
- the age of the receivables (as older receivables might be more difficult to collect or might be less cost effective);
- past history of performance of similar assets as we purchase portfolios of similar assets, we believe we have built significant history on how these receivables will liquidate and cash flow;

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- number of months since charge-off;
- payments made since charge-off;
- the credit originator and their credit guidelines;
- the locations of the debtors as there are better states to attempt to collect in and ultimately we have better predictability of the liquidations and the expected cash flows. Conversely, there are also states where the liquidation rates are not as good and that is factored into our cash flow analysis;
- financial wherewithal of the seller;
- jobs or property of the debtors found within portfolios-with our business model, this is of particular importance as debtors with jobs or property are more likely to repay their obligation and conversely, debtors without jobs or property are less likely to repay their obligation; and
- the ability to obtain customer statements from the original issuer.

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

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

We believe we have significant experience in acquiring certain distressed consumer receivable portfolios at a significant discount to the amount actually owed by underlying debtors. We acquire these portfolios only after both qualitative and quantitative analyses of the underlying receivables are performed and a calculated purchase price is paid so that we believe our estimated cash flow offers us an adequate return on our costs, including servicing expenses. Additionally, when considering portfolio purchases of accounts, or 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 recent and current challenging economic environment and the impact it has had on the collections, for the non medical account portfolio purchases acquired since the beginning of fiscal year 2009, we have extended our time frame of the expectation of recovering 100% of our invested capital to within a 24-29 month period from an 18-28 month period, and the expectation of recovering 130-140% of invested capital to a period of seven years, which is an increase from the previous five year expectation. The medical accounts have a shorter three year collection curve based on the nature of these accounts. 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 would be recorded as a provision for credit losses. Conversely, in the event the cash flows are in excess of our expectations and the reason is due to timing, we would defer the excess collection as deferred revenue.

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

We account for the investment in personal injury claims on a non-recourse basis at an agreed upon interest rate in anticipation of a future settlement. The interest purchased by Pegasus in each claim will consist of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant s claim.

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**Results of Operations**

**The nine-month period ended June 30, 2012, compared to the nine-month period ended June 30, 2011**

*Finance income*. For the nine month period ended June 30, 2012, finance income decreased $2.3 million, or 7.0%, to $30.8 million from $33.1 million for the nine month period ended June 30, 2011. The decrease is due to reduced portfolio purchases in recent years, partially offset by increased zero basis revenue (income recognized from fully amortized portfolios.) Zero basis revenue increased slightly to $27.8 million for the nine month period ended June 30, 2012, as compared to $26.9 million for the nine months ended June 30, 2011. We purchased $6.0 million in face value of new portfolios at a cost of $2.7 million in the first nine months of fiscal year 2012 as compared to purchased $17.8 million in face value at a cost of $6.8 million, in the same prior year period.

During the first nine months of fiscal year 2012, gross collections decreased 17.1% to $83.4 million from $100.6 million for the nine months ended June 30, 2011, reflecting the lower level of portfolio purchases and the age of our portfolios. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $6.6 million, or 18.4% for the nine months ended June 30, 2012 as compared to the corresponding period in the prior year and averaged 35.0% of collections for the nine months ended June 30, 2012 as compared to 35.6% in the same prior year period. Net collections decreased 16.2% to $54.2 million from $64.7 million for the nine months ended June 30, 2011.

*Other income.* The following table summarizes other income for the nine month periods ended June 30, 2012 and 2011

| | *2012* | *2011* |
|---|---|---|
| Interest and dividend income | $ 1,199,000 | $ 375,000 |
| Personal injury fee income | 999,000 | |
| Matrimonial fee income | 165,000 | |
| Realized gain | 251,000 | |
| Service fee income | 84,000 | 60,000 |
| Other | 21,000 | (132,000) |
| | $ 2,719,000 | $ 303,000 |

*General and administrative expenses*. During the nine months ended June 30, 2012, general and administrative expenses increased $389,000 or 2.4% to $16.5 million from $16.1 million for the nine months ended June 30, 2011. The increase is attributable to higher depreciation expense, as we have invested in various technological improvements, in addition to expenses related to the new Pegasus joint venture.

*Interest expense.* During the nine month period ended June 30, 2012, interest expense decreased $390,000 or 16.8% to $1.9 million from $2.3 million in the same prior year period. The decrease in interest expense is due to the continued repayment of our non-recourse debt.

*Impairment.* Impairments of $733,000 were recorded in the nine month period ended June 30, 2012 as compared to an impairment of $49,000 recorded during the nine month period ended June 30, 2011.

*Income tax expense.* Income tax expense, consisting of federal and state income taxes, was $5.8 million for the nine months ended June 30, 2012, as compared to income tax expense of $6.0 million for the comparable 2011 period.

*Income attributable to non-controlling interest.* The income attributable to non-controlling interest of $66,000 during the nine month period ended June 30, 2012 is related to Pegasus Legal Funding, LLC s 20% interest in Pegasus, which was formed during this fiscal year.

*Net income attributable to Asta Funding, Inc.* . For the nine months ended June 30, 2012, net income was $8.5 million, as compared to net income of $8.7 million for the nine month period ended June 30, 2011.

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**The three-month period ended June 30, 2012, compared to the three-month period ended June 30, 2011**

*Finance income*. For the three month period ended June 30, 2012, finance income was $10.5 million as compared to $11.1 million for the three month period ended June 30, 2011. The decrease is due to reduced portfolio purchases in recent years, partially offset by increased zero basis revenue. Zero basis revenue was $9.6 million and $9.1 million for the three months ended June 30, 2012 and 2011, respectively. The Company purchased $4.1 million in face value of portfolios at a cost of $1.8 million in the third quarter of fiscal year 2011. No portfolios were purchased during the third quarter of fiscal year 2012.

During the third quarter of fiscal year 2012, gross collections decreased 16.5%. to $18.5 million from $21.7 million for the three months ended June 30, 2011. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $2.3 million, or 19.2%, for the three months ended June 30, 2012 as compared to the same period in the prior year and averaged 34.1% of collections during the three-month period ended June 30, 2012, as compared to 35.2% during the three month period ended June 30, 2011. Net collections decreased by 15.0% to $18.5 million for the three month period ended June 30, 2012, from $21.7 million for the three months ended June 30, 2011.

*Other income*. The following table summarizes other income for the three month periods ended June 30, 2012 and 2011

| | *2012* | *2011* |
|---|---|---|
| Interest and dividend income | $ 396,000 | $ 137,000 |
| Personal injury fee income | 507,000 | |
| Realized gain | 134,000 | |
| Service fee income | 30,000 | 27,000 |
| Other | 3,000 | (37,000) |
| | $ 1,070,000 | $ 127,000 |

*General and administrative expenses*. During the three-month period ended June 30, 2012, general and administrative expenses increased $723,000 or 14.5% to $5.7 million from $5.0 million for the three months ended June 30, 2011 The increase is related to an increase in professional fees, depreciation expense and expenses related to the new Pegasus joint venture.

*Interest expense.* During the three-month period ended June 30, 2012, interest expense was $619,000 compared to $711,000 in the same period in the prior year. The decrease in interest expense is due to the continued repayment of our non-recourse debt.

*Impairments.* Impairments of $122,000 were recorded in the three month period ended June 30, 2012. There were no impairments recorded during the three month period ended June 30, 2011.

*Income tax expense.* Income tax expense was $2.1 million for the three month period ended June 30, 2012 as compared to $2.3 million for the three month period ended June 30, 2011.

*Income attributable to non-controlling interest.* The income attributable to non-controlling interest of $17,000 during the three month period ended June 30, 2012 is related to Pegasus Legal Funding, LLC s 20% interest in Pegasus, which was formed during this fiscal year.

*Net income attributable to Asta Funding, Inc* . Net income was $3.0 million for the three month period ended June 30, 2012 as compared to $3.3 million for the three month period ended June 30, 2011.

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**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 entered into a receivables financing agreement (the Receivables Financing Agreement ) with the Bank of Montreal ( BMO ), as amended in July 2007, December 2007, May 2008, February 2009 and October 2010 in order to finance a portfolio purchase (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 accrued interest at the 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. 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.

We have entered into several amendments to revise various terms of the Receivables Financing Agreement. The following is a summary of the material amendments:

Second Amendment (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 (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 (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.

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, we provided BMO a limited recourse, subordinated guaranty, secured by our 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 cannot exercise any recourse against us until the earlier of (i) five years from the date of the Fourth Amendment and (ii) the termination of our existing senior lending facility or any successor senior facility.

Fifth Amendment (October 14, 2010) (i) extended the expiration date of the Receivables Financing Agreement to April 14, 2014; (ii) reduced the minimum monthly payment to $750,000; (iii) accelerated our guaranty credit enhancement of $8,700,000, which was paid upon the execution of t00he Fifth Amendment; (iv) eliminated our limited guaranty of repayment of the loans 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, we entered into the Omnibus Termination Agreement (the Termination Agreement ). The Termination Agreement provides that, upon payment of $8,700,000 to the Lender and execution of the Fifth Amendment, the following agreements, which were entered into by us and certain of our affiliated entities in connection with the guaranty of the outstanding loans under the Receivables Financing Agreement, were terminated: (i) the Subordinated Limited Recourse Guaranty Agreement, dated February 20, 2009, among us,, our subsidiaries and BMO; (ii) the Subordinated Guarantor Security Agreement, dated February 20, 2009; (iii) the Limited Recourse Guaranty Agreement, dated as of February 20, 2009; and (iv) the Intercreditor Agreement, dated February 20, 2009. The Termination Agreement was effective as of October 14, 2010.

The aggregate minimum repayment obligations required under the Fifth Amendment, including interest and principal, for fiscal years ending September 30, 2012 through 2014, is $2.3 million, $9.0 million and $53.0 million, respectively.

On June 30, 2012 and 2011, the outstanding balance on this loan was approximately $64.3 million and $71.6 million, respectively. The applicable interest rate at June 30, 2012 and 2011 was 3.74% and 3.76%, respectively. The average interest rate of the Receivable Financing Agreement was 3.75% for the nine month periods ended June 30, 2012 as compared to a 3.75% average rate for the fiscal year ended September 30, 2011. We were in compliance with all covenants that support the Receivables Financing Agreement at June 30, 2012.

***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 (the 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. We and certain of our subsidiaries have agreed to serve as guarantors of the obligations of the borrower subsidiaries and have entered into Guaranty Agreements. Pursuant to a series of Security Agreements and Pledge Agreements, the Credit Facility is collateralized by first priority perfected liens on substantially all of our assets and the assets of our subsidiaries, except those of Palisades XVI. The Credit Facility is subject to an administrative fee of $75,000 upon the first drawdown of the Credit Facility. The Loan Agreement contains standard and customary representations and warranties, covenants, events of default and other provisions including financial covenants that require us 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 is through February 23, 2013. As of June 30, 2012, we have not utilized the Credit Facility.

***Other Investments Pegasus Funding, LLC***

On December 28, 2011, we, through an indirect subsidiary, entered into the Pegasus venture. The venture purchases interests in personal injury claims from claimants who are a party to a personal injury litigation with the expectation of a settlement in the future. The personal injury claims are purchased by Pegasus, in which we indirectly own 80% and PLF owns 20% of the outstanding membership interests. Pegasus will advance to each claimant funds on a non-recourse basis at an agreed upon interest rate in anticipation of a future settlement. The interest purchased by Pegasus in each claim will consist of the right to receive from such claimant part of the proceeds or recoveries which such claimant receives by reason of a settlement, judgment or award with respect to such claimant s claim.

In connection with the venture, pursuant to a Revolving Credit Agreement (the Credit Agreement ), Security Agreement (the Security Agreement ) and Secured Revolving Credit Note (the Note ), Fund Pegasus, LLC, our indirect wholly-owned subsidiary ( Fund Pegasus ), agreed to fund Pegasus an aggregate of up to $109 million over a five (5) year period, payable in one or more installments of up to a maximum of $21.8 million per year, consisting of up to $20,000,000 to purchase claims and up to $1.8 million to cover Pegasus overhead expenses (which amount includes a 4% management fee payable by Pegasus to PLF). The amounts shall accrue interest at the annual rate of 1%, which interest shall be paid monthly to Fund Pegasus by Pegasus.

The rights, duties and obligations with respect to Pegasus are set forth in an Operating Agreement (the Operating Agreement ), which provides, among other things, that all profits and losses of Pegasus will be allocated to our subsidiary on a pro rata basis in accordance with their respective ownership interests, subject to certain exceptions including the repayment of the loan made to Pegasus by Fund Pegasus prior to the distribution of profits. We have agreed, among other things, to guarantee the funding obligations of Fund Pegasus to Pegasus. The Operating Agreement also provides that Fund Pegasus has the right to suspend financing to Pegasus, and we have the right to terminate the Operating Agreement, if there is a material change in the applicable laws or case law affecting Pegasus s business. In addition, if returns for any consecutive twelve month period after the first year of operations do not exceed 15%, we may terminate the Operating Agreement without penalty. If we enter into new personal injury claim funding ventures in the future, PLF shall have the right to participate in such ventures by purchasing up to 20% of the equity in such ventures.

Any cash received by Pegasus ( Distributable Cash Flow ) from the payment to Pegasus with respect to all or part of a purchased claim upon the adjudication or settlement of such claim ( Liquidation ), shall be distributed by Pegasus within ten days following the end of each calendar month, subject to certain exceptions, in the following order:

(i) First, to Fund Pegasus, until Fund Pegasus has received an amount equal to the funds provided to Pegasus corresponding to each claim for which a Liquidation has been received by Pegasus during the prior 90 day period;

(ii) Next, to Fund Pegasus in the amount equal to 9% of the amount paid to Fund Pegasus under Section (i) above; and

(iii) Next, to us and PLF in accordance with their respective percentage interests in Pegasus.

PLF has granted to us an option to purchase 50% of the outstanding equity interests of PLF. The option is exercisable within 18 months of the effective date of the Operating Agreement. If we choose to exercise this option, the percentage interests of Pegasus owned by us and PLF shall automatically adjust such that we and PLF will each own 50% of the outstanding membership interests of Pegasus. Moreover, we have a right to purchase PLF s current investment portfolio at a discount within fourteen days of the effective date of the Operating Agreement, in our discretion and subject to applicable third party consents.

Max Alperovich and Alexander Khanas, who are members of PLF, manage the day-to-day operations of Pegasus. In addition to paying to PLF a 4% management fee on funds advanced to purchase claims, Pegasus will also pay to each of Messrs. Alperovich and Khanas the sum of $100,000 per annum pursuant to consulting agreements entered into by Messrs. Alperovich and Khanas, respectively, and Pegasus.

In addition, A.L. Piccolo & Co., Inc., which is owned by Louis Piccolo, a director of the Company, will receive a fee from Pegasus which is calculated at $350,000 per $10,000,000 loaned to Pegasus by Fund Pegasus up to a maximum of $700,000, which fee is payable over eight years from Pegasus s operating expenses during the term of the Operating Agreement and thereafter by PLF and its affiliates.

**BP Case Management LLC**

On May 18, 2012, we entered into a joint venture with Balance Point Divorce Funding, LLC ( BP Divorce Funding ). Through BPCM, we provide 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. BPCM s profits and losses will be distributed 60% to us and 40% to BP Divorce Funding, after the return of our investment on a case by case basis, and after a 15% preferred return to us.

We are initially investing 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, 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.

Any cash received by BPCM in connection with any purchased case shall be distributed by BPCM within three business days following BPCM s receipt of such payment in the following manner:

(i) First, up to $3,000 will be set aside for accounting expenses (unless we agree to assume such expenses), although in no case will an amount in excess of $50,000 be set aside in any fiscal year for accounting expenses;

(ii) Next, we shall receive a full return of our financial contribution for such purchased case (the Case Contribution );

(iii) Next, so long as we are not in default under BPCM s operating agreement, we will receive a distribution equal to 15% of the Case Contribution for such purchased case, although in the event we have not received our 15% preferred return in any prior purchased cases in a particular tranche, we are entitled to a higher percentage of the Case Contribution until our aggregate return for all cases in such tranche is 15%; and

(iv) Next, the remainder shall be distributed to us and BP Divorce Funding in accordance with the 60%/40% profit split, as adjusted to make up any shortfalls in our 15% preferred return to us, if necessary.

If we have not received our 15% preferred return in any particular tranche, we have the right to clawback BP Divorce Funding s previously distributed profits until our preferred return of 15% in any particular tranche has been satisfied.

We have also provided a $1.0 million revolving line of credit to partially fund Balance Point s operations. The loan accrues interest at the prevailing prime rate and has an initial term of 24 months, which may be extended under certain circumstances for an additional 24 month period. The revolving line of credit is collateralized by Balance Point s profits share in the venture and other assets.

**Cash Flow**

During the nine month period ended June 30, 2012, our cash and cash equivalents decreased $60.4 million as compared to an increase of $19.6 million during the same prior year period, primarily a reflection of an increase in cash used in investing activities. Net cash provided by operations and net cash used in financing activities for the nine month periods June 30, 2012 and 2011, were both essentially flat.

Net cash provided by operating activities was $15.9 million during the nine month period ended June 30, 2012, compared to $16.3 million for the nine months ended June 30, 2011. The slight decrease in net cash provided by operating activities is primarily attributable to lower net income. Net cash used in investing activity was $54.8 million during the nine months ended June 30, 2012 compared to net cash provided by investing activities of $24.6 million for the nine months ended June 30, 2011. The increase in net cash used in investing activity is primarily attributable to investments in available-for-sale securities, in certificates of deposit, and in personal injury claims through our newly formed Pegasus joint venture. Net cash used in financing activities was $21.4 million for the nine months ended June 30, 2012 as compared to $21.3 million for the same prior year period. The decrease in debt repayments of $13.3 million from the prior fiscal year, associated with the prior fiscal year Fifth Amendment to the Receivable Financing Agreement and the final payments of the subordinated debt in the prior fiscal year was offset by the $13.0 million purchases of treasury stock in the current fiscal year 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 facility, investments in personal injury cases, interest payments, costs involved in the collections of consumer receivables, and taxes. In addition, dividends are paid if approved by the Board of Directors. Acquisitions have been financed primarily through cash flows from operating activities. 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 portfolios and operate the business. However, as the collection environment remains challenging, we may borrow funds under our Credit Facility or seek additional financing.

We are cognizant of the current market fundamentals in the debt purchase and company acquisition markets which, because of significant supply and tight capital availability, could result in increased buying opportunities. Accordingly, we filed a $100 million shelf registration statement with the SEC which was declared effective during the third quarter of 2010. As of the date of this report, we have not issued any securities under this registration statement. The outcome of any future transaction(s) is subject to market conditions. Our business model affords us the ability to sell accounts on an opportunistic basis; however, account sales have been immaterial in recent quarters.

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

| | For the Nine Months Ended June 30, 2012 | | |
|---|---|---|---|
| | Interest Method | Cost Recovery Method | Total |
| Balance, beginning of period | $ 31,193,000 | $ 84,002,000 | $ 115,195,000 |
| Acquisitions of receivable portfolios, net | 1,278,000 | 1,397,000 | 2,675,000 |
| Net cash collections from collection of consumer receivables acquired for liquidation | (38,550,000) | (15,519,000) | (54,069,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (89,000) | | (89,000) |
| Transfer to Cost Recovery | (6,484,000) | 6,484,000 | |
| Impairment | (733,000) | | (733,000) |
| Finance income recognized (1) | 28,641,000 | 2,120,000 | 30,761,000 |
| Balance, end of period | $ 15,256,000 | $ 78,484,000 | $ 93,740,000 |
| Finance income as a percentage of collections | 74.1% | 13.7% | 56.8% |

(1) Includes approximately $27.4 million derived from fully amortized portfolios.

| | For the Nine Months Ended June 30, 2011 | | |
|---|---|---|---|
| | Interest Method | Cost Recovery Method | Total |
| Balance, beginning of period | $ 46,348,000 | $ 100,683,000 | $ 147,031,000 |
| Acquisitions of receivable portfolios, net | 6,146,000 | 690,000 | 6,836,000 |
| Net cash collections from collection of consumer receivables acquired for liquidation | (48,834,000) | (15,556,000) | (64,390,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (349,000) | | (349,000) |
| Impairment | (49,000) | | (49,000) |
| Effect of foreign currency translation | | 56,000 | 56,000 |
| Finance income recognized (1) | 30,998,000 | 2,068,000 | 33,066,000 |
| Balance, end of period | $ 34,260,000 | $ 87,941,000 | $ 122,201,000 |
| Finance income as a percentage of collections | 63.0% | 13.3% | 51.1% |

(1) Includes approximately $26.9 million derived from fully amortized portfolios.

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| | For the Three Months Ended June 30, 2012 | | |
|---|---|---|---|
| | Interest Method | Cost Recovery Method | Total |
| Balance, beginning of period | $ 24,897,000 | $ 76,939,000 | $ 101,836,000 |
| Acquisitions of receivable portfolios, net | | | |
| Net cash collections from collections of consumer receivables acquired for liquidation | (12,672,000) | (5,792,000) | (18,464,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (11,000) | | (11,000) |
| Transfer to Cost Recovery | (6,484,000) | 6,484,000 | |
| Impairment | (122,000) | | (122,000) |
| Finance income recognized (1) | 9,648,000 | 853,000 | 10,501,000 |
| Balance, end of period | $ 15,256,000 | $ 78,484,000 | $ 93,740,000 |
| Finance income as a percentage of collections | 76.1% | 14.7% | 56.8% |

(1) Includes approximately $9.6 million derived from fully amortized portfolios.

| | For the Three Months Ended June 30, 2011 | | |
|---|---|---|---|
| | Interest Method | Cost Recovery Method | Total |
| Balance, beginning of period | $ 38,814,000 | $ 92,090,000 | $ 130,904,000 |
| Acquisitions of receivable portfolios, net | 1,616,000 | 217,000 | 1,833,000 |
| Net cash collections from collections of consumer receivables acquired for liquidation | (16,553,000) | (5,077,000) | (21,630,000) |
| Net cash collections represented by account sales of consumer receivables acquired for liquidation | (106,000) | | (106,000) |
| Impairment | | | |
| Effect of foreign currency translation | | 30,000 | 30,000 |
| Finance income recognized (1) | 10,489,000 | 681,000 | 11,170,000 |
| Balance, end of period | $ 34,260,000 | $ 87,941,000 | $ 122,201,000 |
| Finance income as a percentage of collections | 63.0% | 13.4% | 51.4% |

(1) Includes approximately $9.1 million derived from fully amortized portfolios.

***Off Balance Sheet Arrangements***

As of June 30, 2012, 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.

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**Additional Supplementary Information:**

We do not anticipate collecting the majority of the purchased principal amounts. Accordingly, the difference between the carrying value of the portfolios and the gross receivables is not indicative of future revenues from these accounts acquired for liquidation. Since we purchased these accounts at significant discounts, we anticipate collecting only a small portion of the face amounts. During the nine months ended June 30, 2012, we purchased portfolios with a face value of $6.0 million for an aggregate purchase price of $2.7 million.

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

**Collections Represented by Account Sales**

| Period | Collections Represented By Account Sales | Finance Income Earned |
|---|---|---|
| Nine Months ended June 30, 2012 | $ 88,000 | $ 35,000 |
| Three months ended June 30, 2012 | $ 10,000 | $ 4,000 |
| Nine Months ended June 30, 2011 | $ 349,000 | $ 137,000 |
| Three months ended June 30, 2011 | $ 106,000 | $ 46,000 |

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**Portfolio Performance (1)**

*(Interest method portfolios only)*

| Purchase Period | Purchase Price (2) | Cash Collections Including Cash Sales (3) | Estimated Remaining Collections (4) | Total Estimated Collections (5) | Total estimated Collections as a Percentage of Purchase Price |
|---|---|---|---|---|---|
| 2001 | $ 65,120,000 | $ 105,680,000 | $ | $ 105,680,000 | 162% |
| 2002 | 36,557,000 | 48,280,000 | | 48,280,000 | 132% |
| 2003 | 115,626,000 | 220,906,000 | | 220,906,000 | 191% |
| 2004 | 103,743,000 | 190,513,000 | 34,000 | 190,547,000 | 184% |
| 2005 | 126,023,000 | 223,509,000 | 1,247,000 | 224,756,000 | 178% |
| 2006 | 163,392,000 | 265,639,000 | 3,014,000 | 268,653,000 | 164% |
| 2007 | 109,235,000 | 104,233,000 | 11,469,000 | 115,702,000 | 106% |
| 2008 | 26,626,000 | 49,273,000 | 63,000 | 49,336,000 | 185% |
| 2009 | 19,127,000 | 34,655,000 | 2,300,000 | 36,955,000 | 193% |
| 2010 | 7,212,000 | 17,763,000 | 468,000 | 18,231,000 | 253% |
| 2011(6) | | | | | |
| 2012(6) | | | | | |

(1) Total collections do not represent full collections of the Company with respect to this or any other year.
(2) Purchase price refers to the cash paid to a seller to acquire a portfolio less the purchase price refunded by a seller due to the return of non-compliant accounts (also defined as put-backs).
(3) Net cash collections include: net collections from our third-party collection agencies and attorneys, net collections from our in-house efforts and collections represented by account sales.
(4) Does not include estimated collections from portfolios that are zero basis.
(5) Total estimated collections refers to the actual net cash collections, including cash sales, plus estimated remaining net collections.
(6) Portfolio investments during 2011 and 2012 were transferred to cost recovery during the third quarter of fiscal year 2012.

**Recent Accounting Pronouncements**

In December 2011, Financial Accounting Standards Board ( FASB ) FASB Accounting Standards Update ( ASU ) No. 2011-12, amended ASC Topic 220 Comprehensive Income. The amendments defer certain disclosure requirements regarding reclassifications within ASU No. 2011-05, until the FASB can deliberate further on these requirements. The amendments in this update are effective for the annual period beginning on or after December 15, 2012 and must be applied retrospectively. The implementation of ASU 2011-12 is not expected to have a material effect on our consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350), which amends and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity s events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. As allowed by ASU 2011-08, we adopted this guidance for its fiscal year 2011 goodwill impairment test. Adoption of this guidance did not to have a material effect on our result of operations or financial condition.

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In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220)*, in order to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. This update requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This update is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. Adoption of this update did not have a material effect on our results of operations or financial condition.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820)*, which results in common fair value measurement and disclosure requirements for US GAAP and International Financial Reporting Standards. ASU No. 2011-04 is effective for the first annual period beginning on or after December 15, 2011. Adoption of this update is not expected to have a material effect on our results of operations or financial condition but may have an effect on disclosures.

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805)*, to improve consistency in how the pro forma disclosures are calculated. Additionally, ASU 2010-29 enhances the disclosure requirements and requires description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to a business combination. The guidance will become effective for us with the reporting period beginning October 1, 2011, and should be applied prospectively to business combinations for which the acquisition date is after the effective date. Early adoption is permitted. Other than requiring disclosures for prospective business combinations, the adoption of this guidance is not expected to have a material effect on our results of operations or financial condition.

In January 2010, the FASB issued ASU No. 2010-06, which amends the authoritative accounting guidance under ASC Topic 820, Fair Value Measurements and Disclosures. The update requires the following additional disclosures:

a. Separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers;

b. Information about purchases, sales, issuances and settlements need to be disclosed separately in the reconciliation for fair value measurements using Level 3.

The update provides for amendments to existing disclosures as follows:

a. Fair value measurement disclosures are to be made for each class of assets and liabilities;

b. Disclosures about valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The update also includes conforming amendments to guidance on employers disclosures about postretirement benefit plan assets.

The update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

The adoption in fiscal year 2011 did not have a material effect and future adoption is not expected to have a material effect on our results of operations or financial condition.

In December 2009, the FASB issued ASU 2009-17, *Consolidations (Topic 810)*, which represents a revision to former FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities , and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. ASU 2009-17 is effective for fiscal years beginning after November 15, 2009 and for interim periods within the first annual reporting period. We adopted ASU 2009-17 as of October 1, 2010, which did not have a significant effect on our financial statements.

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

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and changes in corporate tax rates. A material change in these rates could adversely affect our operating results and cash flows. At June 30, 2012, our Receivable Financing Agreement, which is variable debt, had an outstanding balance of $64.3 million. A 25 basis-point increase in interest rates would have increased our interest expense for the six month period ended June 30, 2012 by approximately $128,000 based on the average debt outstanding during the period. We do not currently invest in derivative financial or commodity instruments.

**Item 4. Controls and Procedures**

*a. Disclosure Controls and Procedures.*

As of June 30, 2012, we carried out an evaluation, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of June 30, 2012 are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms and is accumulated and communicated to our management, including our principal executive officers and our principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

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

There have been no changes in our internal controls over financial reporting that occurred during our fiscal quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

There were no material changes in any risk factors previously disclosed in the Company s Report on Form 10-K filed with the Securities & Exchange Commission on December 14, 2011.

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

**Purchases of Common Stock.** We have a share repurchase program that authorizes us to purchase up to $20.0 million of shares of our common stock through February, 13, 2013. The share repurchases may occur from time-to-time through open market purchases at prevailing market prices or through privately negotiated transactions as permitted by securities laws and other legal requirements. The following table sets forth information regarding our repurchases or acquisitions of common stock during the third quarter of the fiscal year ended September 30, 2012.

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| Repurchases from April 1, 2012 through April 30, 2012 | 121,600 | $ 8.07 | 121,600 | $ 18,479,672 |
| Repurchases from May 1, 2012 through May 31, 2012 | 8,000 | $ 8.53 | 8,000 | $ 18,411,456 |
| Repurchases from June 1, 2012 through June 30, 2012 | 1,191,300(2) | $ 9.34 | 191,300 | $ 16,680,669 |

(1) On March 9, 2012, our board of directors authorized the repurchase of up to $20.0 million of shares of our common stock through a non-discretionary stock re-purchase plan.

(2) Includes 1,000,000 shares acquired from Peters MacGregor Capital Management Pty. Ltd. at a purchase price of $9.40 per share.

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**Item 6. Exhibits**

(a) Exhibits

| | |
|---|---|
| 31.1 | Certification of the Registrant s Chief Executive Officer, Gary Stern, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Registrant s Chief Financial Officer, Robert J. Michel, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Registrant s Chief Executive Officer, Gary Stern, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Registrant s Chief Financial Officer, Robert J. Michel, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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SIGNATURES

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

| | |
|---|---|
| | **ASTA FUNDING, INC.** |
| | (Registrant) |
| Date: August 9, 2012 | By: /s/ Gary Stern<br>Gary Stern, Chairman, President,<br>Chief Executive Officer<br><br>(Principal Executive Officer) |
| Date: August 9, 2012 | By: /s/ Robert J. Michel<br>Robert J. Michel, Chief Financial Officer<br>(Principal Financial Officer and<br>Principal Accounting Officer) |

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EXHIBIT INDEX

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