ASTA FUNDING INC
Form 10-Q
February 11, 2013

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 December 31, 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: 001-35637

ASTA FUNDING, INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-3388607**
(State or other jurisdiction	**(IRS Employer**
of incorporation or organization)	**Identification No.)**
210 Sylvan Ave., Englewood Cliffs, New Jersey	**07632**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number: (201) 567-5648

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

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

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

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

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

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

As of February 8, 2013, the registrant had approximately 12,941,139 common shares outstanding.

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ASTA FUNDING, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	December 31, 2012 (Unaudited)	September 30, 2012
ASSETS		
Cash and cash equivalents	$ 18,317,000	$ 4,953,000
Investments:		
Available-for-sale	58,815,000	58,712,000
Certificates of deposit	28,782,000	42,682,000
Restricted cash	727,000	1,088,000
Consumer receivables acquired for liquidation (at net realizable value)	81,768,000	86,887,000
Other investments	23,000,000	18,596,000
Due from third party collection agencies and attorneys	1,083,000	2,042,000
Prepaid and income taxes receivable	708,000	2,057,000
Furniture and equipment, net	1,345,000	821,000
Deferred income taxes	10,248,000	10,410,000
Other assets	5,391,000	4,916,000
Total assets	$ 230,184,000	$ 233,164,000
LIABILITIES		
Non recourse debt	$ 58,843,000	$ 61,463,000
Other liabilities	2,474,000	2,920,000
Dividends payable		260,000
Total liabilities	61,317,000	64,643,000
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 14,882,877 shares at December 31, 2012 and 14,778,956 at September 30, 2012	149,000	148,000
Additional paid-in capital	77,473,000	77,024,000
Retained earnings	108,861,000	107,303,000
Accumulated other comprehensive income	(80,000)	241,000
Treasury stock (at cost), 1,923,238 shares at December 31, 2012 and 1,772,038 shares at September 30, 2012.	(17,612,000)	(16,226,000)
Total stockholders equity	168,791,000	168,490,000
Non-controlling interest	76,000	31,000
Total equity	168,867,000	168,521,000
Total liabilities and stockholders equity	$ 230,184,000	$ 233,164,000

See Notes to Condensed Consolidated Financial Statements

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ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Revenues		
Finance income, net	$ 8,490,000	$ 9,790,000
Other income	2,062,000	649,000
	10,552,000	10,439,000
Expenses		
General and administrative	5,593,000	4,766,000
Interest expense	569,000	674,000
	6,162,000	5,440,000
Income before income taxes	4,390,000	4,999,000
Income tax expense	1,757,000	2,022,000
Net income	2,633,000	2,977,000
Less: net income attributable to non-controlling interest	45,000	
Net income attributable to Asta Funding, Inc.	$ 2,588,000	$ 2,977,000
Net income per share attributable to Asta Funding, Inc.:		
Net income per share Basic	$ 0.20	$ 0.20
Net income per share Diluted	$ 0.20	$ 0.20
Weighted average number of shares outstanding:		
Basic	12,941,242	14,639,456
Diluted	13,200,116	14,880,979

See Notes to Condensed Consolidated Financial Statements

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Asta Funding, Inc.

Condensed Consolidated Statements of Comprehensive Income

December 31, 2012 and 2011

(unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Comprehensive income is as follows:		
Net income	$ 2,633,000	$ 2,977,000
Net unrealized securities (loss) gain, net of tax benefit / (taxes) of $288,000 and ($71,000) during the 3 month periods ended December 31, 2012 and 2011, respectively	$ (425,000)	$ 177,000
Reclassification Adjustments for securities sold during the period, net of taxes of $71,000 for the 3 months ended December 31, 2012	$ 104,000	
Other comprehensive (loss) income	$ (321,000)	$ 177,000
Total comprehensive income	$ 2,312,000	$ 3,154,000

See 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, 2012	14,778,956	$ 148,000	$ 77,024,000	$ 107,303,000	$ 241,000	$ (16,226,000)	$ 168,490,000	$ 31,000	$ 168,521,000
Exercise of options	1,600		11,000				11,000		11,000
Stock based compensation expense			439,000				439,000		439,000
Restricted Stock	102,321	1,000	(1,000)						
Dividends				(1,030,000)			(1,030,000)		(1,030,000)
Purchase of Treasury Stock						(1,386,000)	(1,386,000)		(1,386,000)
Comprehensive income:									
Net income				2,588,000			2,588,000		2,588,000
Unrealized loss on marketable securities					(321,000)		(321,000)		(321,000)
Earnings attributable to non-controlling interest								45,000	45,000
Total comprehensive income				2,588,000	(321,000)		2,267,000	45,000	2,312,000
Balance, December 31, 2012	14,882,877	$ 149,000	$ 77,473,000	$ 108,861,000	$ (80,000)	$ (17,612,000)	$ 168,791,000	$ 76,000	$ 168,867,000

[1] Treasury shares are as follows: September 30, 2012, 1,772,038; Purchase of treasury stock, 151,200; December 31, 2012, 1,923,238.

See Notes to Consolidated Financial Statements

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ASTA FUNDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Cash flows from operating activities		
Net income	$ 2,588,000	$ 2,977,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	150,000	90,000
Deferred income taxes	379,000	472,000
Stock based compensation	439,000	305,000
Gain on sale of available-for-sale securities	(175,000)	
Changes in:		
Other assets	(475,000)	267,000
Due from third party collection agencies and attorneys	959,000	70,000
Income taxes payable and receivable	1,349,000	1,551,000
Other liabilities	(446,000)	(595,000)
Net cash provided by operating activities	4,768,000	5,137,000
Cash flows from investing activities		
Purchase of consumer receivables acquired for liquidation		(1,351,000)
Principal collected on receivables acquired for liquidation	5,114,000	7,161,000
Principal collected on receivables accounts represented by account sales	5,000	19,000
Purchase of available-for-sale securities	(23,674,000)	(4,877,000)
Proceeds from sale of available-for-sale securities	23,208,000	
Proceeds from maturities of certificates of deposit	13,900,000	453,000
Other investments advances	(7,597,000)	(4,360,000)
Other investments receipts	3,193,000	
Capital expenditures	(674,000)	(7,000)
Non-controlling interest	45,000	
Net cash provided by (used in) investing activities	13,520,000	(2,962,000)
Cash flows from financing activities		
Proceeds from exercise of stock options	11,000	
Purchase of Treasury Stock	(1,386,000)	
Changes in restricted cash	361,000	11,000
Dividends paid	(1,290,000)	(293,000)
Repayment of debt	(2,620,000)	(2,447,000)
Net cash used in financing activities	(4,924,000)	(2,729,000)
Net increase (decrease) in cash and cash equivalents	13,364,000	(554,000)
Cash and cash equivalents at beginning of period	4,953,000	84,347,000
Cash and cash equivalents at end of period	$ 18,317,000	$ 83,793,000

Supplemental disclosure of cash flow information :

Cash paid for:				
Interest	$	572,000	$	671,000
Income taxes	$		$	2,000

See Notes to Condensed Consolidated Financial Statements

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Business and Basis of Presentation

Business

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

In addition, the Company, through majority-owned subsidiaries Pegasus Funding, LLC, and BP Case Management, LLC invests in funding personal injury and matrimonial claims.

Basis of Presentation

The condensed consolidated balance sheet as of December 31, 2012, the condensed consolidated statements of operations for the three month periods ended December 31, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three month periods ended December 31, 2012 and 2011, the condensed consolidated statement of stockholders equity as of and for the three months ended December 31, 2012 and the condensed consolidated statements of cash flows for the three month periods ended December 31, 2012 and 2011, are unaudited. The September 30, 2012 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, 2012. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position at December 31, 2012 and September 30, 2012, the results of operations for the three month periods ended December 31, 2012 and 2011 and cash flows for the three month periods ended December 31, 2012 and 2011 have been made. The results of operations for the three month periods ended December 31, 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 the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2012 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 during the reporting period. Actual results could differ from those estimates including management s estimates of future cash flows and the resulting rates of return.

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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

In December 2011, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Update (ASU) No. 2011-12, which 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 the Company s consolidated financial statements.

In September 2011, the Financial Accounting Standards Board (FASB) issued 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. Adoption of this guidance has not had 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. Adoption of this update has not had a material effect on the Company s 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 Generally Accepted Accounting Principals (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 has not had a material effect on the Company s results of operations or financial condition.

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 the Company 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. Other than requiring disclosures for prospective business combinations, the adoption of this guidance has not had a material effect on the Company s results of operations or financial condition.

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the Condensed Consolidated Balance Sheet date of December 31, 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.

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 wholly owned and majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Note 3 Investments

Available-for-Sale

Investments classified as available-for-sale at December 31, 2012 and September 30, 2012, consist of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2012	$ 58,948,000	$ 50,000	$ (183,000)	$ 58,815,000
September 30, 2012	$ 58,308,000	$ 404,000	$	$ 58,712,000

The available-for-sale investments did not have any contractual maturities. The Company sold two investments during the first quarter of fiscal year 2013, with an aggregate realized gain of $175,000. Additionally, the Company received $225,000 in capital gain distribution dividends during the first quarter of fiscal year 2013, which is included in other income. The Company recorded a total of $400,000 in income related to its available-for sale investments during the first quarter of fiscal year 2013.

At December 31, 2012, there were three investments in an unrealized loss position, all of which had current unrealized losses which had existed for 12 months or less. There were two investments at December 31, 2012 in an unrealized gain position. One of the investments in an unrealized loss position was purchased in fiscal year 2013. The other four investments were in an unrealized gain position as of September 30, 2012. All of these securities are considered to be acceptable credit risks. Based on the evaluation of the available evidence, including recent changes in market rates and credit rating information, management believes the aggregate decline in fair value for these instruments is temporary. In addition, management has the ability, but does not believe it will be required, to sell these investment securities for a period of time sufficient to allow for an anticipated recovery or maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period in which the other-than-temporary impairment is identified.

Certificates of deposit

Certificates of deposit consist of the following:

	December 31, 2012	September 30, 2012
Certificates of deposits in banks	$ 28,782,000	$ 42,682,000

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

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 4 Consumer Receivables Acquired for Liquidation

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

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

the interest method; or

the cost recovery method.

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

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

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

The Company s extensive liquidating experience is in the field of distressed credit card receivables, telecommunication receivables, consumer loan receivables, retail installment contracts, consumer receivables, and auto deficiency receivables. The Company uses the interest method for accounting for asset acquisitions within these classes of receivables when it believes it can reasonably estimate the timing of the cash flows. In those situations where the Company diversifies its acquisitions into other asset classes and the Company does not possess the same expertise, 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 December 31, 2012, approximately $10.5 million of the consumer receivables acquired for liquidation are accounted for using the interest method, while approximately $71.3 million are accounted for using the cost recovery method, of which $62.8 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 the Company s business model, this is of particular importance as debtors with jobs or property are more likely to repay their obligation and conversely, debtors without jobs or property are less likely to repay their obligation; and
- the ability to obtain timely customer statements from the original issuer.

The Company obtains and utilizes, as appropriate, input, including but not limited to monthly collection projections and liquidation rates, from third party collection agencies and attorneys, as a further evidentiary matter, to assist in evaluating and developing collection strategies and in evaluating and modeling the expected cash flows for a given portfolio.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

	For the Three Months Ended December 31, 2012		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 12,326,000	74,561,000	86,887,000
Net cash collections from collection of consumer receivables acquired for liquidation	(9,473,000)	(4,126,000)	(13,599,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(10,000)		(10,000)
Finance income recognized (1)	7,629,000	861,000	8,490,000
Balance, end of period	$ 10,472,000	71,296,000	81,768,000
Revenue as a percentage of collections	80.5%	20.9%	62.4%

(1) Includes $8.1 million derived from fully amortized interest method pools.

	For the Three Months Ended December 31, 2011		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 31,193,000	$ 84,002,000	$ 115,195,000
Acquisitions of receivable portfolios, net	857,000	494,000	1,351,000
Net cash collections from collection of consumer receivables acquired for liquidation	(12,698,000)	(4,241,000)	(16,939,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(31,000)		(31,000)
Finance income recognized (1)	9,238,000	552,000	9,790,000
Balance, end of period	$ 28,559,000	$ 80,807,000	$ 109,366,000
Revenue as a percentage of collections	72.6%	13.0%	57.7%

(1) Includes $8.6 million derived from fully amortized interest method pools.

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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 December 31, 2012, the Company had $81.8 million in consumer receivables acquired for liquidation, of which $10.5 million are accounted for on the interest method. Based upon current projections, net cash collections, applied to principal for interest method portfolios will be as follows for the twelve months in the periods ending:

September 30, 2013 (nine months remaining)	$ 5,896,000
September 30, 2014	3,052,000
September 30, 2015	667,000
September 30, 2016	544,000
September 30, 2017	30,000
September 30, 2018	
September 30, 2019	
Total	$ 10,189,000
Deferred revenue	283,000
Total	$ 10,472,000

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 December 31, 2012. Changes in accretable yield for the three month periods ended December 31, 2012 and 2011 are as follows:

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Balance at beginning of period	$ 2,086,000	$ 7,473,000
Income recognized on finance receivables, net	(7,629,000)	(9,238,000)
Additions representing expected revenue from purchases		245,000
Reclassifications from nonaccretable difference	7,265,000	8,020,000
Balance at end of period	$ 1,722,000	$ 6,500,000

There were no portfolio purchases during the three months ended December 31, 2012. During the three months ended December 31, 2011, the Company purchased $3.1 million of face value portfolios at a cost of $1.4 million.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

The following table summarizes collections on a gross basis as received by the Company s third-party collection agencies and attorneys, less commissions and direct costs for the three month periods ended December 31, 2012 and 2011, respectively.

	For the Three Months Ended December 31,	
	2012	**2011**
Gross collections (1)	$ 22,086,000	$ 25,965,000
Commissions and fees (2)	8,477,000	8,995,000
Net collections	$ 13,609,000	$ 16,970,000

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

(2) Commissions and fees are the contractual commission earned by third party collection agencies and attorneys, and direct costs associated with the collection effort, generally court costs. Includes a 3% fee charged by a servicer on gross collections received by the Company in connection with the Portfolio Purchase. Such arrangement was consummated in December 2007. The fee is charged for asset location, skiptracing 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 with Pegasus Legal Funding, LLC (PLF) in the operating subsidiary of Pegasus Funding, LLC. Pegasus Funding, LLC purchases 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 interest in the personal injury claims are purchased by Pegasus Funding, LLC and the resulting collections yielded net income attributable to non-controlling interest of $45,000 for the three months ended December 31, 2012. 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. The Company, through Pegasus Funding, LLC, earned $1.2 million in interest and fees during the first quarter of fiscal year 2013 and had a net invested balance of $23.0 million on December 31, 2012.

Matrimonial Claims (included in Other Assets)

On May 18, 2012, the Company formed BP Case Management, LLC (BPCM), a joint venture with California-based Balance Point Divorce Funding, LLC (BP Divorce Funding). BPCM provides non-recourse funding to a spouse in a matrimonial action. The Company provided a $1.0 million revolving line of credit to partially fund BP Divorce Funding s operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. The revolving line of credit is collateralized by BP Divorce Funding s profit share in BPCM and other assets. As of December 31, 2012, the Company s investment in cases through BPCM was approximately $553,000.

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Note 6 Furniture & Equipment

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

	December 31, 2012	September 30, 2012
Furniture	$ 310,000	$ 310,000
Equipment	3,572,000	3,470,000
Software	1,210,000	638,000
Leasehold improvements	99,000	99,000
	5,191,000	4,517,000
Less accumulated depreciation	3,846,000	3,696,000
Balance, end of period	$ 1,345,000	$ 821,000

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) extends the expiration date of the Receivables Financing Agreement to April 14, 2014; (ii) reduces 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) revises the definition of Borrowing Base Deficit , as defined in the Receivables Financing Agreement, to mean the excess, if any, of 105% of the loans outstanding over the borrowing base.

In connection with the Fifth Amendment, on October 26, 2010, 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 the fiscal years ending September 30, 2013 and 2014 is $6.8 million and $52.0 million, respectively.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 7 Non Recourse Debt

Receivables Financing Agreement *(continued)*

On December 31, 2012 and 2011, the outstanding balance on this loan was approximately $58.8 million and $69.2 million, respectively. The applicable interest rate at December 31, 2012 and 2011 was 3.71% and 3.77%, respectively. The average interest rate of the Receivable Financing Agreement was 3.71% and 3.75% for the periods ended December 31, 2012 and 2011, respectively. The Company s average debt obligation for the periods ended December 31, 2012 and 2011 was approximately $60.0 million and $70.3 million, respectively.

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.

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 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. The Company and certain of its 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 the Company to: (i) maintain a minimum net worth of $150 million; and (ii) incur no net loss in any fiscal year. The term of the Credit Facility is through February 23, 2013. As of December 31, 2012, the Company has not drawn on the Credit Facility.

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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 2013.

Leases

The Company leases its facilities in Englewood Cliffs, New Jersey, Houston , Texas and New York, New York. Please refer to the Company s consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, 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, using its network of third party law firms, against consumers. Also, consumers occasionally initiate litigation against the Company, in which they allege that the Company has violated a federal or state law in the process of collecting their account. The Company does not believe that these matters are material to its business or financial condition. The Company is not involved in any material litigation in which it is a defendant.

Note 9 Income Recognition, Impairments, and Commissions and Fees

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.

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 9 Income Recognition, Impairments and Commissions and Fees *(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. There were no impairments recorded during the quarters ended December 31, 2012 and 2011.

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

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

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

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

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

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

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

credit standards of the issuer.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 9 Income Recognition, Impairments and Commissions and Fees *(continued)*

Impairments *(continued)*

The Company believes it has significant experience in acquiring certain distressed consumer receivable portfolios at a significant discount to the amount actually owed by underlying debtors. The Company acquires these portfolios only after both qualitative and quantitative analyses of the underlying receivables are performed and a calculated purchase price is paid so that we believe our estimated cash flow offers us an adequate return on our acquisition costs after our servicing expenses. Additionally, when considering larger portfolio purchases of accounts, or portfolios from issuers with whom the Company has limited experience, it has the added benefit of soliciting its third party collection agencies and attorneys for their input on liquidation rates and, at times, incorporate such input into the estimates that the Company 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 the non-medical account portfolio purchases acquired since the beginning of fiscal year 2009, the Company has extended its time frame of the expectation of recovering 100% of its 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 7 years, which is an increase from the previous 5-year expectation. The medical accounts have a shorter 3-year collection curve based on the nature of these accounts. The Company routinely monitors these expectations against the actual cash flows and, in the event the cash flows are below its expectations and it believes there are no reasons relating to mere timing 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, it 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 expense for stock option grants and restricted stock awards recorded in the statement of operations for which no cash distribution has been made. Other components consist of state net operating loss (NOL) carry-forwards. The provision for income tax expense for the three month periods ending December 31, 2012 and 2011, reflects income tax expense at an effective rate of 40.0% an 40.5%, respectively.

The corporate federal income tax returns of the Company for 2008, 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after they are filed. The state income tax returns and other state filings of the Company are subject to examination by the state taxing authorities, for various periods generally up to four years after they are filed.

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

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Note 11 Net Income per Share

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

The following table presents the computation of basic and diluted per share data for the three months ended December 31, 2012 and 2011:

	December 31, 2012			December 31, 2011		
	Net Income	Weighted Average Shares	Per Share Amount	Net (Income)	Weighted Average Shares	Per Share Amount
Basic	$ 2,588,000	12,941,242	0.20	$ 2,977,000	14,639,456	$ 0.20
Effect of Dilutive Stock		258,874			241,523	
Diluted	$ 2,588,000	13,200,116	0.20	$ 2,977,000	14,880,979	$ 0.20

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

At December 31, 2011, 1,160,249 options at a weighted average exercise price of $12.48 were not included in the diluted earnings per share calculation as they were antidilutive.

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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.

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

Risk-free interest rate	0.16 %
Expected term (years)	10.0
Expected volatility	101.0%
Dividend yield	1.67%

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

In December 2011, the Compensation Committee granted 360,000 stock options, of which 150,000 options were awarded to the Chief Executive Officer of the Company, and 30,000 stock options each were awarded to the Chief Financial Officer, the General Counsel and the Senior Vice President of the Company. Additionally, an aggregate of 60,000 stock options were issued to six non-employee directors of the Company. The exercise price of these options, issued on December 13, 2011, was equal to 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 60,000 stock options were granted to selected full time employees of the Company, who had been employed at the Company for at least six months prior to the date of grant. The exercise price of all stock options was at the market price on the date of the grant. 330,000 stock options granted in December 2011 vest in one installment three years after the date of grant. 30,000 stock options vest in three equal installments, starting on the first anniversary 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%

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company authorized 2,000,000 shares of Common Stock for issuance under the 2012 Plan. In December 2012, the Company granted options to purchase shares of the Company and an award of restricted stock totaling 262,321 shares, leaving 1,737,679 available as of December 31, 2012. As of December 31, 2012, approximately 70 of the Company s employees were able to participate in the 2012 Plan.

Equity Compensation Plan

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

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

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

2002 Stock Option Plan

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

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

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

1995 Stock Option Plan

In 1995, the Board of Directors adopted the Company s 1995 Stock Option Plan (the 1995 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 Company authorized 1,840,000 shares of Common Stock for issuance under the 1995 Plan. As of September 14, 2005, no more awards could be issued under this plan.

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Note 13 Stock Option Plans *(continued)*

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

The following table summarizes stock option transactions under the 2012 Plan, the Equity Compensation Plan, the 2002 Plan and the 1995 Plan:

	Three Months Ended December 31,			
	2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding options at the beginning of period	1,499,471	$ 11.27	1,294,271	$ 11,41
Options granted	160,000	9.57	360,000	7.87
Options exercised	(1,600)	6.96		
Options forfeited			(1,400)	6.10
Outstanding options at the end of period	1,657,871	$ 11.11	1,652,871	$ 10.64
Exercisable options at the end of period	1,123,070	$ 12.36	1,131,538	$ 11.84

The following table summarizes information about the 2012 Plan, the Equity Compensation Plan, the 2002 Plan and the 1995 Plan outstanding options as of December 31, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Weighted Number Outstanding	Weighted Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.8751 $5.7500	51,200	6.3	$ 2.95	51,200	$ 2.95
$5.7501 $8.6250	843,400	8.2	7.81	485,266	7.76
$8.6251 $14.3750	210,000	9.6	10.03	33,333	11.50
$14.3751 $17.2500	198,611	0.8	14.88	198,611	14.88
$17.2501 $20.1250	339,660	1.8	18.23	339,660	18.23
$25.8751 $28.7500	15,000	4.0	28.75	15,000	28.75
	1,657,871	6.1	$ 11.11	1,123,070	$ 12.36

The Company recognized $409,000 and $283,000 of compensation expense related to the stock option grants during each of the three month periods ended December 31, 2012 and 2011, respectively. As of December 31, 2012, there was $2,935,000 of unrecognized compensation cost related to stock option awards.

There was no intrinsic value of the outstanding and exercisable options as of December 31, 2012.

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Note 13 Stock Option Plans *(continued)*

The following table summarizes information about restricted stock transactions:

	Three Months Ended December 31, 2012 Shares	2012 Weighted Average Grant Date Fair Value	2011 Shares	2011 Weighted Average Grant Date Fair Value
Unvested at the beginning of period	10,922	$ 7.63	21,843	$ 19.73
Awards granted	102,321	9.57		
Vested	(10,922)	7.63	(10,921)	7.63
Forfeited				
Unvested at the end of period	102,321	$ 9.57	10,922	$ 7.63

The Company recognized $30,000 and $22,000 of compensation expense related to the restricted stock awards during the three month periods ended December 31, 2012 and 2011, respectively. As of December 31, 2012, there was $967,000 of unrecognized compensation cost related to restricted stock awards.

Note 14 Stockholders Equity

During September 2012, the Company declared a cash dividend aggregating $260,000 ($0.02 per share) which was paid November 1, 2012. On December 13, 2012, the Company announced that the Board of Directors of the Company approved the payment of a special accelerated annual dividend of $0.08 per share to shareholders of record on December 24, 2012. The aggregate dividend of $1,030,000 was paid on December 28, 2012.

On March 9, 2012, the Company adopted a Rule 10b5-1 Plan in conjunction with its share repurchase program. The Board of Directors approved the repurchase of up to $20 million of the Company s common stock, which is effective through March 11, 2013. The Company has purchased approximately 865,000 shares at an aggregate cost of approximately $7,755,000 under the 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.

As of December 31, 2012, stockholders equity includes an amount for other comprehensive loss of $80,000, which reflects unrealized losses in available-for-sale securities. In addition, $76,000 related to the non-controlling interest in Pegasus Funding, LLC has been included in stockholders equity.

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Note 15 Fair Value of Financial Measurements and Disclosures

Disclosures about Fair Value of Financial Instruments

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

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

	December 31, 2012		September 30, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents (Level 1)	$ 18,317,000	$ 18,317,000	$ 4,953,000	$ 4,953,000
Available-for-sale investments (Level 1)	58,815,000	58,815,000	58,712,000	58,712,000
Certificates of deposit (Level 1)	28,782,000	28,782,000	42,682,000	42,682,000
Consumer receivables acquired for liquidation (Level 3)	81,768,000	88,051,000	86,887,000	100,706,000
Financial liabilities				
Non-Recourse Debt (Level 2)	58,843,000	58,843,000	61,463,000	61,463,000

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

Cash and cash equivalents and certificates of deposit The carrying amount approximates fair value on the basis of maturity dates.

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

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

Non-Recourse Debt The carrying value of non-recourse debt approximates fair value as the outstanding loan balance carries a variable rate.

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 15 Fair Value of Financial Measurements and Disclosures *(continued)*

Fair Value Hierarchy

The Company recorded its available-for-sale investments at estimated fair value on a recurring basis. The accompanying consolidated financial statements include estimated fair value information regarding its available-for-sale investments as of December 31, 2012, as required by FASB ASC 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument s level within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement.

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

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

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

The Company s available-for-sale investments are classified as Level 1 financial instruments based on the classifications described above. The Company did not have any transfers into (out of) Level 1 investments during the periods December 31, 2012 and September 30, 2012. The Company had no Level 2 or Level 3 available for sale investments during the periods December 31, 2012 and September 30, 2012.

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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 report, including without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objective of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expects, intends, plans, projects, estimates, anticipates, or believes or the negative thereof or any variation there on or similar terminology or expressions.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors which could materially affect our results and our future performance include, without limitation, our ability to purchase defaulted consumer receivables at appropriate prices, changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables, our ability to employ and retain qualified employees, changes in the credit or capital markets, changes in interest rates, deterioration in economic conditions, negative press regarding the debt collection industry which may have a negative impact on a debtor s willingness to pay the debt we acquire, and statements of assumption underlying any of the foregoing, as well as other factors set forth under Item 1A. Risk Factors and Item 7 - Management s Discussions and Analysis of Financial Condition and Results of Operation in our annual report on Form 10-K for the fiscal year ended September 30, 2012.

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

Overview

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC (Palisades XVI), VATIV Recovery Solutions LLC (VATIV), ASFI Pegasus Holdings, LLC (APH), Fund Pegasus, LLC (Fund Pegasus), Pegasus Funding, LLC (Pegasus), and other subsidiaries, not all wholly owned, and not considered material (the Company, we or us), is primarily engaged in the business of acquiring, managing, servicing and recovering on portfolios of consumer receivables. These portfolios generally consist of one or more of the following types of consumer receivables:

- *charged-off receivables* accounts that have been written-off by the originators and may have been previously serviced by collection agencies;

- *semi-performing receivables* accounts where the debtor is currently making partial or irregular monthly payments, but the accounts may have been written-off by the originators; and

- *performing receivables* accounts where the debtor is making regular monthly payments that may or may not have been delinquent in the past.

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

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

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

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

other sources.

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Personal Injury Litigation Funding Business

We entered into a joint venture with Pegasus Legal 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.

Matrimonial Claims

On May 18, 2012, we formed BP Case Management, LLC (BPCM) a joint venture with California-based Balance Point Divorce Funding, LLC (BP Divorce Funding). BPCM provides non-recourse funding to a spouse matrimonial action.

Critical Accounting Policies

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

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

As we believe our extensive liquidating experience in certain asset classes such as distressed credit card receivables, telecom receivables, consumer loan receivables and mixed consumer receivables has matured, we 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 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.

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

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Results of Operations

Three-Months Period Ended December 31, 2012, Compared to the Three-Months Ended December 31, 2011

Finance income. For the three months ended December 31, 2012, finance income decreased $1.3 million, or 13.3%, to $ 8.5 million from $9.8 million for the three months ended December 31, 2011. The decrease is primarily due to the lower level of portfolio purchases in recent years and, as a result, the increased number of our portfolios that are in the later stages of their yield curves. Income from fully amortized portfolios (zero basis revenue) decreased $0.5 million to $8.1 million in the three months ended December 31, 2012 compared to $8.6 million in the same prior year period. We did not purchase any consumer debt portfolios in the first quarter ended December 31, 2012. We acquired $1.4 million in portfolios with a face value of $3.1 million in the first quarter of fiscal year 2012.

Net collections for the three months ended December 31, 2012 decreased 19.8% to $13.6 million from $17.0 million for the same prior year period. The decrease is due to the lower level of purchases over the last three and a half years and the general slow-down of the economy. During the first quarter of fiscal year 2013, gross collections decreased 14.9%, or $3.9 million, to $22.1 million from $26.0 million for the three months ended December 31, 2011. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $0.5 million, or 5.8%, to $8.5 million for the current fiscal three-month period from $9.0 million for the three months ended December 31, 2011. Commissions and fees amounted to 38.4% of gross collections for the three month period ended December 31, 2012, compared to 34.6% in the same period of the prior year.

Other income. The following table summarizes other income for the three month periods ended:

	December 31,	
	2012	*2011*
Interest and dividend income	$ 410,000	$ 446,000
Personal injury fee income	1,242,000	
Matrimonial fee income		165,000
Realized gain	400,000	
Service fee income	8,000	23,000
Other	2,000	15,000
	$ 2,062,000	$ 649,000

General and administrative expenses. During the three-month period ended December 31, 2012, general and administrative expenses increased $0.8 million, or 17.4%, to $5.6 million from $4.8 million for the three-months ended December 31, 2011. The increase is primarily attributable to the inclusion of Pegasus Funding, LLC in fiscal year 2013.

Interest expense. During the three-month period ended December 31, 2012, interest expense decreased $105,000, or 15.6 %, from $674,000 in the prior year period to $569,000. The decrease is primarily attributable to the continuing repayment of the BMO loan and slightly lower interest rates.

Income tax expense. Income tax expense, consisting of federal and state income taxes, for three months ended December 31, 2012 was $1.8 million as compared to $2.0 million for the three months ended December 31, 2011. The state portion of the income tax provision for the first quarter of fiscal year 2013 and 2012 has been offset against state net operating loss carryforwards, and, as a result, no state taxes are currently payable.

Net income. For the three months ended December 31, 2012, net income was $2.6 million as compared to $3.0 million for the corresponding prior year period. The decrease is primarily due to higher of general and administrative expenses over the prior year.

Income attributable to non-controlling interest. Income attributable to non-controlling interest of $45,000 is the portion of results attributable to Pegasus for the first quarter of fiscal year 2013. No non-controlling interest results were reported in the first quarter of fiscal year 2012.

Net income attributable to Asta Funding, Inc. Net income attributable to Asta Funding, Inc. was $2.6 million in the first quarter of fiscal year 2013 as compared to $3.0 million in the first quarter of fiscal year 2012.

Liquidity and Capital Resources

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

Receivables Financing Agreement

In March 2007, Palisades XVI borrowed approximately $227 million under the Receivables Financing Agreement, as amended in July 2007, December 2007, May 2008, February 2009 and October 2010, with BMO in order to finance the Portfolio Purchase. The Portfolio Purchase had a purchase price of $300 million (plus 20% of net payments after Palisades XVI recovers 150% of its purchase price plus cost of funds, which recovery has not yet occurred). Prior to the modification, discussed below, the debt was full recourse only to Palisades XVI and provided for an interest rate of approximately 170 basis points over LIBOR. The original term of the agreement was three years. This term was extended by each of the Second, Third, Fourth and Fifth Amendments to the Receivables Financing Agreement as discussed below.

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

In connection with the Fifth Amendment, on October 26, 2010, we entered into the Omnibus Termination Agreement (the Termination Agreement). The limited recourse subordinated guaranty 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, 2013 and 2014 are $6.8 million and $52.0 million, respectively.

On December 31, 2012 and 2011, the outstanding balance on this loan was approximately $58.8 million, and $69.2 million, respectively. The applicable interest rate at December 31, 2012 and 2011 was 3.71% and 3.77%, respectively. The average interest rate of the Receivable Financing Agreement was 3.71 and 3.75% for the periods ended December 31, 2012 and 2011, respectively. We were in compliance with all covenants at December 31, 2012.

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.

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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.

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 , 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.

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 February 8, 2012 we have not utilize this facility.

Other Investments Personal Injury Claims

On December 28, 2011, we, through an indirect subsidiary, APH, entered into a joint venture (the Venture) with 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. 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.

Other Investments Matrimonial Claims

On May 18, 2012, we formed BP Case Management, LLC (BPCM), a joint venture with California-based Balance Point Divorce Funding, LLC (BP Divorce Funding). BPCM provides non-recourse funding to a spouse in a matrimonial action. The Company provided a $1.0 million revolving line of credit to partially fund BP Divorce Funding s operations, with such loan bearing interest at the prevailing prime rate, with an initial term of twenty-four months. The revolving line of credit is collateralized by BP Divorce Funding s profit share in BPCM and other assets.

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Cash Flow

Our cash increased $13.4 million from $4.9 million at September 30, 2012 to $18.3 million at December 31, 2012.

Net cash provided by operating activities was $4.8 million during the three months ended December 31, 2012 compared to net cash provided by operating activities of $5.1 million during the three months ended December 31, 2011. The decrease is primarily due to a decrease in other assets and lower income, partially offset by an increase in amounts due from third party collection agencies and attorneys. Net cash provided by investing activities was $13.5 million during the three month period ended December 31, 2012 compared to $3.0 million used investing activities during the three months ended December 31, 2011, reflecting proceeds from maturities of certificates of deposit in the current fiscal year. Net cash used in financing activities increased from $2.7 million in the period ended December 31, 2011 to $4.9 million in the current period. This increase is a reflection of the purchase of treasury stock in the current period and an advanced dividend payment just prior to the end of the current fiscal period.

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

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

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

	For the Three Months Ended December 31, 2012		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 12,326,000	74,561,000	86,887,000
Net cash collections from collection of consumer receivables acquired for liquidation	(9,473,000)	(4,126,000)	(13,599,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(10,000)		(10,000)
Finance income recognized (1)	7,629,000	861,000	8,490,000
Balance, end of period	$ 10,472,000	71,296,000	81,768,000
Revenue as a percentage of collections	80.5%	20.9%	62.4%

(1) Includes $8.1 million derived from fully amortized interest method pools.

	For the Three Months Ended December 31, 2011		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 31,193,000	$ 84,002,000	$ 115,195,000
Acquisitions of receivable portfolios, net	857,000	494,000	1,351,000
Net cash collections from collection of consumer receivables acquired for liquidation	(12,698,000)	(4,241,000)	(16,939,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(31,000)		(31,000)
Finance income recognized (1)	9,238,000	552,000	9,790,000
Balance, end of period	$ 28,559,000	$ 80,807,000	$ 109,366,000
Revenue as a percentage of collections	72.6%	13.0%	57.7%

(1) Includes $8.6 million derived from fully amortized interest method pools.

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Off Balance Sheet Arrangements

As of December 31, 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.

Additional Supplementary Information:

We do not anticipate collecting the majority of the purchased principal amounts. Accordingly, the difference between the carrying value of the portfolios and the gross receivables is not indicative of future revenues from these accounts acquired for liquidation. Since we purchased these accounts at significant discounts, we anticipate collecting only a portion of the face amounts.

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

Collections Represented by Account Sales

Period	Collections Represented By Account Sales	Finance Income Earned
Three months ended December 31, 2012	$ 10,000	$ 5,000
Three months ended December 31, 2011	$ 31,000	$ 12,000

Portfolio Performance (1)

(*Interest method portfolios only*)

Purchase Period	Purchase Price (2)	Cash Collections Including Cash Sales (3)	Estimated Remaining Collections (4)	Total Estimated Collections (5)	Total Estimated Collections as a Percentage of Purchase Price
2001	65,120,000	105,720,000		105,720,000	162%
2002	36,557,000	48,298,000		48,298,000	132%
2003	115,626,000	222,280,000		222,280,000	192%
2004	103,743,000	192,092,000	26,000	192,118,000	185%
2005	126,023,000	226,138,000	755,000	226,893,000	180%
2006	163,392,000	269,814,000	1,915,000	271,729,000	166%
2007	109,235,000	106,921,000	8,322,000	115,243,000	106%
2008	26,626,000	51,288,000	21,000	51,309,000	193%
2009	19,127,000	37,529,000	979,000	38,508,000	201%
2010	7,212,000	20,850,000	176,000	21,026,000	292%
2011					
2012					
2013					

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

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Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued 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 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. Adoption of this guidance has not had a material effect on our 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. Adoption of this guidance has not had a material effect on our result of operations or financial condition. Adoption of this update has not had 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 was effective as of October 1, 2012. Adoption of this update has not had 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 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. Adoption of this guidance has not had a material effect on our result of operations or financial condition. Other than requiring disclosures for prospective business combinations, the adoption of this update has not had an impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and changes in corporate tax rates. A material change in these rates could adversely affect our operating results and cash flows. At December 31, 2012, our Receivable Financing Agreement, which is variable debt, had an outstanding balance of $58.8 million. A 25 basis-point increase in interest rates would have increased our interest expense for the current quarter by approximately $37,000 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 December 31, 2012, we carried out the evaluation of the effectiveness of our disclosure controls and procedures required by Rule 13a-15(e) under the Exchange Act under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2012, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b. Changes in Internal Controls Over Financial Reporting.

There has been no change in our internal control over financial reporting identified in connection with our evaluation that occurred during our fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 January 18, 2013.

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 first quarter of the fiscal year ended September 30, 2013.

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 October 1, 2012 through October 31, 2012	53,500	$ 9.35	53,500	$ 13,132,000
Repurchases from November 1, 2012 through November 1, 2012	66,600	$ 8.96	66,600	$ 12,535,000
Repurchases from December 1, 2012 through December 31, 2012	31,100	$ 9.29	31,100	$ 12,246,000

(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.

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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: February 11, 2013	By: /s/ Gary Stern Gary Stern, President, Chief Executive Officer (Principal Executive Officer)
Date: February 11, 2013	By: /s/ Robert J. Michel Robert J. Michel, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

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