ASTA FUNDING INC
Form 10-Q
August 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from __________ to __________

Commission file number: 0-26906

ASTA FUNDING, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

As of August 8, 2011, the registrant had 14,636,456 common shares outstanding.

ASTA FUNDING, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ASTA FUNDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	September 30, 2010
ASSETS		
Cash and cash equivalents	$ 103,829,000	$ 84,235,000
Restricted cash	1,115,000	1,304,000
Consumer receivables acquired for liquidation (at net realizable value)	122,201,000	147,031,000
Due from third party collection agencies and attorneys	3,060,000	3,528,000
Prepaid and income taxes receivable		196,000
Furniture and equipment, net	331,000	338,000
Deferred income taxes	17,307,000	18,762,000
Other assets	4,263,000	3,770,000
Total assets	$ 252,106,000	$ 259,164,000
LIABILITIES		
Debt	$ 74,228,000	$ 90,483,000
Subordinated debt related party		4,386,000
Other liabilities	1,466,000	2,105,000
Dividends payable	292,000	292,000
Income taxes payable	4,404,000	
Total liabilities	80,390,000	97,266,000
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 14,636,456 at June 30, 2011 and 14,600,423 at September 30, 2010	146,000	146,000
Additional paid-in capital	74,452,000	72,717,000
Retained earnings	97,013,000	89,026,000
Accumulated other comprehensive income, net of tax	105,000	9,000
Total stockholders equity	171,716,000	161,898,000
Total liabilities and stockholders equity	$ 252,106,000	$ 259,164,000

See accompanying notes to condensed consolidated financial statements

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ASTA FUNDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Revenues:				
Finance income, net	$ 11,170,000	$ 12,042,000	$ 33,066,000	$ 34,197,000
Other income	127,000	55,000	303,000	153,000
	11,297,000	12,097,000	33,369,000	34,350,000
Expenses:				
General and administrative	4,971,000	5,836,000	16,103,000	16,739,000
Interest (Related party Period ended June 30, 2011 Three months, $0; Nine months, $86,000; Period ended June 30, 2010 Three months, $109,000; Nine months, $407,000)	711,000	1,019,000	2,329,000	3,365,000
Impairments of consumer receivables acquired for liquidation			49,000	
	5,682,000	6,855,000	18,481,000	20,104,000
Income before income tax	5,615,000	5,242,000	14,888,000	14,246,000
Income tax expense	2,271,000	2,121,000	6,023,000	5,775,000
Net income	$ 3,344,000	$ 3,121,000	$ 8,865,000	$ 8,471,000
Net income per share:				
Basic	$ 0.23	$ 0.21	$ 0.61	$ 0.59
Diluted	$ 0.23	$ 0.21	$ 0.60	$ 0.58
Weighted average number of common shares outstanding:				
Basic	14,620,190	14,599,162	14,624,685	14,455,754
Diluted	14,858,059	14,806,756	14,824,152	14,544,757

See accompanying notes to condensed consolidated financial statements

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ASTA FUNDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(Unaudited)

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, September 30, 2010	14,600,423	$ 146,000	$ 72,717,000	$ 89,026,000	$ 9,000	$ 161,898,000
Restricted common stock	32,765					
Exercise of options	3,268		12,000			12,000
Stock based compensation expense			1,723,000			1,723,000
Dividends				(878,000)		(878,000)
Accumulated Other comprehensive income, net of tax					96,000	96,000
Net income				8,865,000		8,865,000
Balance, June 30, 2011	14,636,456	$ 146,000	$ 74,452,000	$ 97,013,000	$ 105,000	$ 171,716,000

Comprehensive income

Comprehensive income is as follows:

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Net income	$ 8,865,000	$ 8,471,000
Other comprehensive income (loss), net of tax foreign currency translation	96,000	(69,000)
Comprehensive income	$ 8,961,000	$ 8,402,000

See accompanying notes to condensed consolidated financial statements

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ASTA FUNDING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 8,865,000	$ 8,471,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	214,000	785,000
Deferred income taxes	1,455,000	6,181,000
Impairments of consumer receivables acquired for liquidation	49,000	
Stock based compensation	1,723,000	969,000
Changes in:		
Other assets	(505,000)	(917,000)
Due from third party collection agencies and attorneys	468,000	(522,000)
Income taxes payable and receivable	4,600,000	50,622,000
Other liabilities	(543,000)	(757,000)
Net cash provided by operating activities	16,326,000	64,832,000
Cash flows from investing activities:		
Purchase of consumer receivables acquired for liquidation	(6,836,000)	(3,334,000)
Principal collected on receivables acquired for liquidation	31,462,000	44,613,000
Principal collected on receivable accounts represented by account sales	211,000	2,076,000
Foreign exchange effect on receivables acquired for liquidation	(56,000)	(47,000)
Capital expenditures	(195,000)	(95,000)
Net cash provided by investing activities	24,586,000	43,213,000
Cash flows from financing activities:		
Proceeds from exercise of options	12,000	870,000
Tax benefit arising from vesting of restricted stock awards		51,000
Change in restricted cash	189,000	484,000
Dividends paid	(878,000)	(863,000)
Repayments of debt, net	(20,641,000)	(32,976,000)
Net cash used in financing activities	(21,318,000)	(32,434,000)

Net increase in cash and cash equivalents	19,594,000	75,611,000
Cash at the beginning of period	84,235,000	2,385,000
Cash and cash equivalents at end of period	$ 103,829,000	$ 77,996,000
Supplemental disclosure of cash flow information:		
Cash paid during the period		
Interest (fiscal year 2011 Related Party $122,000; 2010 Related Party $387,000)	$ 2,420,000	$ 3,522,000
Income taxes	$ 33,000	$ 2,052,000

See accompanying notes to condensed consolidated financial statements.

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

Note 1: Business and Basis of Presentation

Business

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC (Palisades XVI), VATIV Recovery Solutions LLC (VATIV) and other subsidiaries, not all wholly owned, and not considered material (the Company , we or us) is engaged in the business of purchasing, managing for its own account and servicing distressed consumer receivables, including charged-off receivables, semi-performing receivables and performing receivables. The primary charged-off receivables are accounts that have been written-off by the originators and may have been previously serviced by collection agencies. Semi-performing receivables are accounts where the debtor is currently making partial or irregular monthly payments, but the accounts may have been written-off by the originators. Performing receivables are accounts where the debtor is making regular monthly payments that may or may not have been delinquent in the past. Distressed consumer receivables are the unpaid debts of individuals to banks, finance companies and other credit providers. A large portion of the Company s distressed consumer receivables are MasterCard(R), Visa(R), 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.

Basis of Presentation

The condensed consolidated balance sheet as of June 30, 2011, the condensed consolidated statements of operations for the nine and three month periods ended June 30, 2011 and 2010, the condensed consolidated statement of stockholders equity as of and for the nine months ended June 30, 2011 and the condensed consolidated statements of cash flows for the nine month periods ended June 30, 2011 and 2010, are unaudited. The September 30, 2010 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, 2010. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position at June 30, 2011 and September 30, 2010, the results of operations for the nine and three month periods ended June 30, 2011 and 2010 and cash flows for the nine month periods ended June 30, 2011 and 2010 have been made. The results of operations for the nine and three month periods ended June 30, 2011 and 2010 are not necessarily indicative of the operating results for any other interim period or the full fiscal year.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission and, therefore, do not include all information and note disclosures required under generally accepted accounting principles. The Company suggests that these financial statements be read in conjunction with the financial statements and notes thereto included in its Annual Report on Form 10-K for the fiscal year ended September 30, 2010 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.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-05 in order to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. This update requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the

components of other comprehensive income, and the total of comprehensive income. This update is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. Adoption of this update is not expected to have a material effect on the Company s results of operations or financial condition.

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ***Continued***

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

Recent Accounting Pronouncements (continued)

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

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

Subsequent Events

The Company has evaluated events and transactions occurring subsequent to the Condensed Balance Sheet date of June 30, 2011, for items that should potentially be recognized or disclosed in these financial statements. The Company did not identify any items which would require disclosure in or adjustment to the Financial Statements.

Reclassifications

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

Note 2: Principles of Consolidation

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

Note 3: Consumer Receivables Acquired for Liquidation

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

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

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

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ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ***Continued***

Note 3: Consumer Receivables Acquired for Liquidation *(continued)*

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 such case, all cash collections are recognized as revenue when received.

The Company has liquidating experience in the fields of distressed credit card receivables, telecommunication receivables, consumer loan receivables, retail installment contracts, consumer receivables, litigation-related accounts, and auto deficiency receivables. The Company uses the interest method for accounting for asset acquisitions within these classes of receivables when it believes it can reasonably estimate the timing of the cash flows. In those situations where the Company diversifies its acquisitions into other asset classes in which the Company does not possess the same expertise or history, or the Company cannot reasonably estimate the timing of the cash flows, the Company utilizes the cost recovery method of accounting for those portfolios of receivables. At June 30, 2011, approximately $34.3 million of the consumer receivables acquired for liquidation are accounted for using the interest method, while approximately $87.9 million are accounted for using the cost recovery method, of which $80.9 million is concentrated in one portfolio, a $300 million portfolio purchase in March 2007 (the Portfolio Purchase).

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;

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ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ***Continued***

Note 3: Consumer Receivables Acquired for Liquidation *(continued)*

the credit originator and its credit guidelines;

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

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

financial condition of the seller;

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

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

The Company obtains and utilizes, 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 in evaluating and developing collection strategies and in evaluating and modeling the expected cash flows for a given portfolio.

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

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

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

	For the Nine Months Ended June 30, 2010	
	Interest	Cost Recovery

	Method	Method	Total
Balance, beginning of period	$ 70,650,000	$ 137,611,000	$ 208,261,000
Acquisitions of receivable portfolios, net	3,043,000	291,000	3,334,000
Net cash collections from collection of consumer receivables acquired for liquidation	(56,801,000)	(20,908,000)	(77,709,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(3,173,000)	(4,000)	(3,177,000)
Effect of foreign currency translation		47,000	47,000
Finance income recognized (1)	32,975,000	1,222,000	34,197,000
Balance, end of period	$ 46,694,000	$ 118,259,000	$ 164,953,000
Finance income as a percentage of collections	55.0%	5.8%	42.3%

(1) Includes approximately $25.6 million derived from fully amortized portfolios.

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

Note 3: Consumer Receivables Acquired for Liquidation (*continued*)

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

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

	For the Three Months Ended June 30, 2010		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 54,375,000	$ 124,239,000	$ 178,614,000
Acquisitions of receivable portfolios, net		63,000	63,000
Net cash collections from collections of consumer receivables acquired for liquidation	(18,825,000)	(6,538,000)	(25,363,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(433,000)		(433,000)
Effect of foreign currency translation		30,000	30,000
Finance income recognized (1)	11,577,000	465,000	12,042,000
Balance, end of period	$ 46,694,000	$ 118,259,000	$ 164,953,000
Finance income as a percentage of collections	60.1%	7.1%	46.7%

(1) Includes approximately $9.2 million derived from fully amortized portfolios.

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

Note 3: Consumer Receivables Acquired for Liquidation **(*continued*)**

As of June 30, 2011, the Company had $122,201,000 in Consumer Receivables acquired for Liquidation, of which $34,260,000 are being accounted for on the accrual basis. Based upon current projections, net cash collections, applied to principal for accrual basis portfolios will be as follows for the twelve months in the periods ending:

September 30, 2011 (three months ending)	$ 5,143,000
September 30, 2012	17,125,000
September 30, 2013	8,016,000
September 30, 2014	3,855,000
September 30, 2015	1,024,000
September 30, 2016	740,000
September 30, 2017	185,000
Subtotal	36,088,000
Deferred revenue	(1,828,000)
Total	$ 34,260,000

Accretable yield represents the amount of income the Company can expect to generate over the remaining life of its existing portfolios based on estimated future net cash flows as of June 30, 2011. The Company adjusts the accretable yield upward when it believes, based on available evidence, that portfolio collections will exceed amounts previously estimated. Changes in accretable yield for the nine months and three months ended June 30, 2011 and 2010 are as follows:

	Nine Months Ended June 30, 2011	**Nine Months Ended June 30, 2010**
Balance at beginning of period	$ 15,255,000	$ 25,875,000
Income recognized on finance receivables, net	(30,998,000)	(32,975,000)
Additions representing expected revenue from purchases	1,698,000	1,080,000
Reclassifications from nonaccretable difference	24,597,000	22,948,000
Balance at end of period	$ 10,552,000	$ 16,928,000

	Three Months Ended June 30, 2011	**Three Months Ended June 30, 2010**
Balance at beginning of period	$ 12,342,000	$ 20,513,000
Income recognized on finance receivables, net	(10,488,000)	(11,577,000)
Additions representing expected revenue from purchases	460,000	
Reclassifications from nonaccretable difference	8,238,000	7,992,000

Balance at end of period	$ 10,552,000	$ 16,928,000

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

Note 3: Consumer Receivables Acquired for Liquidation **(*continued*)**

During the three and nine month periods ended June 30, 2011, the Company purchased $4.1 million and $17.8 million, respectively, of face value of charged-off consumer receivables at a cost of $1.8 million and $6.8 million, respectively. During the third quarter of fiscal year 2011, most of the portfolios purchased were classified under the interest method.

The following table summarizes collections on a gross basis as received by our third-party collection agencies and attorneys, less commissions and direct costs for the nine and three month periods ended June 31, 2011 and 2010, respectively:

	For the Nine Months Ended June 30,	
	2011	2010
Gross collections (1)	$ 100,566,000	$ 123,590,000
Commissions and fees (2)	35,827,000	42,704,000
Net collections	$ 64,739,000	$ 80,886,000

	For the Three Months Ended June 30,	
	2011	2010
Gross collections (1)	$ 33,559,000	$ 39,828,000
Commissions and fees (2)	11,824,000	14,032,000
Net collections	$ 21,735,000	$ 25,796,000

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

(2) Commissions and fees are the contractual commission earned by third party collection agencies and attorneys, and direct costs associated with the collection effort, generally court costs. Includes a 3% fee charged by a servicer on substantially all gross collections received by the Company in connection with the Portfolio Purchase (see Note 5).

Note 4: Furniture and Equipment

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

	June 30, 2011	September 30, 2010
Furniture	$ 310,000	$ 310,000
Equipment	3,020,000	2,855,000

Software	180,000	153,000
Leasehold improvements	90,000	86,000
	3,600,000	3,404,000
Less accumulated depreciation	3,269,000	3,066,000
Balance, end of period	$ 331,000	$ 338,000

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

Note 5: Debt and Subordinated Debt Related Party

The Company s debt and subordinated debt related party at June 30, 2011 and September 30, 2010 are summarized as follows:

	June 30, 2011	September 30, 2010	June 30, 2011 Stated Interest Rate	June 30, 2011 Average Interest Rate (1)	September 30, 2010 Stated Interest Rate	September 30, 2010 Average Interest Rate
Receivables Financing Agreement	$ 74,228,000	$ 90,483,000	3.69%	3.76%	3.76%	3.77%
Subordinated debt related party	$	$ 4,386,000		10.0%	10.00%	8.69%

(1) 9-month average

Receivables Financing Agreement

In March 2007, Palisades XVI entered into a receivables financing agreement (the Receivables Financing Agreement) with the Bank of Montreal (BMO), as amended in July 2007, December 2007, May 2008, February 2009 and October 2010 in order to finance the Portfolio Purchase. The Portfolio Purchase had a purchase price of $300 million (plus 20% of net payments after Palisades XVI recovers 150% of its purchase price plus cost of funds, which recovery has not yet occurred). Prior to the modifications, discussed below, the debt was full recourse only to Palisades XVI and accrued interest at the rate of approximately 170 basis points over LIBOR. The original term of the agreement was three years. This term was extended by each of the Second, Third, Fourth and Fifth Amendments to the Receivables Financing Agreement as discussed below. Proceeds received as a result of the net collections from the Portfolio Purchase are applied to interest and principal of the underlying loan. The Portfolio Purchase is serviced by Palisades Collection LLC, a wholly owned subsidiary of the Company, which has engaged unaffiliated subservicers for a majority of the Portfolio Purchase.

Since the inception of the Receivables Financing Agreement amendments have been signed to revise various terms of the Receivables Financing Agreement. The following is a summary of the material amendments:

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

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

ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Note 5: Debt and Subordinated Debt Related Party *(continued)*

Receivables Financing Agreement (continued)

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 cannot exercise any recourse against the Company until the earlier of (i) five years from the date of the Fourth Amendment and (ii) the termination of the Company s existing senior lending facility or any successor senior facility.

On October 26, 2010, Palisades XVI entered into the Fifth Amendment to the Receivables Financing Agreement (the Fifth Amendment). The effective date of the Fifth Amendment was October 14, 2010. The Fifth Amendment (i) extended the expiration date of the Receivables Financing Agreement to April 14, 2014; (ii) reduced the minimum monthly payment to $750,000; (iii) accelerated the Company s guaranty credit enhancement of $8,700,000, which was paid upon the execution of the Fifth Amendment; (iv) eliminated the Company s limited guaranty of repayment of the loans outstanding by Palisades XVI; and (v) revised the definition of Borrowing Base Deficit , as defined in the Receivables Financing Agreement, to mean the excess, if any, of 105% of the loans outstanding over the borrowing base.

In connection with the Fifth Amendment, on October 26, 2010, the Company entered into the Omnibus Termination Agreement (the Termination Agreement). The Termination Agreement provides that, upon payment of $8,700,000 to the Lender and execution of the Fifth Amendment, the following agreements, which were entered into by the Company and certain of its affiliated entities in connection with the guaranty of the outstanding loans under the Receivables Financing Agreement, were terminated: (i) the Subordinated Limited Recourse Guaranty Agreement, dated February 20, 2009, among the Company, its subsidiaries and BMO; (ii) the Subordinated Guarantor Security Agreement, dated February 20, 2009; (iii) the Limited Recourse Guaranty Agreement, dated as of February 20, 2009; and (iv) the Intercreditor Agreement, dated February 20, 2009. The Termination Agreement was effective as of October 14, 2010.

The aggregate minimum repayment obligations required under the Fifth Amendment, including interest and principal, for fiscal years ending September 30, 2011 through 2013, is $9 million annually, and, for the fiscal year ending September 30, 2014, is approximately $5 million (seven months).

On June 30, 2011 and 2010, the outstanding balance on this loan was approximately $74.2 million and $93.5 million, respectively. The applicable interest rate at June 30, 2011 and 2010 was 3.69% and 3.85%, respectively. The average interest rate of the Receivable Financing Agreement was 3.76% for the nine-month periods ended June 30, 2011 and 2010.

The Company s average debt obligation (excluding the subordinated debt related party) for the nine and three month periods ended June 30, 2011, was approximately $78.7 million and $75.3 million, respectively. The average interest rate for the nine and three month periods ended June 30, 2011 was 3.76% and 3.73%, respectively.

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

Note 5: Debt and Subordinated Debt Related Party *(continued)*

Bank Leumi Credit Agreement

On December 14, 2009, the Company and its subsidiaries other than Palisades XVI, entered into a revolving credit agreement with Bank Leumi (the Leumi Credit Agreement), which permitted maximum principal advances of up to $6 million. This agreement expired on December 31, 2010. The interest rate was a floating rate equal to the Bank Leumi Reference Rate plus 2%, with a floor of 4.5%. The loan was secured by collateral consisting of all of the assets of the Company other than those of Palisades XVI. In addition, other collateral for the loan consisted of a pledge of cash and securities by GMS Family Investors, LLC, an investment company owned by members of the Stern family. There were no financial covenant restrictions. On December 14, 2009, approximately $3.6 million of the Bank Leumi credit line was drawn and used to reduce to zero the remaining balance on the IDB Credit Facility described below. The balance outstanding on the Leumi Credit Agreement was reduced to zero on January 14, 2010 and remained at zero until its expiration on December 31, 2010. Currently, the Company does not have a new agreement in place, and there can be no assurance that a new agreement will be reached, but the Company has maintained ongoing discussions with Bank Leumi regarding entering into a new and more substantial credit agreement.

IDB Credit Facility

The Eighth Amendment to the IDB Credit Facility, entered into on July 10, 2009, granted an initial $40 million line of credit from a consortium of banks (the Bank Group) for portfolio purchases and working capital and was scheduled to reduce to zero by December 31, 2009. The IDB Credit Facility accrued interest at the lesser of LIBOR plus an applicable margin, or the prime rate minus an applicable margin based on certain leverage ratios, with a minimum rate of 5.5% per annum. The IDB Credit Facility was collateralized by all assets of the Company, other than those of Palisades XVI and contained financial and other covenants. The IDB Credit Facility s commitment termination date was December 31, 2009. This IDB facility was repaid in full on December 14, 2009.

Subordinated Debt Related Party

On April 29, 2008, the Company obtained a subordinated loan pursuant to a subordinated promissory note from an entity (the Family Entity). The Family Entity is a greater than 5% shareholder of the Company and is beneficially owned and controlled by Arthur Stern, a Director of the Company, Gary Stern, the Chairman, President and Chief Executive Officer of the Company, and members of their families. The loan was in the aggregate principal amount of approximately $8.2 million, accrued interest at a rate of 6.25% per annum and was payable interest only each quarter until its maturity date of January 9, 2010, subject to prior repayment in full of the IDB Credit Facility. The subordinated loan was incurred by the Company to resolve certain issues related to the activities of one of the subservicers utilized by Palisades Collection LLC under the Receivables Financing Agreement. Proceeds from the subordinated loan were initially used to further collateralize the Company s IDB Credit Facility and to reduce the balance due on that facility as of May 31, 2008. In December 2009, the subordinated debt-related party maturity date was extended through December 31, 2010. In addition the interest rate was changed to 10% per annum effective January 2010. Approximately $3.8 million of the loan was repaid in fiscal year 2010, with the remaining $4.4 million repaid during the first quarter of fiscal year 2011, including the final payment of $2.4 million on December 30, 2010, reducing the balance to zero.

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

Note 6: 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 2011.

On November 30, 2009, the Company entered into a consulting services agreement with Cameron Williams, its former Chief Operating Officer. Under the terms of the agreement, the Company paid Mr. Williams a monthly fee of $20,833.33 for the one year period ended December 31, 2010 in exchange for certain consulting services. In addition, in exchange for a release of all claims and liabilities, the Company paid Mr. Williams a fee of $100,000, reimbursed his COBRA costs up to $1,000 per month, and accelerated vesting of 16,667 stock options held by Mr. Williams, exercisable at $2.95 per share. Also Mr. Williams signed another release in favor of the Company and was paid $20,833.37 at the end of this consulting term in December 2010.

Leases

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

Litigation

In the ordinary course of its business, the Company is involved in numerous legal proceedings. The Company regularly initiates collection lawsuits against consumers, using its network of third party law firms. In addition, consumers occasionally initiate litigation against the Company, alleging that the Company has violated a federal or state law in the process of attempting to collect their account. The Company does not believe that these matters will have a material impact on its business, financial condition or results of operations. The Company is not involved in any litigation matters in which it was a defendant that the Company believes will result in a material adverse outcome.

Note 7: Income Recognition and Impairments

Income Recognition

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

Once a static pool is established for a quarter, individual receivable accounts are not added to the pool (unless replaced by the seller) or removed from the pool (unless sold or returned to the seller). ASC 310 requires that the excess of the contractual cash flows over expected cash flows not be recognized as an adjustment of revenue or expense or on the balance sheet. ASC 310 initially freezes the internal rate of return (IRR), estimated when the accounts receivable are purchased, as the basis for subsequent impairment testing. Significant increases in actual, or expected future cash flows may be recognized prospectively through an upward adjustment of the IRR over a portfolio s remaining life. Any increase to the IRR then becomes the new benchmark for impairment testing. Under ASC 310, rather than lowering the estimated IRR if the collection estimates are not received or projected to be received, the carrying value of a pool would be written down to maintain the then current IRR.

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

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

Note 7: Income Recognition and Impairments *(continued)*

Impairments

The Company accounts for its impairments in accordance with ASC 310, which provides guidance on how to account for differences between contractual and expected cash flows from an investor s initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. Increases in expected cash flows are recognized prospectively through an adjustment of the internal rate of return while decreases in expected cash flows are recognized as impairments. ASC 310 makes it more likely that impairment losses and accretable yield adjustments for portfolios performances which exceed original collection projections will be recorded, as all downward revisions in collection estimates will result in impairment charges, given the requirement that the IRR of the affected pool be held constant. There was an impairment of $49 thousand recorded during the nine month period ended June 30, 2011. No impairments were recorded during the three and nine month periods ended June 30, 2010. Finance income is not recognized on cost recovery method portfolios until the cost of the portfolio is fully recovered. Collection projections are performed on both interest method and cost recovery method portfolios. With regard to the cost recovery portfolios, if collection projections indicate the carrying value will not be recovered a write down in value is required.

Our 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. We have found that there are better states to try to collect receivables and we factor in both better and worse states when establishing our 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 we have significant experience with both types of balances, we are 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 we purchase portfolios of like assets, we accumulate a significant historical data base on the tendencies of debtor repayments and factor this into our initial expected cash flows;

- our ability to analyze accounts and resell accounts that meet our 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 suit strategy and, conversely, debtors without jobs or property are less likely to repay their obligation. We believe that debtors with jobs or property are more likely to repay because courts have mandated the debtor must pay the debt. Ultimately, the debtor will pay to clear title or release a lien. We also believe that these debtors generally might take longer to repay and that is factored into our initial expected cash flows; and

- credit standards of issuer.

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

Note 7: Income Recognition and Impairments *(continued)*

Impairments (continued)

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 acquisition costs after our servicing expenses. Additionally, when considering larger portfolio purchases of accounts, or portfolios from issuers with whom we have limited experience, we have the added benefit of soliciting our third party servicers for their input on liquidation rates and, at times, incorporate such input into 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 portfolios 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 7 years, which is an increase from the previous 5-year expectation. Portfolios acquired during the first nine months of fiscal year 2011 include semi-performing litigation-related accounts receivable portfolios whereby the Company is assigned the revenue stream. As a portion of the accounts are performing, the cost of the portfolio is higher than the traditional charged off non-performing assets. The expectation of recovering 130% of our investment is projected to be over a three year period. We routinely monitor 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.

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 8: Income Taxes

Deferred federal and state taxes principally arise from (i) recognition of finance income collected for tax purposes, but not yet recognized for financial reporting; (ii) provision for impairments/credit losses; and (iii) stock based compensation for stock option grants and restricted stock awards recorded in the statement of operations for which no cash distribution has been made. Other components consist of state net operating loss (NOL) carryforwards. The provision for income tax expense for the three month periods ending June 30, 2011 and 2010 reflects income tax expense at an effective rate of 40.5% for both periods. The provision for income tax expense for the nine month periods ending June 30, 2011 and 2010, reflects income tax expense at an effective rate of 40.5% for both periods. The corporate federal income tax returns of the Company for 2006 through 2009 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 the Company s 2008 and 2009 federal income tax returns would be audited. This audit is currently in progress.

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ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ***Continued***
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Note 9: Net Income Per Share

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

The following table presents the computation of basic and diluted per share data for the nine and three months ended June 30, 2011 and 2010:

	Nine Months Ended June 30,					
	2011			2010		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic	$ 8,865,000	14,624,685	$ 0.61	$ 8,471,000	14,455,754	$ 0.59
Effect of Dilutive Stock		199,467	(0.01)		89,003	(0.01)
Diluted	$ 8,865,000	14,824,152	$ 0.60	$ 8,471,000	14,544,757	$ 0..58

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

At June 30, 2010, 715,345 options at a weighted average exercise price of $15.88 were not included in the diluted earnings per share calculation as they were antidilutive.

	Three Months Ended June 30,					
	2011			2010		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic	$ 3,344,000	14,620,190	$ 0.23	$ 3,121,000	14,599,162	$ 0.21
Effect of Dilutive Stock		237,869			207,594	
Diluted	$ 3,344,000	14,858,059	$ 0.23	$ 3,121,000	14,806,756	$ 0.21

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

At June 30, 2010, 747,771 options at a weighted average exercise price of $15.54 were not included in the diluted earnings per share calculation as they were antidilutive.

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

Note 10: 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 June 2011, the Compensation Committee of the Board of Directors of the Company (the Compensation Committee) granted 50,000 stock options to a consultant. The exercise price of these options was above the market price on the date of the grant. The weighted average assumptions used in the option pricing model were as follows:

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

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

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

In December 2010, the Compensation Committee granted 324,800 stock options, of which 30,000 options were issued to each non-employee independent director for a total of 150,000 stock options. 60,000 stock options were awarded to the Chief Executive Officer and 30,000 stock options were awarded to the Chief Financial Officer and the Senior Vice President. The remaining 54,800 stock options were granted to full time employees of the Company, who had been employed at the Company for at least six months prior to the date of grant. The grants to employees excluded officers of the Company. The exercise price of these options was at the market price on the date of the grant. Additionally, in December 2010, the Compensation Committee issued 32,765 shares of restricted stock to the Chief Executive Officer. The exercise price of all stock options was at the market price on the date of the grant. The weighted average assumptions used in the option pricing model were as follows:

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

In December 2009, the Compensation Committee granted 25,000 stock options to each director of the Company other than the Chief Executive Officer, for a total of 150,000 options, and 8,900 stock options to full time employees of the Company who had been employed at the Company for at least six months prior to the date of grant. The grants to employees excluded officers of the Company. The exercise price of these options was at the market price on the date of the grant. The weighted average assumptions used in the option pricing model were as follows:

Risk-free interest rate	0.17%
Expected term (years)	10.0
Expected volatility	110.2%
Dividend yield	1.12%

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ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ***Continued***
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Note 11: Stock Option Plans

Equity Compensation Plan

On December 1, 2005, the Board of Directors adopted the Company s Equity Compensation Plan (the Equity Compensation Plan), approved by the stockholders of the Company on March 1, 2006. The Equity Compensation Plan was adopted to supplement the Company s existing 2002 Stock Option Plan. In addition to permitting the grant of stock options as 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. One million shares were authorized for issuance under the Equity Compensation Plan. The following description does not purport to be complete and is qualified in its entirety by reference to the full text of the Equity Compensation Plan, which is included as an exhibit to the Company s reports filed with the SEC.

The general purpose of the Equity Compensation Plan is to provide an incentive to our employees, directors and consultants, including executive officers, employees and consultants of any subsidiaries, by enabling them to share in the future growth of our business. The Board of Directors believes that the granting of stock options and other equity awards promotes continuity of management and increases incentive and personal interest in the welfare of the Company by those who are primarily responsible for shaping and carrying out our long range plans and securing our growth and financial success.

The Board believes that the Equity Compensation Plan will advance our interests by enhancing our ability to (a) attract and retain employees, directors and consultants who are in a position to make significant contributions to our success; (b) reward employees, directors and consultants for these contributions; and (c) encourage employees, directors and consultants to take into account our long-term interests through ownership of our shares.

The Company has 1,000,000 shares of Common Stock authorized for issuance under the Equity Compensation Plan and 495,569 shares were available as of June 30, 2011. As of June 30, 2011, approximately 97 of the Company s employees were eligible to participate in the Equity Compensation Plan.

2002 Stock Option Plan

On March 5, 2002, the Board of Directors adopted the Asta Funding, Inc. 2002 Stock Option Plan (the 2002 Plan), which plan was approved by the Company s stockholders on May 1, 2002. The 2002 Plan was adopted in order to attract and retain qualified directors, officers and employees of, and consultants to, the Company. The following description does not purport to be complete and is qualified in its entirety by reference to the full text of the 2002 Plan, which is included as an exhibit to the Company s reports filed with the SEC.

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 has 1,000,000 shares of Common Stock authorized for issuance under the 2002 Plan and 129,734 were available as of June 30, 2011. As of June 30, 2011, approximately 97 of the Company s employees were eligible to participate in the 2002 Plan.

1995 Stock Option Plan

The 1995 Stock Option Plan expired on September 14, 2005. The plan was adopted in order to attract and retain qualified directors, officers and employees of, and consultants, to the Company. The following description does not purport to be complete and is qualified in its entirety by reference to the full text of the 1995 Stock Option Plan, which is included as an exhibit to the Company s reports filed with the SEC.

The 1995 Stock Option Plan authorized the granting of incentive stock options (as defined in Section 422 of the Code) and non-qualified stock options to eligible employees of the Company, including officers and directors of the Company (whether or not employees) and consultants to the Company.

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

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ASTA FUNDING, INC. AND SUBSIDIARIES
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Note 11: Stock Option Plans ***(continued)***

The following table summarizes stock option transactions under the plans:

	Nine Months Ended June 30,			
	2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding options at the beginning of period	922,039	$ 12.70	1,157,905	$ 10.76
Options granted	384,800	7.53	158,900	8.07
Options exercised	(3,268)	3.71	(327,966)	2.65
Options forfeited	(1,400)	5.79	(20,500)	16.24
Outstanding options at the end of period	1,302,171	$ 11.37	968,339	$ 12.95
Exercisable options at the end of period	997,174	$ 12.36	838,677	$ 13.89

	Three Months Ended June 30,			
	2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding options at the beginning of period	1,254,505	$ 11.17	970,538	$ 12.93
Options granted	50,000	11.50		
Options exercised	(2,334)	2.95	(2,199)	2.95
Options forfeited				
Outstanding options at the end of period	1,302,171	$ 1137	968,339	$ 12.95
Exercisable options at the end of period	997,174	$ 12.36	838,677	$ 13.89

There is no intrinsic value of the outstanding and exercisable options as of June 30, 2011. The intrinsic value of the stock options exercised during the three month period ended June 30, 2011 was approximately $11,000.

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ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ***(Continued)***
(unaudited)

Note 11: Stock Option Plans *(continued)*

The following table summarizes information about the Plans outstanding options as of June 30, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.8751 $5.7500	195,500	4.3	$ 3.92	195,500	$ 3.92
$5.7501 $8.6250	503,400	8.9	7.71	231,736	7.71
$8.6251 $14,3750	50,000	10.0	11.50	16,667	11.50
$14.3751 $17.2500	198,611	2.4	14.88	198,611	14.88
$17.2501 $20.1250	339,660	3.3	18.23	339,660	18.23
$25.8751 $28.7500	15,000	5.5	28.75	15,000	28.75
	1,302,171	5.8	$ 11.37	997,174	$ 12.36

The following table summarizes information about restricted stock transactions:

	Nine Months Ended June 30,			
	2011		2010	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at the beginning of period	17,669	$ 19.73	35,338	$ 19.73
Awards granted	32,765	7.63		
Vested	(28,591)	15.11	(17,669)	19.73
Forfeited				
Unvested at the end of period	21,843	$ 7.63	17,669	$ 19.73

	Three Months Ended June 30,			
	2011		2010	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested at the beginning of period	21,843	$ 7.63	17,669	$ 19.73
Awards granted				
Vested				

Forfeited					
Unvested at the end of period	21,843	$	7.63	17,669	$	19.73

The Company recognized $1,723,000 and $420,000 of stock based compensation expense during the nine and three month periods ended June 30, 2011. The Company recognized $969,000 and $206,000 of stock based compensation expense during the nine and three months ended June 30, 2010. As of June 30, 2011, there was $1,609,000 of unrecognized stock based compensation cost.

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ASTA FUNDING, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS ***(Continued)***
(unaudited)

Note 12: Stockholders Equity

For the nine months ended June 30, 2011, the Company declared dividends of $878,000, or $.02 per share. Of this amount $585,000 was paid during the nine months ended June 30, 2011 and $293,000 was accrued as of June 30, 2011 and paid August 1, 2011. As of June 30, 2011, stockholders equity includes an amount for accumulated other comprehensive income of $105,000, which relates to the Company s investment in a company domiciled in South America.

On June 22, 2011, the Company announced that its Board of Directors had authorized share repurchase program for up to $20,000,000 of the Company s common stock. The program calls for the repurchases to be made in open market or privately negotiated transactions from time to time in compliance with applicable laws, rules, and regulations, including Rule 10b-18 under the Securities Exchange Act of 1934, as amended, subject to cash requirements and other relevant factors, such as trading price, trading volume and general market and business conditions. All of the repurchases will be funded by the Company s available working capital and the duration of the repurchase program is 12 months, although it may be extended, suspended or discontinued without prior notice. There is no guarantee as to the exact number of shares, if any, that will be repurchased by the Company.

Note 13: Fair Value of Financial Instruments

FASB ASC 825, Financial Instruments, 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 value of the estimates.

The carrying value of consumer receivables acquired for liquidation was $122,201,000 and $147,031,000 at June 30, 2011 and September 30, 2010, respectively. The Company computed the fair value of the consumer receivables acquired for liquidation using its forecasting model and the fair value approximated $144,359,000 and $179,730,000 at June 30, 2011 and September 30, 2010, respectively. The Company s forecasting model utilizes a discounted cash flow analysis. The Company s cash flows are an estimate of collections for all of our consumer receivables based on variables fully described in Note 3: Consumer Receivables Acquired for Liquidation. These cash flows are then discounted using our estimated weighted average cost of capital to determine the fair value.

The carrying value of debt and subordinated debt (related party) was $74,228,000 and $94,869,000 at June 30, 2011 and September 30, 2010, respectively. The majority of these loans are variable rate and short-term; therefore, the carrying amounts approximate fair value.

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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, anticipate or the negative thereof or any variation there on or similar terminology or expressions.

We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Important factors which could materially affect our results and our future performance include, without limitation, our ability to purchase defaulted consumer receivables at appropriate prices, changes in government regulations that affect our ability to collect sufficient amounts on our defaulted consumer receivables, our ability to employ and retain qualified employees, changes in the credit or capital markets, changes in interest rates, deterioration in economic conditions, negative press regarding the debt collection industry which may have a negative impact on a debtor s willingness to pay the debt we acquire, and statements of assumption underlying any of the foregoing, as well as other factors set forth under Item 1A. Risk Factors in our annual report on Form 10-K for the fiscal year ended September 30, 2010 and in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

Overview

Asta Funding, Inc., together with its wholly owned significant operating subsidiaries Palisades Collection LLC, Palisades Acquisition XVI, LLC (Palisades XVI), VATIV Recovery Solutions LLC (VATIV) and other subsidiaries, not all wholly-owned, and not considered material (the Company, we or us), primarily engage 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 privately negotiated direct sales and auctions in which sellers of receivables seek bids from several pre-qualified debt purchasers. We pursue new acquisitions of consumer receivable portfolios on an ongoing basis through:

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

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

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Critical Accounting Policies

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

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

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

We account for our investment in finance receivables using the interest method under the guidance of 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;
- 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-litigation 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.

Results of Operations

Nine-month period ended June 30, 2011, compared to the nine-month period ended June 30, 2010

Finance income. For the nine month period ended June 30, 2011, finance income decreased $1.1 million or 3.3% to $33.1 million from $34.2 million for the nine month period ended June 30, 2010. Finance income has decreased primarily due to the lower level of portfolio purchases and, as a result, the increased percentage of our portfolio balances are in the later stages of their yield curves. We purchased $17.8 million in face value of new portfolios at a cost of $6.8 million in the first nine months of fiscal year 2011 as compared to $155.7 million in face value of new portfolios at a cost of $3.3 million in the same prior year period. The portfolios acquired during the first nine months of fiscal year 2011 include semi-performing litigation-related accounts receivable portfolios whereby we are assigned a revenue stream. As a portion of the accounts are performing, the cost of the portfolio is higher than the traditional charged off non-performing assets.

During the first nine months of fiscal year 2011, gross collections decreased 18.6% to $100.6 million from $123.6 million for the nine months ended June 30, 2010, reflecting the lower level of purchases, the age of our portfolios and the slow down in the economy. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $6.9 million, or 16.1% for the nine months ended June 30, 2011 as compared to the same period in the prior year and averaged 35.6% of collections for the nine months ended June 30, 2011 as compared to 34.6% in the same prior year period. Net collections decreased 20.0% to $64.7 million from $80.9 million for the nine months ended June 30, 2010. Income recognized from fully amortized portfolios (zero based revenue) was $26.9 million and $25.6 million for the nine months ended June 30, 2011 and 2010, respectively.

*Other income***.** Other income increased to $303,000 during the nine months ended June 30, 2011 from $153,000 during the nine months ended June 30, 2011 and 2010. The increase is due to higher interest income and service fee income.

General and administrative expenses. During the nine months ended June 30, 2011, general and administrative expenses decreased $0.6 million, or 3.8% to $16.1 million from $16.7 million for the nine months ended June 30, 2010. The decrease is attributable to lower professional fees, collection expense and amortization expense, partially offset by higher non-cash stock based compensation and postage expense.

Interest expense. During the nine month period ended June 30, 2011, interest expense decreased $1.0 million or 30.8% to $2.3 million from $3.3 million in the same prior year period. The decrease in interest expense is primarily attributable to a reduction in the average loan balance from $101.4 million for the nine-month period ended June 31, 2010 to $78.7 million for the same current year period, as we continue our program of reducing debt. Additionally, we paid off the subordinated family loan in December 2010.

Impairment. An impairment of $49,000 was recorded in the first quarter of fiscal year 2011 as one portfolio was adjusted to its net realizable value. There were no impairments recorded during the nine months ended June 30, 2010.

Income tax expense. Income tax expense, consisting of federal and state income taxes, was $6.0 million for the nine months ended June 30, 2011, as compared to income tax expense of $5.8 million for the comparable 2010 period.

Net income. For the nine months ended June 30, 2011, net income was $8.9 million, as compared to net income of $8.5 million for the nine month period ended June 30, 2010.

Three-month period ended June 30, 2011, compared to the three-month period ended June 30, 2010

Finance income. For the three month period ended June 30, 2011, finance income of $11.2 million was down $0.9 million or 7.2% from $12.1 million in the same three month period of the prior year. Portfolio purchases have been limited and have produced lower finance income. We purchased $4.1 million in face value of new portfolios at a cost of $1.8 million in the third quarter of fiscal year 2011 as compared to the purchase of portfolios with a face value of $6.3 million at a cost of $63,000 in the same prior year period. The portfolios acquired during the third quarter of fiscal year 2011 include semi-performing litigation-related accounts receivable portfolios whereby the Company is assigned a revenue stream. As a portion of the accounts are performing, the cost of the portfolio is higher than the traditional charged off non-performing assets.

During the three months ended June 30, 2011, gross collections decreased 15.7% to $33.6 million from $40.0 million for the three months ended June 30, 2010. Commissions and fees associated with gross collections from our third party collection agencies and attorneys decreased $2.2 million, or 15.7%, for the three months ended June 30, 2011 as compared to the same period in the prior year and averaged 35.2% of collections during the three-month period ended

June 30, 2011. Net collections decreased by 15.7% to $21.7 million from $25.8 million for the three months ended June 30, 2010. Income recognized from fully amortized portfolios (zero based revenue) was $9.1 million and $9.2 million for the three months ended June 30, 2011 and 2010, respectively.

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*Other income***.** Other income increased to $127,000 for the three months ended June 30, 2011 from $55,000 for the three months ended June 30, 2011 and 2010. The increase is due to higher interest income and service fee income.
General and administrative expenses. During the three-month period ended June 30, 2011, general and administrative expenses decreased $0.8 million or 14.8% to $5.0 million from $5.8 million for the three months ended June 30, 2010. The decrease is primarily the result of lower collection expense, professional fees and amortization expense, partially offset by higher non-cash stock based compensation and postage expense.
Interest expense. During the three-month period ended June 30, 2011, interest expense was $0.7 million compared to $1.0 million in the same period in the prior year. The decrease in interest expense is primarily the result the decrease in the average loan balance from $94.8 million for the three-month period ended June 30, 2010 to $75.3 million for the same current year period as we continue our program of reducing debt.
Impairments. There were no impairments charged during the third quarter of the 2011 or 2010 fiscal year.
Income tax expense. Income tax expense was $2.3 million and $2.1 million for the three month periods ended June 30, 2011 and 2010, respectively.
Net income. Net income was $3.3 million and $3.1 million for the quarter ended June 30, 2011 and 2010, respectively.

Liquidity and Capital Resources

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

Receivables Financing Agreement

In March 2007, Palisades XVI entered into a receivables financing agreement (the Receivables Financing Agreement) with the Bank of Montreal (BMO), as amended in July 2007, December 2007, May 2008, February 2009 and October 2010 in order to finance a portfolio purchase in March 2007 (the Portfolio Purchase). The Portfolio Purchase had a purchase price of $300 million (plus 20% of net payments after Palisades XVI recovers 150% of its purchase price plus cost of funds, which recovery has not yet occurred). Prior to the modifications, discussed below, the debt was full recourse only to Palisades XVI and accrued interest at the rate of approximately 170 basis points over LIBOR. The original term of the agreement was three years. This term was extended by each of the Second, Third Fourth and Fifth Amendments to the Receivables Financing Agreement as discussed below. Proceeds received as a result of the net collections from the Portfolio Purchase are applied to interest and principal of the underlying loan. The Portfolio Purchase is serviced by Palisades Collection LLC, our wholly owned subsidiary, which has engaged unaffiliated subservicers for a majority of the Portfolio Purchase.
Since the inception of the Receivables Financing Agreement amendments have been signed to revise various terms of the Receivables Financing Agreement. The following is a summary of the material amendments:
Second Amendment (December 27, 2007) revised the amortization schedule of the loan from 25 months to approximately 31 months. BMO charged Palisades XVI a fee of $475,000 which was paid on January 10, 2008. The fee was capitalized and is being amortized over the remaining life of the Receivables Financing Agreement.
Third Amendment (May 19, 2008) extended the payments of the loan through December 2010. The lender also increased the interest rate from 170 basis points over LIBOR to approximately 320 basis points over LIBOR, subject to automatic reduction in the future if additional capital contributions are made by the parent of Palisades XVI.
Fourth Amendment (February 20, 2009) among other things, (i) lowered the collection rate minimum to $1 million per month (plus interest and fees) as an average for each period of three consecutive months, (ii) provided for an automatic extension of the maturity date from April 30, 2011 to April 30, 2012 should the outstanding balance be reduced to $25 million or less by April 30, 2011 and (iii) permanently waived the previous termination events. The interest rate remained unchanged at approximately 320 basis points over LIBOR, subject to automatic reduction in the future should certain collection milestones be attained. As additional credit support for repayment by Palisades XVI of its obligations under the Receivables Financing Agreement and as an inducement for BMO to enter into the Fourth Amendment, 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 cannot exercise any recourse against the Company until the earlier of (i) five years from the date of the Fourth Amendment and (ii) the termination of the Company s existing senior lending facility or any successor senior facility.

Fifth Amendment (October 14, 2010) (i) extended the expiration date of the Receivables Financing Agreement to April 14, 2014; (ii) reduced the minimum monthly payment to $750,000; (iii) accelerated our guaranty credit enhancement of $8,700,000, which was paid upon execution of the Fifth Amendment; (iv) eliminated our limited guaranty of repayment of the loans outstanding by Palisades XVI; and (v) revised the definition of Borrowing Base Deficit as defined in the Receivables Financing Agreement to mean the excess, if any, of 105% of the loans outstanding over the borrowing base.

In connection with the Fifth Amendment, on October 26, 2010, we entered into the Omnibus Termination Agreement (the Termination Agreement). The Termination Agreement provides that, upon payment of $8,700,000 to the Lender and execution of the Fifth Amendment, the following agreements, which were entered into by the Company and certain of its affiliated entities in connection with the guaranty of the outstanding loans under the Receivables Financing Agreement, were terminated: (i) the Subordinated Limited Recourse Guaranty Agreement, dated February 20, 2009, among the Company, its subsidiaries and BMO; (ii) the Subordinated Guarantor Security Agreement, dated February 20, 2009; (iii) the Limited Recourse Guaranty Agreement, dated as of February 20, 2009; and (iv) the Intercreditor Agreement, dated February 20, 2009. The Termination Agreement was effective as of October 14, 2010.

The aggregate minimum repayment obligations required under the Fifth Amendment, including interest and principal, for fiscal years ending September 30, 2011 through 2013, is $9 million annually, and, for the fiscal year ending September 30, 2014, is approximately $5 million (seven months).

On June 30, 2011 and 2010, the outstanding balance on this loan was approximately $74.2 million and $93.5 million, respectively. The applicable interest rate at June 30, 2011 and 2010 was 3.69% and 3.85%, respectively. The average interest rate of the Receivable Financing Agreement was 3.76% for the nine-month periods ended June 30, 2011 and 2010. We were in compliance with all covenants that support the Receivables Financing Agreement at June 30, 2011.

Bank Leumi Credit Agreement

On December 14, 2009, we and our subsidiaries (other than Palisades XVI) entered into a revolving credit agreement with Bank Leumi (the Leumi Credit Agreement), which permitted maximum principal advances of up to $6 million. This agreement expired on December 31, 2010. The interest rate was a floating rate equal to the Bank Leumi Reference Rate plus 2%, with a floor of 4.5%. The loan was secured by collateral consisting of all of our assets (other than those of Palisades XVI). In addition, other collateral for the loan consisted of a pledge of cash and securities by GMS Family Investors, LLC, an investment company owned by members of the Stern family. There were no financial covenant restrictions for the Leumi Credit Agreement. On December 14, 2009, approximately $3.6 million of the Bank Leumi credit line was drawn and used to reduce to zero the remaining balance on our previous Credit Facility. The balance outstanding on the Leumi Credit Agreement was reduced to zero on January 14, 2010 and remained at zero until its expiration on December 31, 2010. Currently, we do not have a new agreement in place, and there can be no assurance that a new agreement will be reached, but we have maintained ongoing discussions with Bank Leumi regarding entering into a new and more substantial credit agreement.

Subordinated Debt Related Party

On April 29, 2008, the Company obtained a subordinated loan pursuant to a subordinated promissory note from an entity that is a greater than 5% shareholder of the Company beneficially owned and controlled by Arthur Stern, a director of the Company, Gary Stern, the President, Chairman and Chief Executive Officer of the Company, and members of their families (the Family Entity). The loan was in the aggregate principal amount of approximately $8.2 million, accrued interest at a rate of 6.25% per annum, and was payable interest only each quarter until its maturity date of January 9, 2010,, subject to prior repayment in full of our previous credit facility. The subordinated loan was incurred by us to resolve certain issues related to the activities of one of the subservicers utilized by Palisades Collection LLC under the Receivables Financing Agreement. Proceeds from the subordinated loan were used initially to further collateralize our previous credit facility and to reduce the balance due on that facility as of May 31, 2008. In December 2009, the subordinated debt-related party maturity date was extended through December 31, 2010. In addition, the interest rate was changed to 10% per annum effective January 2010. Approximately $3.8 million of the loan was repaid in fiscal year 2010, with the remaining $4.4 million repaid during the first quarter of fiscal year 2011, including the final payment of $2.4 million on December 30, 2010, reducing the

balance to zero.

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Cash Flow

As of June 30, 2011, our cash increased $19.6 million to $103.8 million from $84.2 million at September 30, 2010. The increase in cash was primarily the result of paying off the senior debt earlier in the second quarter and reduced portfolio purchases.

Net cash provided by operating activities was $16.3 million during the nine month period ended June 30, 2011, compared to $64.8 million for the nine months ended June 30, 2010. The decrease in net cash provided by operating activities is primarily the result of a $52.7 million income tax refund received in the third quarter of fiscal year 2010. Net cash provided by investing activity was $24.6 million during the nine months ended June 30, 2011 compared to $43.2 million provided by investing activities for the nine months ended June 30, 2010. The reduction in net cash provided by investing activity is a reflection of lower collections, largely attributable to reduced purchase levels compared to recent years and a continued difficult collection environment. Net cash used in financing activities decreased to $21.3 million for the nine months ended June 30, 2011 from $32.4 million for the same prior year period. Included in the fiscal year 2011 net cash used in financing activities is the repayment of the subordinated debt and the continued paydown of the Receivable Financing Agreement.

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 Receivable Financing Agreement, purchase of 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 historically been financed primarily through cash flows from operating activities and a credit facility. We believe we will be less dependent on a credit facility in the short-term as our cash flow from operations will be sufficient to purchase portfolios and operate the business. However, as the collection environment remains challenging, we may seek additional financing.

We are cognizant of the current market fundamentals in the debt purchase and company acquisition markets which, because of significant supply and tight capital availability, could result in increased buying opportunities. Accordingly, we filed a $100 million shelf registration statement with the SEC which was declared effective during the third quarter of 2010. As of the date of this report, we have not issued any securities under this registration statement. The outcome of any future transaction(s) is subject to market conditions. In addition, due to these opportunities, we continue to work on a new and expanded loan facility.

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

On June 22, 2011, we announced that our Board of Directors had authorized a share repurchase program for up to $20,000,000 of our outstanding common stock. The program calls for the repurchases to be made in open market or privately negotiated transactions from time to time in compliance with applicable laws, rules, and regulations, including Rule 10b-18 under the Exchange Act, subject to cash requirements and other relevant factors, such as trading price, trading volume and general market and business conditions. All of the repurchases will be funded by our available working capital and the duration of the repurchase program is 12 months, although it may be extended, suspended or discontinued without prior notice. There is no guarantee as to the exact number of shares, if any, that we will repurchase.

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

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

	For the Nine Months Ended June 30, 2010		
	Accrual Basis Portfolios	Cash Basis Portfolios	Total
Balance, beginning of period	$ 70,650,000	$ 137,611,000	$ 208,261,000
Acquisitions of receivable portfolios, net	3,043,000	291,000	3,334,000
Net cash collections from collection of consumer receivables acquired for liquidation	(56,801,000)	(20,908,000)	(77,709,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(3,173,000)	(4,000)	(3,177,000)
Effect of foreign currency translation		47,000	47,000
Finance income recognized (1)	32,975,000	1,222,000	34,197,000
Balance, end of period	$ 46,694,000	$ 118,259,000	$ 164,953,000
Finance income as a percentage of collections	55.0%	5.8%	42.3%

(1) Includes approximately $25.6 million derived from fully amortized portfolios.

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

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

	For the Three Months Ended June 30, 2010		
	Interest Method	Cost Recovery Method	Total
Balance, beginning of period	$ 54,375,000	$ 124,239,000	$ 178,614,000
Acquisitions of receivable portfolios, net		63,000	63,000
Net cash collections from collections of consumer receivables acquired for liquidation	(18,825,000)	(6,538,000)	(25,363,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation	(433,000)		(433,000)
Effect of foreign currency translation		30,000	30,000
Finance income recognized (1)	11,577,000	465,000	12,042,000
Balance, end of period	$ 46,694,000	$ 118,259,000	$ 164,953,000
Finance income as a percentage of collections	60.1%	7.1%	46.7%

(1) Includes approximately $9.2 million derived from fully amortized portfolios.

Off Balance Sheet Arrangements

As of June 30, 2011, 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 small portion of the face amounts. During the nine months ended June 30, 2011, we purchased portfolios with a face value of $17.8 million for an aggregate purchase price of $6.8 million.

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

Collections Represented by Account Sales

Period	Collections Represented By Account Sales	Finance Income Earned
Nine months ended June 30, 2011	$ 349,000	$ 137,000
Three months ended June 30, 2011	$ 106,000	$ 46,000
Nine months ended June 30, 2010	$ 3,177,000	$ 1,100,000
Three months ended June 30, 2010	$ 433,000	$ 152,000

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	$ 105,612,000		$ 105,612,000	162%
2002	36,557,000	48,213,000		48,213,000	132%
2003	115,626,000	217,862,000	$ 86,000	217,948,000	188%
2004	103,743,000	187,407,000	145,000	187,552,000	181%
2005	126,023,000	217,774,000	3,271,000	221,045,000	175%
2006	163,392,000	255,829,000	7,112,000	262,941,000	161%
2007	109,235,000	97,384,000	18,331,000	115,715,000	106%
2008	26,626,000	44,084,000	499,000	44,583,000	167%
2009	19,127,000	27,173,000	5,763,000	32,936,000	172%
2010	7,698,000	10,540,000	2,639,000	13,179,000	171%
2011	6,146,000	1,023,000	6,966,000	7,989,000	130%

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

(2) Purchase price refers to the cash paid to a seller to acquire a portfolio less the purchase price refunded by a seller due to the return of non-compliant accounts (also defined as put-backs).

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

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

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

Recent Accounting Pronouncements

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

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In May 2011, the FASB issued ASU No. 2011-04, which results in common fair value measurement and disclosure requirements for US GAAP and International Financial Reporting Standards. ASU No. 2011-04 is effective for the first annual period beginning on or after December 15, 2011. Adoption of this update is not expected to have a material effect on the Company s results of operations or financial condition but may have an effect on disclosures.
In December 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 generally represents a revision to former FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities , and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. ASU 2009-17 is effective for fiscal years beginning after November 15, 2009 and for interim periods within the first annual reporting period. The Company adopted ASU 2009-17 as of October 1, 2010, which did not have a significant effect on its financial statements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and changes in corporate tax rates. A material change in these rates could adversely affect our operating results and cash flows. At June 30, 2011, our Receivable Financing Agreement, which is variable debt, had an outstanding balance of $74.2 million. A 25 basis-point increase in interest rates would have increased our interest expense for the nine month period ended June 30, 2011 by approximately $150,000 based on the average debt outstanding during the period. We do not currently invest in derivative financial or commodity instruments.

Item 4. Controls and Procedures

a. Disclosure Controls and Procedures.

As of June 30, 2011, we carried out an evaluation, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2011, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

b. Changes in Internal Controls Over Financial Reporting.

There have been no changes in our internal controls over financial reporting that occurred during our fiscal quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits

(d) Exhibits

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

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SIGNATURES

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

	ASTA FUNDING, INC. (Registrant)
Date: August 9, 2011	By: /s/ Gary Stern Gary Stern, Chairman, President, Chief Executive Officer (Principal Executive Officer)
Date: August 9, 2011	By: /s/ Robert J. Michel Robert J. Michel, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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