ASTA FUNDING INC
Form 10QSB
August 13, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003.

OR

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

For the transition period from ________ to ___________

Commissions file number: 0-26906

ASTA FUNDING, INC.
(Exact name of small business issuer as specified in its charter)

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

Issuer's telephone number: (201) 567-5648

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the last 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes[X] No [ ]

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 1, 2003, the registrant had approximately 6,587,000 common shares outstanding.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

Asta Funding, Inc.
Form 10-QSB June 30, 2003

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Asta Funding, Inc. and Subsidiaries

Consolidated Balance Sheets

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	Una
Assets	
Cash	$1
Due from underwriters	47
Restricted cash, net	
Consumer receivables acquired for liquidation	74
Auto loans receivable, net	
Finance receivables	
Furniture and equipment, net	
Repossessed automobiles, net	
Deferred income taxes	
Other assets	

Total assets	$125
Liabilities and Stockholders' Equity	
Liabilities	
Debt	$33
Other liabilities	3
Income taxes payable	
Total liabilities	37
Stockholders' Equity	
Preferred stock, $.01 par value; authorized 5,000,000; issued and outstanding - none	
Common stock, $.01 par value; authorized 30,000,000 shares; issued and outstanding 6,587,000 at June 30, 2003 and 4,075,000 at September 30, 2002	
Additional paid-in capital	57
Retained earnings	30
Total stockholders' equity	88
Total liabilities and stockholders' equity	$125

See accompanying notes to consolidated financial statements

Asta Funding, Inc. and Subsidiaries

Consolidated Statements of Operations
Unaudited

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Nine Mo Jun
Revenues:			
Finance income	$9,208,000	$8,800,000	$23
Other	-	-	
	9,208,000	8,800,000	23
Expenses:			
General and administrative	2,067,000	1,374,000	5
Third-party servicing	1,320,000	1,539,000	4
Provision for losses	-	350,000	
Interest	1,409,000	999,000	1

	4,796,000	4,262,000	11
Income before income taxes	4,412,000	4,538,000	12
Income tax expense	1,872,000	1,822,000	5
Net income	$2,540,000	$2,716,000	$7
Net income per share - Basic	$0.61	$0.67	
- Diluted	$0.55	$0.61	
Weighted average number of shares outstanding - Basic	4,188,000	4,047,000	4
- Diluted	4,636,000	4,456,000	4

See accompanying notes to consolidated financial statements

Asta Funding, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Unaudited

	Nine Month June 2003
Cash flows from operating activities:	
Net income	$7,2
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1
Provision for losses	
Deferred income taxes	
Changes in:	
Restricted cash	
Repossessed automobiles held for sale	
Prepaid income taxes	
Other assets	5
Income taxes payable	(1,4
Other liabilities	(1
Net cash provided by operating activities	6,3
Cash flows from investing activities:	
Auto loan principal payments	
Purchase of consumer receivables acquired for liquidation	(61,4

Principal collected on receivables acquired for liquidation	22,7
Finance receivables	1,4
Capital expenditures	(5

Net cash (used in) provided by investing activities	(37,8
Cash flows from financing activities:	
Due from underwriters	(47,7
Advances from affiliate	
Proceeds of common stock offering	47,3
Proceeds from exercise of options	2
Cancellation of common shares	
Repayments of notes payable	
Advances under lines of credit, net	31,0

Net cash provided by (used in) financing activities	30,9

Decrease in cash	(4
Cash at the beginning of period	2,2

Cash at end of period	$1,7

Supplemental disclosure of cash flow information:	
Cash paid during the period	
Interest	$1,6
Income taxes	$4,6

Asta Funding, Inc.
Notes to Consolidated Financial Statements

Note 1: Basis of Presentation

Asta Funding, Inc., together with its wholly owned subsidiaries, is a diversified consumer finance company that acquires, manages, collects and services 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 debtors. 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.

The consolidated balance sheet as of June 30, 2003, the consolidated statements of operations for the nine and three month periods ended June 30, 2003 and 2002, and the consolidated statements of cash flows for the nine and three month periods ended June 30, 2003 and 2002, have been prepared by us without an audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly our financial position at June 30, 2003 and September 30, 2002, the results of operations for the nine and three month periods ended June 30, 2003 and 2002 and cash flows for the nine month periods ended June 30, 2003 and 2002 have been made. The results of operations for the nine and three month periods ended June 30, 2003 and 2002 are not necessarily indicative of the operating results for any other interim period or the full fiscal year.

Pursuant to the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures required under generally accepted accounting principles have been condensed or omitted from the presented financial statements. We suggest that these financial statements be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-KSB for the fiscal year ended September 30, 2002.

Note 2: Principles of Consolidation

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

Note 3: Due from Underwriters

On June 27, 2003, we issued 2,100,000 shares of common stock at price of $20.75 per share in a secondary public offering. On June 30, 2003, an additional 375,000 shares of common stock were issued at the same price as part of this secondary offering. The proceeds due us at June 30, 2003, net of underwriters commissions was approximately $47,761,000 which was remitted to us on July 2, 2003.

Note 4: Consumer Receivables Acquired for Liquidation:

Accounts acquired for liquidation are stated at their net realizable value and consist of consumer loans to individuals throughout the country.

Note 5: Finance Receivables:

Finance receivables were factored accounts receivable primarily with full recourse.

Note 6: Debt:

We have a $25 million line of credit with a bank with interest at the prime rate which was 4.0% at June 30, 2003. The advances under the credit line are collateralized by portfolios of consumer receivables acquired for liquidation and the loan agreement contains customary financial and operating covenants that must be maintained in order for us to borrow funds. This line expires on January 31, 2004. On June 27, 2003, we received a temporary credit line increase of $11 million which increased our credit line to $36 million subject to the terms of the amendment. As of June 30, 2003, there was approximately $33.3 million outstanding under this line of credit and we were in compliance with all of the covenants under this line of credit. On July 2, 2003, we paid the bank $18.3

million on this facility from the proceeds of the common stock offering and the facility reverted back to $25 million.

In August 2001, an investment banking firm provided approximately $29.9 million of financing in exchange for a note with interest at LIBOR plus 2% and the right to receive 50% of subsequent collections, net of expenses, from the portfolio collateralizing the obligation, once the note and advances by one of our subsidiaries have been repaid. In December 2001, we purchased one-half of this right to receive subsequent collections for $1.5 million and a third party purchased the other one-half for $1.5 million. The 25% participation due a third party has been accrued and is included in other liabilities. This note was paid in full in September 2002. During the nine months ended June 30, 2003, actual and estimated collections have exceeded our estimates at September 30, 2002, and therefore we have revised our third-party profit allocation. Such change in accounting estimate has resulted in approximately a $1.2 million charge in interest expense during the nine months ended June 30, 2003.

In January 2002, we purchased a thirty-five percent interest in a consumer receivable portfolio and financed the entire purchase price of $1.6 million through a note to the seller. The note bears interest at 15%. This note was paid in full in September 2002.

Note 7: Stockholders' Equity:

On June 27, 2003, we issued 2,100,000 shares of common stock at price of $20.75 per share in a secondary public offering. On June 30, 2003, an additional 375,000 shares of common stock were issued at the same price as part of this secondary offering. The proceeds due us at June 30, 2003, net of underwriters commissions was approximately $47,761,000, which was remitted to us on July 2, 2003.

Note 8: Income recognition:

We recognize income on non-performing and performing consumer receivable portfolios, which are acquired for liquidation, using either the interest method or cost recovery method. Upon acquisition of a portfolio of receivables, management estimates the future anticipated cash flows and determines the allocation of payments based upon this estimate. If management can reasonably estimate the expected amount to be collected on a portfolio and can reasonably determine the timing of such payments based on historic experience and other factors, we use the interest method. If management cannot reasonably estimate the future cash flows, we use the cost recovery method.

Under the interest method, we recognize income 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 purchase. The estimated future cash flows are reevaluated quarterly. Under the cost recovery method, no income is recognized until we have fully collected the cost of the portfolio.

Based on an increase in actual cash flows for the three and nine months ended June 30, 2003, and projected future cash flows on certain portfolios as compared to what we estimated at September 30, 2002, we revised our estimates of future collections. Such change in accounting estimates has resulted in approximately a $3.9 million increase in finance income recognized for the nine months ended June 30, 2003 for this portfolio. Part of the increase in actual collections was due to the sale of certain receivables during the three and nine months ended June 30, 2003.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are primarily engaged in the business of acquiring, managing, servicing and recovering on portfolios of consumer receivables. These portfolios generally consist of one or more of the following types of consumer receivables:

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

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

We purchase receivables from credit grantors and others through 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Form 10-QSB contains forward-looking statements within the meaning of the "safe harbor" provisions under section 21E of the Securities and Exchange Act of 1934 and the Private Securities Litigation Act of 1995. We use forward-looking statements in our description of our plans and objectives for future operations and assumptions underlying these plans and objectives. Forward-looking terminology includes the words "may", "expects", "believes", "anticipates", "intends", "forecasts", "projects", or similar terms, variations of such terms or the negative of such terms. These forward-looking statements are based on management's current expectations and are subject to factors and uncertainties which could cause actual results to differ materially from those described in such forward-looking statements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Form 10-QSB to reflect any change in our expectations or any changes in events, conditions or circumstances on which any forward-looking statement is based. Factors which could cause such results to differ materially from those described in the forward-looking statements include those set forth in our prospectus on form S-1 dated June 27, 2003 under "Risk Factors" and elsewhere in, or incorporated by reference into, this Form 10-QSB or other reports filed by us with the Securities and Exchange Commission. These factors include the following: we may not be able to purchase receivables at favorable prices and are subject to competition for such receivables; we may not be able to recover sufficient amounts on our receivables to fund our operations; we are dependent on external sources of financing to fund our operations; debt that we may incur from time to time may adversely affect our ability to obtain additional funds and increase our vulnerability to economic and business downturns; government regulations may limit our ability to recover and enforce receivables and other risks.

Critical Accounting Policies

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

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

Generally, each purchase is considered a separate portfolio of receivables and is considered a financial investment. Based upon the expected performance characteristics of the receivables in the portfolio, we determine whether the portfolio should be accounted for using the interest method or the cost recovery method. If we can reasonably estimate the amount to be collected on a portfolio and can reasonably determine the timing of such payments based on historic experience and other factors, we use the interest method. If we cannot reasonably estimate the future cash flows, we use the cost recovery method.

The interest method allows us to recognize income on the effective yield of such portfolio based on the actual cash collected during a period and future estimated cash flows and the timing of such collections and the purchase of such portfolios. Under this method, we periodically apply a portion of the actual funds collected as a reduction in the principal amount invested in each specific portfolio and the remainder is recognized as finance income. Generally, these portfolios are expected to amortize over a three to five year period based upon our estimated future cash flows. Historically, a majority of the cash we ultimately collect on a portfolio is received during the first 18 months after acquiring the portfolio, although additional amounts are collected over the remaining periods. The estimated future cash flows of the portfolios are reevaluated quarterly.

Under the cost recovery method of accounting, no income is recognized until the purchase price of a portfolio has been fully recovered by us.

We periodically review our receivable portfolios for impairment based on the estimated future cash flows. Provisions for losses are charged to operations when it is determined that the remaining investment in the receivable portfolio is greater than the estimated future collections. We have not recorded any impairment charges on our consumer receivable portfolios during the nine-month period ended June 30, 2003.

Based on an increase in actual cash flows for the three and nine months ended June 30, 2003, and projected future cash flows on certain portfolios as compared to what we estimated at September 30, 2002, we revised our estimates of future collections. Such change in accounting estimates has resulted in approximately a $3.9 million increase in finance income recognized for the nine months ended June 30, 2003 for these portfolios. Part of the increase in actual collections was due to the sale of certain receivables during the three and nine months ended June 30, 2003.

We typically recognize finance income net of collection fees paid to third-party collection agencies. With respect to specific consumer receivable portfolios containing a significant amount of performing and semi-performing accounts, we recognize finance income on accounts that were being serviced by third-party servicers at the gross amounts received by the servicers. The servicing costs for these portfolios are reported as an expense on our income statement. In addition, with respect to specific consumer receivable portfolios we acquired, we agreed to a fifty percent profit sharing arrangement with our lender. However, the entire interest in this profit sharing arrangement was sold to us and a third-party in equal amounts in December 2001. The third-party profit allocation was recorded as interest expense over the estimated term of the related note payable which was paid in full in September 2002. During the nine months ended June 30, 2003, actual and estimated collections have exceeded our estimates at September 30, 2002, and therefore we have revised our third-party profit allocation. Such change in accounting estimate has resulted in approximately a $1.2 million charge in interest expense during the nine months ended June 30, 2003.

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

Asta Funding, Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of operations

The nine-month period ended June 30, 2003, compared to the nine-month period ended June 30, 2002

Revenues. During the nine-month period ended June 30, 2003, finance income decreased $3.8 million or 13.8% to $23.7 million from $27.5 million for the nine-month period ended June 30, 2002. The decrease in finance income was primarily due to a decrease in finance income earned on consumer receivables acquired for liquidation, which resulted from a decrease in the average outstanding accounts acquired for liquidation during the nine-months ended June 30, 2003, as compared to the same prior year period. This decrease was partially offset by an increase in collections due to sales of certain receivables during the nine months ended June 30, 2003, as compared to no receivable sales in the same prior year period. In addition, the sale of most of the factored receivables on November 25, 2002, resulted in a decrease in finance income earned on these receivables during the nine-months ended June 30, 2003, as compared to the nine-months ended June 30, 2002. Based on an increase in actual cash flows for the three and nine months ended June 30, 2003, and projected future cash flows on certain portfolios as compared to what we estimated at September 30, 2002, we revised our estimates of future collections. Such change in accounting estimates has resulted in approximately a $3.9 million increase in finance income recognized for the three and nine months ended June 30, 2003 for these portfolios. Part of the increase in actual collections was due to the sale of certain receivables during the nine months ended June 30, 2003. Due to what management believed were competitive factors, we only spent $4.4 million on receivable purchases during the first six months of the current fiscal year but during the three month period ending June 30, 2003, we spent $57.1 million on receivable purchases.

General and Administrative Expenses. During the nine-month period ended June 30, 2003, general and administrative expenses increased $0.7 million or 14.9% to $5.4 million from $4.7 million for the nine-months ended June 30, 2002, and represented 47.9 % of total expenses for the nine months ended June 30, 2003. The increase in general and administrative expenses was primarily due to an increase in servicing expenses which was partially offset by a decrease in factoring expenses during the nine-month period ended June 30, 2003, as compared to the same prior year period. The increase in servicing expenses resulted from the operating costs of our call center that was acquired in December 2002. The decrease in factoring expenses resulted from the sale of most of the factored receivables on November 25, 2002 and a reduction of some factoring receivable employees prior to the sale date.

Third-Party Servicing Expenses. During the nine-month period ended June 30, 2003, third-party servicing expenses decreased $1.8 million or 28.6% to $4.5 million from $6.3 million for the nine months ended June 30, 2002, and represented 39.6% of total expenses for the nine months ended June 30, 2003. The decrease in third-party servicing expenses was primarily due to a reduction in the number of accounts being serviced on a portfolio that was purchased in August 2001 and the elimination of recording of third-party servicing expenses on a specific portfolio during the nine months ended June 30, 2003, as compared to the same prior year period.

Interest Expense. During the nine-month period ended June 30, 2003, interest expense decreased $1.7 million or 54.8% to $1.4 million from $3.1 million compared to the same period in the prior year and represented 12.5% of total expenses for the nine-month period ended June 30, 2003. The decrease was due a reduction in the accrual of interest expense that was due to a profit participation on a specific portfolio during the nine-month period ended June 30, 2003, as compared to the same period in the prior year. During the three and nine month periods ending June 30, 2003, actual and estimated collections have exceeded our estimates at September 30, 2002, and therefore we have revised our third-party profit allocation. Such change in accounting estimate has resulted in approximately a $1.2 million charge in interest expense during the nine months ended June 30, 2003.

Provision for Credit Losses. During the nine-month period ended June 30, 2003, the provision for credit losses decreased $0.8 million or 100.0% to $0.0 million from $0.8 million for the nine-months ended June 30, 2002 and represented 0.0% of total expenses. The decrease was due to a decrease in the provision for credit losses on our financed receivables during the nine months ended June 30, 2003, as compared to the same prior year period.

The three-month period ended June 30, 2003, compared to the three-month period ended June 30, 2002

Revenues. During the three-month period ended June 30, 2003, finance income increased $0.4 million or 4.5% to $9.2 million from $8.8 million for the three-month period ended June 30, 2002. The increase in finance income was primarily due to an increase in finance income earned on consumer receivables acquired for liquidation, which resulted from the sale of certain receivables during the three-months ended June 30, 2003, as compared to no receivable sales in the same prior year period. In addition, based on an increase in actual cash flows for the three and nine months ended June 30, 2003, and projected future cash flows on certain portfolios as compared to what we estimated at September 30, 2002, we revised our estimates of future collections. Such change in accounting estimates has resulted in approximately a $3.9 million increase in finance income recognized for the nine months ended June 30, 2003 for these portfolios. Part of the increase in actual collections was due to the sale of certain receivables during the three months ended June 30, 2003. The increase in finance income was partially offset by a decrease in finance income earned from our factored receivables because most of the factored receivables were sold on

November 25, 2002. Due to what management believed were competitive factors, we only spent $4.4 million on receivable purchases during the first six months of the current fiscal year but during the three month period ending June 30, 2003, we spent $57.1 million on receivable purchases.

General and Administrative Expenses. During the three-month period ended June 30, 2003, general and administrative expenses increased $0.7 million or 50.0% to $2.1 million from $1.4 million for the three-months ended June 30, 2002, and represented 43.1% of total expenses for the three months ended June 30, 2003. The increase in general and administrative expenses was primarily due to an increase in servicing expenses which was partially offset by a decrease in factoring expenses during the three-month period ended June 30, 2003, as compared to the same prior year period. The increase in servicing expenses resulted from the operating costs of our call center that was acquired in December 2002. The decrease in factoring expenses resulted from the sale of most of the factored receivables on November 25, 2002 and a reduction of some factoring receivable employees prior to the sale date.

Asta Funding, Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Third-Party Servicing Expenses. During the three-month period ended June 30, 2003, third-party servicing expenses decreased $0.2 million or 13.3% to $1.3 million from $1.5 for the three months ended June 30, 2002, and represented 27.5% of total expenses for the three months ended June 30, 2003. The decrease in third-party servicing expenses was primarily due to a reduction in the number of accounts being serviced on a portfolio that was purchased in August 2001 and the elimination of recording of third-party servicing expenses on a specific portfolio during the three months ended June 30, 2003, as compared to the same prior year period.

Interest Expense. During the three-month period ended June 30, 2003, interest expense increased $0.4 million or 40.0% to $1.4 million from $1.0 million compared to the same period in the prior year and represented 29.4% of total expenses for the three-month period ended June 30, 2003. The increase was primarily due to the accrual of interest expense that was due to profit participation on a specific portfolio during the three-month period ended June 30, 2003, as compared to the same period in the prior year. During the three and nine month periods ending June 30, 2003, actual and estimated collections have exceeded our estimates at September 30, 2002, and therefore we have revised our third-party profit allocation. Such change in accounting estimate has resulted in approximately a $1.2 million charge in interest expense during the nine months ended June 30, 2003.

Provision for Credit Losses. During the three-month period ended June 30, 2003, the provision for credit losses decreased $0.4 million or 100.0% to $0.0 million from $0.4 million for the three-months ended June 30, 2002 and represented 0.0% of total expenses. The decrease was due to a decrease in the provision for credit losses on our financed receivables during the three months ended June 30, 2003, as compared to the same prior year period.

Liquidity and Capital Resources

Our primary sources of cash from operations include payments on the receivable portfolios that we have acquired. Our primary uses of cash include our purchases of consumer receivable portfolios. We rely significantly upon our lenders and others to provide the funds necessary for the purchase of consumer and commercial accounts receivable portfolios. While we maintain a $25 million line of credit, for portfolio purchases, we also may arrange financing on a transactional basis. While we have historically been able to finance these purchases, we do not have committed loan facilities, other than our $25 million line of credit with a financial institution. On June 27, 2003, we received a temporary credit line increase of $11 million which increased our credit line to $36 million subject to the terms of the amendment. As of June 30, 2003, there was approximately $33.3 million outstanding balance under this facility. On July 2, 2003, we paid $18.3 on this facility from the proceeds of the common stock offering. As of June 30, 2003, our cash and cash equivalents decreased to $1.7 million from $2.2 million at September 30, 2002. The decrease in cash and cash equivalents during the nine month period ended June 30, 2003, was primarily due to an increase in consumer receivable purchases during the period.

On June 27, 2003, we issued 2,100,000 shares of common stock at price of $20.75 per share in a secondary public offering. On June 30, 2003, an additional 375,000 shares of common stock were issued at the same price as part of this secondary offering. The proceeds due us at June 30, 2003, net of underwriters commissions was approximately $47,761,000, which was remitted to us on July 2, 2003.

Net cash provided by operating activities was $6.4 million during the nine-months ended June 30, 2003, compared to net cash provided by operating activities of $11.2 million during the nine-months ended June 30, 2002. The decrease in net cash provided by operating activities was primarily due to a decrease in other liabilities and income taxes payable during the nine-months ended June 30, 2003, as compared to the same period in the prior year. Net cash used in investing activities was $37.8 million during the nine-months ended June 30, 2003, compared to net cash provided by investing activities of $1.0 million during the nine-months ended June 30, 2002. The decrease in net cash provided by investing activities was primarily due to an increase in the purchase of accounts acquired for liquidation which was partially offset by a decrease in collections of consumer receivables acquired for liquidation during the nine-months ended June 30, 2003, compared to the same period in the prior year. Net cash provided by financing activities was $31.0 million during the nine-months ended June 30, 2003, compared to net cash used of $14.1 million during the nine-months June 30, 2002. The increase in net cash used in financing activities was primarily due an increase in borrowings under our credit facility during the nine-months ended June 30, 2003, compared to the same prior year period. The increase in borrowings was due to an increase in the purchase of consumer receivables for liquidation during the nine-months ended June 30, 2003, as compared to the nine-months ended June 30, 2002.

We have a $25 million line of credit with a bank with interest at the prime rate which was 4.00% at June 30, 2003. The advances under this credit line are collateralized by portfolios of consumer receivables acquired for liquidation and the loan agreement contains customary financial and operating covenants that must be maintained in order for us to borrow funds. This line expires on January 31, 2004. On June 27, 2003, we received a temporary credit line increase of $11 million which increased our credit line to $36 million subject to the terms of the amendment. As of June 30, 2003, there was approximately $33.3 million outstanding under this line of credit and we were in compliance with all of the covenants under this line of credit. On July 2, 2003, we paid the bank $18.3 million on this facility from the proceeds of the common stock offering and the facility reverted back to $25 million.

In August 2001, an investment banking firm provided approximately $29.9 million of financing in exchange for a note with interest at LIBOR plus 2% and the right to receive 50% of subsequent collections, net of expenses, from the portfolio collateralizing the obligation, once the note and advances by one of our subsidiaries have been repaid. In December 2001, we purchased one-half of this right to receive subsequent collections for $1.5 million and a third party purchased the other one-half for $1.5 million. The 25% participation due a third party has been accrued and is included in other liabilities. This note was paid in full in September 2002. During the nine months ended June 30, 2003, actual and estimated collections have exceeded our estimates at September 30, 2002, and therefore we have revised our third-party profit allocation. Such change in accounting estimate has resulted in approximately a $1.2 million charge in interest expense during the nine months ended June 30, 2003.

In January 2002, we purchased a thirty-five percent interest in a consumer receivable portfolio and financed the entire purchase price of $1.6 million through a note to the seller. The note bears interest at 15%. The outstanding balance was payable from the cash flows of a specific portfolio. This note was paid in full in September 2002.

Asta Funding, Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our cash requirements have been and will continue to be significant. We depend on external financing to acquire consumer receivables. During the nine-months ended June 30, 2003, we acquired consumer portfolios at a cost of approximately $61.5 million. These acquisitions were financed with our cash on hand and our credit facility.

We anticipate the funds available under our current credit facility as well as funds that were received from our common stock offering and cash from operations will be sufficient to satisfy the our estimated cash requirements for at least the next 12 months. If for any reason our available cash otherwise proves to be insufficient to fund operations (because of future changes in the industry, general economic conditions, unanticipated increases in expenses, or other factors), we may be required to seek additional funding.

Although we have no present plans or intentions, we may consider possible acquisitions of, or investments in, complementary businesses. Any such possible acquisition or investments may be material and may require us to incur a significant amount of debt or issue a significant amount of equity securities. Further, any business that we may acquire or invest in will likely have its own capital needs, which may be significant, and which we may be called upon to satisfy.

Supplementary Information on Accounts Acquired for Liquidation

Schedule of Accounts Acquired for Liquidation by Income Recognition Category

	As of June 30, 2003	
	Cost Recovery Portfolios	Interest Meth Portfolios
Cummulative Original Purchase Price	$48,588,000	$171,637,000
Cummulative Aggregate Managed Portfolios	$2,147,858,000	$3,616,641,000
Receivable Carrying Value at	$3,918,000	$70,953,000
Finance Income Earned * (for the nine months ended 6/30/03)	$5,222,000	$18,260,000

Total cash flows * (for the nine months ended 6/30/03)	$6,676,000	$39,513,000

* The sum of total cash flows of $46,189,000 less the sum of total finance income earned on consumer receivables acquired for liquidation of $23,482,000 is $22,707,000 or the principal collected on receivables acquired for liquidation as per the statement of cash flows for the nine-months ended June 30, 2003.

The original purchase price reflects what we paid for the receivables from 1998 through June 30, 2003. The cumulative aggregate managed portfolio balance is the original aggregate amount owed by the borrowers from 1998 through June 30, 2003 at the time of purchase. We purchase consumer receivables at substantial discounts from the face amount. We record interest income on our receivables under either the cost recovery or interest method. The receivable carrying value represents the current basis in the receivables after collections and amortization of the original price.

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

For the nine-months ended June 30, 2003, we earned interest income of $5.2 million under the cost recovery method because we collected $5.2 million in excess of our purchase price on certain receivable portfolios. In addition, we earned $18.3 million of interest income under the interest method based on actuarial computations on certain portfolios based on actual collections during the period based on what we project to collect in future periods.

New Accounting Pronouncements

In April 2002, the FASB issued SFAS Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections". SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary because SFAS No. 4 has been rescinded.SFAS No. 145 amends SFAS Statement No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. SFAS No. 145 is required to be applied for fiscal years after May 15, 2002. The adoption of this Statement is not expected to have a material effect on our financial statements.

In June 2002, the FASB issued SFAS Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This Statement also established that fair value is the objective for initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this Statement is not expected to have a material effect on our financial statements.

Stock-Based Compensation

We have adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148") effective December 2002. SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" (SFAS 123"), to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and also amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the methods of accounting for stock-based employee compensation and the effect of the method used on reported results. As permitted by SFAS 148 and SFAS 123, we continue to apply the accounting provisions of Accounting Principles Board ("APB") Opinion Number 25, "Accounting for Stock Issued to Employees", and related interpretations, with regard to the measurement of compensation cost for options granted under our Stock Option Plans. No employee compensation expense has been recorded as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Had expense been recognized using the fair value method described in SFAS 123, using the Black-Sholes option pricing model, we would have reported the following results of operations:

	Three Months Ended June 30,	
	2003	2002
Net income, as reported	$2,540,000	$2,716,000
Deduct: total stock-based compensation expense determined under the fair value method, net of tax	($265,000)	($188,000)
Pro-forma net income	$2,275,000	$2,528,000
Earnings per share:		
Basic - as reported	$0.61	$0.67
Basic - pro forma	$0.54	$0.62
Diluted - as reported	$0.55	$0.61
Diluted - pro forma	$0.49	$0.57

Item 3. Controls and Procedures

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Asta Funding, Inc.
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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

As of the date of this filing, we were not involved in any material litigation in which we are a defendant. We regularly initiate legal proceedings as a plaintiff concerning our routine collection activities.

Item 2. Changes in Securities and Use of Proceeds

The effective date of our registration statement filed (Registration No. 333-105755) on Form S-1 relating to our secondary offering of Common Stock was June 27, 2003, We sold 2,100,000 shares and selling shareholder's sold 400,000 shares of Common Stock at a price of $20.75. On June 30, 2003, an additional 375,000 shares of Common Stock were sold by the Company at the same price as part of this secondary offering. The offering commenced on June 27, 2003 and closed on July 2, 2003. Gross proceeds to us from the secondary offering totaled approximately $51.4 million. The net proceeds due us at June 30, 2003, after Underwriters commissions was approximately $47.8 million which was remitted to us on July 2, 2003. Of the $47.8 million, $18.3 million was used to pay indebtedness and the remaining proceeds was invested in short term money market funds and will be used for the potential acquisitions of consumer receivables for liquidation, general corporate purposes or potential acquisitions of complementary businesses.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

We entered into a Loan and Security Agreement Amendment dated as of June 27, 2003, between us and Israel Discount Bank of NY. We are currently in compliance with all of the covenants under this line of credit.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.14 Loan and Security Agreement Amendment dated as of June 27, 2003, between the Company and Israel Discount Bank of NY.

99.1 Certification of the Registrant's Chief Executive Officer, Gary Stern, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of the Registrant's Chief Financial Officer, Mitchell Herman, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

99.3 Certification of the Registrant's Chief Executive Officer, Gary Stern, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.4 Certification of the Registrant's Chief Financial Officer, Mitchell Herman, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

The Registrant filed a report on Form 8-K under item 9 on May 13, 2003

The Registrant filed a report on Form 8-K under item 5 on June 2, 2003.

The Registrant filed a report on Form 8-K under item 5 on June 4, 2003.

The Registrant filed a report on Form 8-K under item 5 on June 27, 2003.

The Registrant filed a report on Form 8-K under item 5 on July 2, 2003.

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Signatures

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

ASTA FUNDING, INC.
(Registrant)

Date:August 11, 2003 By: /s/ Gary Stern

Gary Stern, President, Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2003 By: /s/ Mitchell Herman

Mitchell Herman, Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)