ASTA FUNDING INC
Form 10-K/A
January 20, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended September 30, 2005

OR

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

For the transition period from ____________________ to __________________

Commission file number: 0-26906

ASTA FUNDING, INC.

(EXACT NAME OF REGISTRANT SPECIFIED IN ITS CHARTER)

DELAWARE	22-3388607
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
210 SYLVAN AVENUE, ENGLEWOOD CLIFFS, NJ	07632
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

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

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

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

COMMON STOCK, PAR VALUE $.01 PER SHARE

(TITLE OF CLASS)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes (X) No ( )

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

The aggregate market value of voting and nonvoting common equity held by non-affiliates of the registrant was approximately $205,035,000, as of the last business day of the registrant's most recently completed second fiscal quarter.

As of December 8, 2005, the registrant had 13,595,324 shares of Common Stock issued and outstanding.

Documents Incorporated by Reference:

The information called for by Part III of this Form 10-K is incorporated by reference from the Company's Proxy Statement to be filed with the Commission on or before January 28, 2006.

FORM 10-K/A

This Amendment to the Company's Form 10-K for the year ended September 30, 2005, is being filed to revise the form of certifications filed as Exhibits 31.1 and 31.2 and to correct two numerical errors provided in voluntary information in Item 7 under the heading "Supplementary Information on Consumer Receivable Portfolios" in a table entitled "Schedule of Portfolios by Income Recognition Category."

PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Caution Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified by use of terms such as "may", "will", "should", "plan", "expect", "anticipate", "estimate", and similar words, although some forward-looking statements are expressed differently. Forward looking statements represent our judgment regarding future events, but we can give no assurance that such judgments will prove to be correct. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected 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-K 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 under "Risk Factors" and elsewhere in, or incorporated by reference into this Form 10-K.

Overview

We acquire, manage, collect and service 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 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.

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.

If the interest method is used in recognizing income on a portfolio, it is done so in accordance with the AICPA's Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans." Practice Bulletin 6 requires that the accrual basis of accounting be used at the time the amount and timing of cash flows from an acquired portfolio can be reasonably estimated and collection is probable. 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 to 24 months after acquiring the portfolio, although additional amounts are collected over the remaining period. The estimated future cash flows of the portfolios are reevaluated quarterly. We, in most instances, try to recoup our initial cash outlay on portfolios purchased in the first 18-24 months.

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. The Company uses both qualitative and quantitative methods for evaluating the projected cash flows expected from our portfolio purchases. We are constantly monitoring the facts and circumstances for each portfolio. When a portfolio is outperforming or underperforming its projected cash flows, we review the portfolio and its characteristics. If the Company feels the portfolio will out perform the original discounted present value calculation, we will raise the estimated cash flows over the future periods and adjust the portfolio accordingly. If the Company feels there will be a continuing under performance compared to the original discounted present value calculation, we will lower the estimated cash flows over future periods and adjust the portfolio accordingly. Additionally, as we have shifted to the suit strategy as previously mentioned, we have made the determination that debtor accounts that are sued, or have a lien or judgment, will ultimately have a greater collection value over a longer period of time. In this case, we have adjusted our original discounted present value calculation accordingly. Our suit strategy has been validated by our historical experience as we have portfolios dating back to 1999 and we have tried this strategy on a smaller scale with success. We have now changed our business model to an aggressive suit strategy and expect even better collections over the five year lives of the portfolios. 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. For the year ended September 30, 2005 we did not record a write-off for any receivable portfolios. For the year ended September 30, 2004, we recorded a $300,000 write-off on a receivable portfolio. Based on actual cash flows and the change in strategy involving the increased use of attorneys and the courts in order to maximize collections for the year ended September 30, 2004, and the resultant changes in projected future cash flows through September 30, 2007, on certain portfolios as compared to what we estimated at September 30, 2003, we revised our estimate of future collections. Such change in accounting estimate has resulted in approximately a $9.8 million increase in finance income recognized for the year ended September 30, 2004 for these portfolios. For the estimates of expected cash flows, the Company takes into consideration the quality of the underlying receivables constituting the portfolio, the strategy involved to maximize the collections, thereof, including collections represented by the sale of certain accounts, the time required to implement the collection strategy and other factors.

In October 2003, the American Institute of Certified Accountants issued Statement of Position ("SOP") 03-03, "Accounting for Loans or Certain Securities Acquired in a Transfer." This SOP proposes guidance on accounting 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 should be recognized prospectively through an adjustment of the internal rate of return while decreases in expected cash flows should be recognized as impairment. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. We have implemented this SOP and through September 30, 2005, there has been no impact on our results. We believe the implementation of this SOP will make it more likely that an impairment loss may be recorded some time in the future.

We originally set up a discounted present value calculation based on anticipated cash flows based upon the characteristics of the portfolio purchased. Based on our experience with the type of portfolio acquired, and based on the liquidation rates expected, we then evaluate the performance of the actual cash flows to the expected cash flows. In the event the actual cash flows are exceeding the original expectations, and we believe this is indicative of a trend, we will adjust the effective rate.

The significant portion of our portfolio purchases are credit card and wireless telecom charge-offs from issuers whom we deal with regularly and for many years. These portfolios generally have the same characteristics from purchase to purchase and thus based on our experience, the risk characteristics have not changed.

We typically recognize finance income net of collection fees paid to third-party collection agencies and attorneys. With respect to a single portfolio purchased in 2001 containing a significant amount of performing and semi-performing accounts, we recognized finance income on accounts that were being serviced by third-party collection agencies and attorneys at the gross amounts received by the third-party collection agencies and attorneys. 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 interest in this profit sharing arrangement held by our lender 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. During the year ended September 30, 2003, actual and estimated collections have exceeded our estimates at September 30, 2002, and therefore we revised our third-party profit allocation. Such change in accounting estimate has resulted in approximately a $1.6 million interest expense charge during the year ended September 30, 2003. As this charge was due to a specific portfolio, no such charge was recorded during the year ended September 30, 2004.

Results of Operations

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

	Years ending September 30		
	2005	2004	2003
Finance Income	100.0%	100.0%	100.0%
General and administrative	22.1%	22.0%	22.5%
Interest expense	2.7%	1.7%	5.3%
Provision for credit and other losses	0.0%	0.6%	0.0%
Third party servicing	0.0%	2.6%	16.0%
Income before provision for income taxes	75.3%	73.1%	56.2%
Provision for income taxes	30.6%	29.7%	23.0%
Net Income	44.6%	43.4%	33.2%

YEAR ENDED SEPTEMBER 30, 2005 COMPARED TO THE YEAR ENDED SEPTEMBER 30, 2004

FINANCE INCOME.. For the year ended September 30, 2005, finance income increased $18.3 million or 35.8% to $69.5 million from $51.2 million for the year ended September 30, 2004. The increase in finance income was primarily due to an increase in finance income earned on consumer receivables acquired for liquidation, which resulted from an increase in the average outstanding accounts acquired for liquidation during the fiscal year ended September 30, 2005, as compared to the same prior year period. For the fiscal year ended September 30, 2005, we acquired receivables at a cost of $126.0 million as compared to $103.7 million for the year ended September 30, 2004. For the fiscal year ended September 30, 2005, we had an average of $159.4 million in consumer receivables acquired for liquidation as compared to $125.9 million for the year ended September 30, 2004, a 26.7% increase. Finance income recognized from collections represented by account sales was $24.9 million and $14.9 million for the years ended September 30, 2005 and 2004, respectively. Based on actual cash flows for the year ended September 30, 2005, and projected cash flows we did not change our estimates of collections during the year ended September 30, 2005. Based on actual cash flows for the year ended September 30, 2004, and the then projected future cash flows on certain portfolios as compared to what we estimated at September 30, 2003, a revision was made to the estimated collections. Such change in accounting estimate has resulted in approximately a $9.8 million increase in finance income recognized for the year ended September 30, 2004 for these portfolios. In 2004 The Company decided to increase its utilization of the legal process to increase collections. This strategy has proven to be effective and we will continue to utilize this strategy. The commissions and fees associated with gross collections from our third-party collection agencies and attorneys were approximately $49.9 million, or 22.8% of gross collections, in the fiscal year ended September 30, 2005, as compared to $25.9 million, or 18.5% of gross collections in the prior year.

GENERAL AND ADMINISTRATIVE EXPENSES. For the year ended September 30, 2005, general and administrative expenses increased $4.0 million or 36.3% to $15.3 million from $11.3 million for the year ended September 30, 2004. The increase was primarily due to an increase in the administrative costs associated with the 26.7% increase in the accounts acquired for liquidation. The increase in the administrative expenses included court costs, data processing costs, salaries, payroll taxes and benefits, professional fees, including implementation of the Sarbanes-Oxley requirements, telephone charges and rent.

THIRD-PARTY SERVICING EXPENSES. Third-party servicing expenses related to a specific portfolio serviced by an exclusive agent. The resulting decrease in third party-party servicing expenses was due to the elimination of these accounts and thus the exclusive relationship regarding these accounts no longer exists. For the year ended September 30, 2005, third-party servicing expenses decreased $1.3 million to $0 million from $1.3 million for the year ended September 30, 2004. For the years ended September 30, 2005 and 2004, the total gross finance income related to third party servicing costs, which is included in finance income was $0 and $4.3 million, respectively.

INTEREST EXPENSE. For the year ended September 30, 2005, interest expense increased $1.0 million or 119.3% to $1.9 million from $.8 million for the year ended September 30, 2004. The increase was primarily due to the increase in the average outstanding borrowings under our line of credit during the year ended September 30, 2005, as compared to the same prior year period. The average outstanding balance during the year ended September 30, 2005 was $34.3 million as compared to $27.8 million for the period ended September 30, 2004. Also, the average interest rate for the year increased slightly to 5.17%.

PROVISION FOR CREDIT LOSSES. For the year ended September 30, 2005, the provision for credit losses decreased $.3 million to $0 from $.3 for the year ended September 30, 2004. The provision during 2004 was due to a write down on one of our financed portfolio of receivables.

NET INCOME. For the year ended September 30, 2005, net income increased $8.8 million or 39.4% to $31.0 million from $22.2 million for the year ended September 30, 2004. Net income per share for the year ended September 30, 2005 increased $0.58 per diluted share or 36.9% to $2.15 per diluted share from $1.57 per diluted share for the year ended September 30, 2004

YEAR ENDED SEPTEMBER 30, 2004 COMPARED TO THE YEAR ENDED SEPTEMBER 30, 2003

FINANCE INCOME.. For the year ended September 30, 2004, finance income increased $16.3 million or 46.8% to $51.2 million from $34.9 million for the year ended September 30, 2003. The increase in finance income was primarily due to an increase in finance income earned on consumer receivables acquired for liquidation, which resulted from an increase in the average outstanding accounts acquired for liquidation during the fiscal year ended September 30, 2004, as compared to the same prior year period. For the fiscal year ended September 30, 2004, we acquired receivables at a cost of $103.7 million as compared to $115.6 million for the year ended September 30, 2003. For the fiscal year ended September 30, 2004, we had an average of $125.9 million in consumer receivables acquired for liquidation as compared to $70.8 million for the year ended September 30, 2003. Finance income recognized from collections represented by account sales was $14.9 million and $3.4 million for the years ended September 30, 2004 and 2003, respectively. Based on actual cash flows for the year ended September 30, 2004, and projected future cash flows on certain portfolios as compared to what we estimated at September 30, 2003, we revised our estimate of future collections. Management has decided in 2004 to implement a greater collection effort utilizing legal networks and a suit strategy to collect. Such change in accounting estimate has resulted in approximately a $9.8 million increase in finance income recognized for the year ended September 30, 2004 for these portfolios. The commissions and fees associated with gross collections from our third-party collection agencies and attorneys were approximately $25.9 million, or 18.5% of gross collections, in the fiscal year ended September 30, 2004, as compared to $11.1 million, or 12.2% of gross collections in the prior year, indicative our shift to the legal strategy.

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GENERAL AND ADMINISTRATIVE EXPENSES. For the year ended September 30, 2004, general and administrative expenses increased $3.4 million or 43.7% to $11.3 million from $7.8 million for the year ended September 30, 2003. The increase was primarily due to an increase receivable servicing costs. The increase in receivable servicing expenses resulted from the increase in our average outstanding accounts acquired for liquidation during the year ended September 30, 2004 coupled with increased costs associated with our acquisition of a call center in Bethlehem, PA in January 2003, that we use for servicing a portion of our receivable, as compared to the same prior year period. Both resulted in increased collection expenses including court costs, data processing costs, salaries, payroll taxes and benefits, professional fees, telephone charges and rent.

THIRD-PARTY SERVICING EXPENSES. Third-party servicing expenses related to a specific portfolio serviced by an exclusive agent. The resulting decrease in third-party servicing expenses was due to the elimination of these accounts and thus the exclusive relationship regarding these accounts no longer exists. For the year ended September 30, 2004, third-party servicing expenses decreased $4.2 million or 76.3% to $1.3 million from $5.6 million for the year ended September 30, 2003. For the years ended September 30, 2004 and 2003, total gross finance income related to third party servicing costs, which is included in finance income was $4.3 million and $11.1 million, respectively.

INTEREST EXPENSE. For the year ended September 30, 2004, interest expense decreased $1.0 million or 54.4% to $845,000 from $1.9 million for the year ended September 30, 2003. The decrease was primarily due to the decrease in the average outstanding borrowings under our line of credit during the year ended September 30, 2004, as compared to the same prior year period.

PROVISION FOR CREDIT LOSSES. For the year ended September 30, 2004, the provision for credit losses increased $300,000 to $300,000 from $0 for the year ended September 30, 2003. The increase was due to a write down on one of our financed portfolio receivables during the year ended September 30, 2004.

NET INCOME. For the year ended September 30, 2004, net income increased $10.7 million or 92.1% to $22.2 million from $11.6 million for the year ended September 30, 2003. Net income per share for the year ended September 30, 2004 increased $0.44 per diluted share or 38.9% to $1.57 per diluted share from $1.13 per diluted share for the year ended September 30, 2003. The increase in earnings per share is a result of higher net income, partially offset by higher weighted average number of diluted shares outstanding compared to the prior period, primarily resulting from the secondary stock offering in June 2003.

Liquidity and Capital Resources

As of September 30, 2005, we had cash and cash equivalents of $4.0 million compared to $3.3 million at September 30, 2004. The increase in cash and cash equivalents at September 30, 2005, was primarily due to the timing of our credit line payments, other liability payments and tax payments for the year ended September 30, 2005 as compared to the prior year. Primary sources of cash from operations include collections 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 to provide the funds necessary for the purchase of consumer and commercial accounts receivable portfolios. In May of 2005, we entered into a new amended and restated loan and security agreement increasing our line of credit to $80 million from $60 million that expires on May 11, 2006. In December 2005, the Company received a commitment from its lending institution, which, subject to completion and execution of the formal documents, will result in an increase in the line of credit from $80 million to $100 million with a feature that, under certain circumstances, allows us to increase the line of credit to $125 million. The amended and restated loan and security agreement's expiration date remains May 11, 2006. In addition, we may arrange for financing on a transactional basis. While we have historically been able to finance portfolio purchases, we do not have committed loan facilities, other than our line of credit with a financial institution. As of December 12, 2005, September 30, 2005, and September 30, 2004, we had outstanding borrowings of $50.7, $29.3, and $39.4 million respectively under this facility and we were in compliance with all of the covenants under this line of credit.

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

	Year Ended Sept		
	2005	2004	2003
			(in milli
Balance at beginning of period	$146.1	$105.6	$ 36.1
Acquisitions of finance receivables, net of buybacks	126.0	103.7	115.6
Cash collections from debtors applied to principal (1)	(59.6)	(37.6)	(27.4)

Cash collections represented by account sales applied to principal (1)	(39.8)	(25.3)	(18.2)
Portfolio writedown	--	(0.3)	(0.5)
Balance at end of period	$172.7	$146.1	$105.6

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

Net cash provided by operating activities was $32.1 million during the year ended September 30, 2005, compared to $21.9 million during the year ended September 30, 2004. The increase was primarily due to an increase in net income partially offset by an increase in amount due from servicers and other assets at September 30, 2005, compared to the prior year.

Net cash used in investing activities was $21.0 million during the year ended September 30, 2005, compared to $48.3 million during the year ended September 30, 2004. The decrease in cash used in investing activities was primarily due to an increase in principal payments on consumer receivables and a decrease in a deposit on receivable purchase, slightly offset by the acquisition of Option Card LLC. (See Note C of the Notes to the Financial Statements)

Net cash used by financing activities was $10.3 million during the year ended September 30, 2005, compared to net cash provided by financing activities of $22.9 million for the prior year. The increase in the net cash used by financing was primarily due to a $10.1 million decrease in borrowings during the year ended September 30, 2005, as compared to advances of $23.0 million in borrowings in the prior year. On May 11, 2005, we entered into a new amended and restated loan and security agreement increasing our line of credit from $60 million to $80 million which expires on May 11, 2006. 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. As of December 6, 2005, September 30, 2005, and September 30, 2004 ,we had outstanding borrowings of $45.1, $29.3, and $39.4 million respectively under this line of credit and we were in compliance with all of the covenants under this line of credit.

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Our cash requirements have been and will continue to be significant. We depend on external financing to acquire consumer receivables. During the year ended September 30, 2005, we acquired consumer portfolios at a cost of approximately $126.0 million having an aggregate outstanding balance totaling approximately $3.5 billion.

We anticipate funds available under our current credit facility and cash from operations will be sufficient to satisfy 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, including acquisitions), we may be required to seek additional funding.

We may consider possible acquisitions of, or investments in, complementary businesses. Any such possible acquisitions 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 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 Consumer Receivables Portfolios:

PORTFOLIO PURCHASES

	Year Ended September 30,		
	2005	2004	2003
		(in millions)	
Aggregate Purchase Price	$ 126.0	$ 103.7	$ 115.6
Aggregate Portfolio Face Amount	3,445.2	2,833.5	3,576.4

SCHEDULE OF PORTFOLIOS BY INCOME RECOGNITION CATEGORY

	September 30, 2005		September 30, 2004		Septem
	Cost Recovery Portfolios	Interest Method Portfolios	Cost Recovery Portfolios	Interest Method Portfolios	Cost Recover Portfoli
			(in millions)		
Original Purchase Price (at period end)	$ 49.3	$ 454.8	$ 49.3	$ 328.8	$ 48
Cumulative Aggregate Managed Portfolios (at period end)	2,168.4	11,339.5	2,168.4	7,894.3	2,147
Receivable Carrying Value (at period end)	0.1	172.6	1.3	144.8	2
Finance Income Earned (for the respective period)	5.4	64.1	5.4	45.3	6
Total Cash Flows (for the respective period)	6.6	162.3	7.6	104.5	9

The original purchase price reflects what we paid for the receivables from 1998 through the end of the respective period. The cumulative aggregate managed portfolio balance is the original aggregate amount owed by the borrowers at the end of the respective period. 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.

COLLECTIONS REPRESENTED BY ACCOUNT SALES

Year	Collections Represented By account Sales	Finance Income Recognized
2005	$64,731,000	$24,918,000
2004	40,260,000	14,948,000
2003	21,578,000	3,389,000

PORTFOLIO PERFORMANCE (1)

The following table summarizes our historical portfolio purchase price and cash collections on an annual vintage basis since October 1, 2001 through September 30, 2005.

Purchase Period	Purchase Price(2)	Cash Collections Including Cash Sales (3)	Total Collections as a Percentage of Purchase Price	# of Weighted Average Days Held During Firs Year Acquired
2001	$ 65,120,000	$ 93,785,000	144%	119
2002	36,557,000	50,703,000	139%	183
2003	115,626,000	132,758,000	115%	81
2004	103,743,000	93,910,000	91%	170
2005	126,023,000	39,762,000	32%	181

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

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

For the year ended September 30, 2005, we recognized revenue of $5.4 million under the cost recovery method because we collected $5.4 million in excess of our purchase price on certain receivable portfolios. In addition, we earned $64.1 million of interest income under the interest method based on actuarial computations on certain portfolios which are based on actual collections during the period and on what we project to collect in future periods.

The sum of total cash flows of $168.9 million less the sum of total finance income earned on consumer receivables acquired for liquidation of $69.5 million is $99.4 million or the principal amortized on receivables acquired for liquidation as per the statement of cash flows for the year ended September 30, 2005.

The Company is obligated under operating leases. It is anticipated that during the year ending September 30, 2006, 2007 and 2008, $331,000, $245,000, and $219,000 respectively will be required.

Additionally, the external professional fees for the implementation of Sarbanes Oxley section 404 were approximately $300 thousand for the year ending September 30, 2005, including external audit fees.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment ("SFAS No.123R"). This statement is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This Statement supersedes the current method utilized by the Company of the disclosure-only provisions of the original SFAS No. 123. The original effective date of this Statement was to be as of the beginning of the first interim or annual period that begins after June 15, 2004. In April 2005, The Securities and Exchange Commission revised the effective date to implement SFAS No.123R to the beginning of the next fiscal year. The effective date for implementation of SFAS No. 123R for the Company will be October 1, 2005. The Company has been disclosing the impact on net income and earnings per share since the adoption of the original SFAS No. 123 and its amendment, SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" in the notes to the financial statements. As permitted by SFAS 148 and SFAS 123, we continued to apply the accounting provisions of Accounting Principles Board 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 through September 30, 2005. 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.

In October 2003, the American Institute of Certified Accountants issued Statement of Position ("SOP") 03-03, "Accounting for Loans or Certain Securities Acquired in a Transfer." This SOP proposes guidance on accounting 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 should be recognized prospectively through an adjustment of the internal rate of return while decreases in expected cash flows should be recognized as impairment. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. We have implemented this SOP and through September 30, 2005, there has been no impact on our results. We believe the implementation of this SOP will make it more likely that an impairment loss may be recorded some time in the future.

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SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No.

29" ("SFAS 153") addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value accounting for nonmonetary exchange of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of an entity are expected to change significantly as a result of the exchange. This statement is effective beginning in fiscal 2006. This statement is not expected to have an impact on the Company's financial results.

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS 154), which requires a retrospective application to prior periods' financial statements of changes in accounting principle for all periods presented. This statement replaces APB Opinion No. 20 which required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. The provisions of SFAS 154 are effective for fiscal years beginning after December 15, 2006, the Company's fiscal year 2008.

Seasonality and Trends

Our management believes that our operations may, to some extent, be affected by high delinquency rates and by lower recoveries on consumer receivables acquired for liquidation during or shortly following certain holiday periods. In addition, on occasion the market for acquiring distressed receivables does become more competitive thereby possibly diminishing our ability to acquire such distressed receivables at attractive prices in future periods.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

Exhibit Number	
3.1	Certificate of Incorporation. (1)
3.1(a)	Amendment to Certificate of Incorporation (7)
3.2	By laws. (2)
10.1	Stock Option Plan as Amended (1)
10.2	Employment Agreement dated October 1, 2001, by and between Asta Funding, Inc. and Gary Stern. (3)
10.3	Employment Agreement dated October 1, 2001, by and between Asta Funding, Inc. and Mitchell Herman. (3)
10.6	Common Stock Purchase Warrant dated October 12, 2000, issued by Small Business Worldwide to AstaFunding.Com, LLC. (4)
10.7	Purchase Agreement dated January 18, 2001, between Asta Funding, Inc. and Heilig Meyers Furniture. (5)

10.8	Purchase Agreement of a $191 million loan portfolio dated August 31,

2001, between Computer Finance, LLC, a subsidiary of the Company and a major computer manufacturer/retailer. (6)

10.9 Amended Loan and Security Agreement dated November 15, 2001, between the Company and Israel Discount Bank of NY. (3)

10.10 Amended Loan and Security Agreement dated January 28, 2003, between the Company and Israel Discount Bank of NY. (9)

10.11 Amended Loan and Security Agreement dated June 27, 2003, between the Company and Israel Discount Bank of NY. (10)

10.12 Amended Loan and Security Agreement dated November 24, 2003, between the Company and Israel Discount Bank of NY (13)

10.13 Amended Loan and Security Agreement dated May 11, 2005, between the Company and Israel Discount Bank of NY (16)

10.14 Asta Funding, Inc. 2002 Stock Option Plan. (7)

10.15 Servicing Agreement dated August 30, 2001 between Computer Finance, LLC, Greenwich Capital Financial Products, Inc., Gulf State Credit, L.L.C. and OSI Portfolio Services, Inc. (7)

10.16 Employment Agreement dated as of May 21, 2002 by and between Asta Funding, Inc. and Arthur Stern. (8)

10.17 Employment Agreement dated as of November 11, 2003 by and between Asta Funding, Inc. and Arthur Stern. (15)

14.1 Code of Ethics for Senior Financial Officers (14)

21.1 Subsidiaries of the Company (3)

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

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

(1) Incorporated by reference to Exhibit 3.1 from Asta Funding's Registration Statement on Form SB-2 (File No. 33-97212).

(2) Incorporated by reference from Asta Funding's Annual Report on Form 10-KSB for the year ended September 30, 1999.

(3) Incorporated by reference from Asta Funding's Annual Report on Form 10-KSB for the year ended September 30, 2001.

(4) Incorporated by reference from Asta Funding's Current Report filed on Form 8-K/A on November 2, 2000.

(5) Incorporated by reference from Asta Funding's Quarterly Report on Form 10-QSB for the three months ended December 31, 2000.

(6) Incorporated by reference from Asta Funding's Current Report filed on Form 8-K on October 4, 2001.

(7) Incorporated by reference from Asta Funding's Quarterly Report on Form 10-QSB for the three months ended March 31, 2002.

(8) Incorporated by reference from Asta Funding's Quarterly Report on Form 10-QSB for the three months ended June 30, 2002.

(9) Incorporated by reference from Asta Funding's Quarterly Report on Form 10-QSB for the three months ended December 31, 2002.

(10) Incorporated by reference from Asta Funding's Quarterly Report on Form 10-QSB for the three months ended March 31, 2003.

(11) Incorporated by reference from Asta Funding's Registration Statement on Form S-1 (File No. 333-105755).

(12) Incorporated by reference from Asta Funding's Quarterly Report on Form 10-QSB for the three months ended June 30, 2003.

(13) Incorporated by reference from Asta Funding's Quarterly Report on Form 10-Q for the three months ended December 31, 2003.

(14) Incorporated by reference from Asta Funding's Annual Report on Form 10-K for the year ended September 30, 2004.

(15) Incorporated by reference from Asta Funding's Definitive Proxy Statement- Schedule 14A dated August 31, 2004.

(16) Incorporated by reference from Asta Funding's Quarterly Report on Form 10-Q for the three months ended June 30, 2005.

SIGNATURES

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

ASTA FUNDING, INC.

Dated: January 20, 2006 By: /s/Gary Stern

Gary Stern
President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Gary Stern Gary Stern	President, Chief Executive Officer and Director	January 20,
/s/ Mitchell Cohen Mitchell Cohen	Chief Financial Officer	January 20,
/s/ Arthur Stern Arthur Stern	Chairman of the Board and Executive Vice President	January 20,
/s/ Herman Badillo Herman Badillo	Director	January 20,
/s/ Edward Celano Edward Celano	Director	January 20,
/s/ Harvey Leibowitz Harvey Leibowitz	Director	January 20,
/s/ David Slackman David Slackman	Director	January 20,
/s/ Alan Rivera Alan Rivera	Director	January 20,
/s/ Louis A. Piccolo Louis A. Piccolo	Director	January 20,