

ASTA FUNDING INC

FORM 10-K (Annual Report)

Filed 12/14/05 for the Period Ending 09/30/05

Address	210 SYLVAN AVE ENGLEWOOD CLIFFS, NJ 07632
Telephone	2015675648
CIK	0001001258
Symbol	ASFI
SIC Code	6153 - Short-Term Business Credit Institutions, Except Agricultural
Industry	Consumer Financial Services
Sector	Financial
Fiscal Year	09/30

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

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
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(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I. R. S. EMPLOYER IDENTIFICATION NO.)
210 SYLVAN AVENUE, ENGLEWOOD CLIFFS, NJ	07632
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(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

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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. Certain factors which could materially affect our results and our future performance are described below under "Risk Factors" and "Critical Accounting Policies" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements." Forward-looking statements are inherently uncertain as they are based on current expectations and assumptions concerning future events and are subject to numerous known and unknown risks and uncertainties. We caution you not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date of this report. Except as required by law, we undertake no obligation to update or publicly announce revisions to any forward-looking statements to reflect future events or developments.

Part I

ITEM 1. DESCRIPTION OF BUSINESS.

Overview

Asta Funding, Inc. acquires, manages, collects and services portfolios of consumer receivables. These portfolios generally consist of one or more of the following types of consumer receivables:

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

We purchase receivables from creditors and others through privately negotiated direct sales and auctions in which sellers of receivables seek bids from several pre-qualified debt purchasers. These receivables consist primarily of MasterCard(R), Visa(R), private label credit card accounts, telecom wireless charge-offs, among other types of receivables. We pursue new acquisitions of consumer receivable portfolios from originators of consumer debt, on an ongoing basis through:

- o our relationships with industry participants, collection agencies, investors and our financing sources;
- o brokers who specialize in the sale of consumer receivable portfolios; and
- o other sources.

Our objective is to maximize our return on investment on acquired consumer receivable portfolios. As a result, before acquiring a portfolio, we analyze the portfolio to determine how to best maximize collections in a cost efficient manner and decide whether to use our internal servicing and collection department, or third-party collection agencies and attorneys.

If we elect to outsource the servicing of receivables, our senior management typically determines the appropriate third-party collection agencies and attorneys based on the type of receivables purchased. Once a group of receivables is sent to third-party collection agencies and attorneys, our management actively monitors and reviews the third-party collection agencies and attorneys' performance on an ongoing basis. Based on portfolio performance considerations, our management either will move certain receivables from one third-party collection agency and attorney to another or to our internal servicing department if it anticipates that this will result in an increase in collections or it will sell the portfolio. In December 2002, we acquired a collection center, which expanded our internal collection and servicing capabilities. The collection center currently employs approximately 55 staff, including senior management and has the capacity for more than 100 employees. We believe that the retention of these employees, as well as the increased capacity available at the collection center, will better assist us in monitoring our third-party collection agencies and attorneys, while giving us greater flexibility in the future for servicing in-house a larger percentage of our consumer receivable portfolios.

We acquire portfolios through a combination of internally generated cash flow and bank debt. In the past, on certain large portfolio acquisitions we have partnered with a large financial institution in which we shared in the finance income generated from the collections on the portfolios.

For the years ended September 30, 2005, 2004 and 2003, our finance income was approximately \$69.5 million, \$51.2 million and \$34.9 million respectively, and our net income was approximately \$31.0 million, \$22.2 million and \$11.6 million, respectively. During these same years our net cash collections were approximately \$168.9 million, \$114.0 million and \$80.5 million respectively.

We were formed in 1994 as an affiliate of Asta Group, Incorporated, an entity owned by Arthur Stern, our Chairman of the Board and an Executive Vice President, Gary Stern, our President and Chief Executive Officer, and other members of the Stern family, to purchase, at a small discount to face value, retail installment sales contracts secured by motor vehicles. We became a public company in November 1995. In 1999, we decided to capitalize on our management's more than 40 years of experience and expertise in acquiring and managing consumer receivable portfolios for Asta Group. As a result, we ceased purchasing automobile contracts and, with the assistance and financial support of Asta Group, purchased our first significant consumer receivable portfolio. Since then, Asta Group ceased acquiring consumer receivable portfolios and, accordingly, does not compete with us.

Industry Overview

The purchasing, servicing and collection of charged-off, semi-performing and performing consumer receivables is a growing industry that is driven by:

- o increasing levels of consumer debt;
- o increasing defaults of the underlying receivables; and
- o increasing utilization of third-party providers to collect such receivables.

According to the U.S. Federal Reserve Board, consumer credit has increased from \$1.2 trillion at December 31, 1997, to \$2.2 trillion at August 31, 2005. According to the Nilson Report, a credit card industry newsletter, the consumer credit market will increase to \$2.8 trillion by 2010 and credit card charge-offs are predicted to reach \$72.9 billion by 2005, up from \$18.0 billion in 1995.

We believe that as a result of the difficulty in collecting these receivables and the desire of originating institutions to focus on their core businesses and to generate revenue from these receivables, originating institutions are increasingly electing to sell these portfolios.

Strategy

Our primary objective is to utilize our management's experience and expertise to effectively grow our business by identifying, evaluating, pricing and acquiring consumer receivable portfolios and maximizing collections of such receivables in a cost efficient manner. Our strategy includes:

- o managing the collection and servicing of our consumer receivable portfolios, including outsourcing a majority of those activities to maintain low fixed overhead;
- o selling accounts on an opportunistic basis, generally when our efforts have been exhausted through traditional collecting methods, or when pricing is at our indifference point;
- o expanding financial flexibility through increased capital and lines of credit;
- o capitalizing on our strategic relationships to identify and acquire consumer receivable portfolios; and
- o expanding our business through the purchase of consumer receivables from new and existing sources.

We believe that as a result of our management's experience and expertise, and the fragmented yet growing market in which we operate, we are well-positioned to successfully implement our strategy.

We are a Delaware corporation whose principal executive offices are located at 210 Sylvan Avenue, Englewood Cliffs, New Jersey 07632. We were incorporated in New Jersey on July 7, 1994 and were reincorporated in Delaware on October 12, 1995 as a result of a merger with a Delaware corporation. Unless the context otherwise requires, the terms "we", "us" or "our" as used herein refer to Asta Funding, Inc. and our subsidiaries.

CONSUMER RECEIVABLES BUSINESS

Receivables Purchase Program

We purchase bulk receivable portfolios that include charged-off receivables, semi-performing receivables and performing receivables. These receivables consist primarily of MasterCard(R), Visa(R), private label credit card accounts, telecom wireless receivables, among other types of receivables.

From time to time, we may acquire directly, and indirectly through the consumer receivable portfolios that we acquire, secured consumer asset portfolios.

We identify potential portfolio acquisitions on an ongoing basis through:

- o our relationships with industry participants, collection agencies, investors and our financing sources;
- o brokers who specialize in the sale of consumer receivable portfolios; and
- o other sources.

Historically, the purchase prices of the consumer receivable portfolios that we have acquired have ranged from less than \$500,000 to more than \$50 million. As a part of our strategy to acquire consumer receivable portfolios, we have from time to time entered into, and may continue to enter into, participation and profit sharing agreements with our sources of financing and our third-party collection agencies and attorneys. These arrangements may take the form of a joint bid, with one of our third-party collection agencies and attorneys or financing source who assists in the acquisition of a portfolio and provide us with more favorable non-recourse financing terms or a discounted servicing commission.

We utilize our relationships with brokers, third-party collection agencies and attorneys, and sellers of portfolios to locate portfolios for purchase. Our senior management is responsible for:

- o coordinating due diligence, including in some cases on-site visits to the seller's office;
- o stratifying and analyzing the portfolio characteristics;
- o valuing the portfolio;
- o preparing bid proposals;
- o negotiating pricing and terms;
- o closing the purchase; and
- o coordinating the receipt of account documentation for the acquired portfolios.

The seller or broker typically supplies us with either a sample listing or the actual portfolio being sold on compact disk, a diskette or other form of media. We analyze each consumer receivable portfolio to determine if it meets our purchasing criteria. We may then prepare a bid or negotiate a purchase price. If a purchase is completed, senior management monitors the portfolio's performance and uses this information in determining future buying criteria and pricing.

We purchase receivables at substantial discounts from the balance actually owed by the consumer. We determine how much to bid on a portfolio by evaluating many different variables, such as:

- o The number of collection agencies previously attempting to collect the receivables in the portfolio;
- o the average balance of the receivables;
- o the age of the receivables;
- o past history of performance of similar assets;
- o number of days since charge-off;
- o payments made since charge-off;
- o the credit originator and their credit guidelines;
- o the locations of the debtors; and
- o assets found within portfolios.

Once a receivable portfolio has been identified for potential purchase, we prepare various analyses based on extracting customer level data from external sources, other than the issuer, to analyze the potential collectibility of the portfolio. We also analyze the portfolio by comparing it to similar portfolios previously acquired by us. In addition, we perform qualitative analyses of other matters affecting the value of portfolios, including a review of the delinquency, charge off, placement and recovery policies of the originator as well as the collection authority granted by the originator to any third party collection agencies, and, if possible, by reviewing their recovery efforts on the particular portfolio. After these evaluations are completed, members of our senior management discuss the findings, decide whether to make the purchase and finalize the price at which we are willing to purchase the portfolio.

We purchase most of our consumer receivable portfolios directly from originators and other sellers including, from time to time, our third-party collection agencies and attorneys through privately negotiated direct sales and through auction type sales in which sellers of receivables seek bids from several pre-qualified debt purchasers. We also, from time to time, use the services of brokers. In order for us to consider a potential seller as a source of receivables, a variety of factors are considered. Sellers must demonstrate that they have:

- o adequate internal controls to detect fraud;
- o the ability to provide post sale support; and
- o the capacity to honor put-back and return warranty requests.

Generally, our portfolio purchase agreements provide that we can return certain accounts to the seller within a specified time period. However, in some transactions, we may acquire a portfolio with few, if any, rights to return accounts to the seller. After acquiring a portfolio, we conduct a detailed analysis to determine which accounts in the portfolio should be returned to the seller. Although the terms of each portfolio purchase agreement differ, examples of accounts that may be returned to the seller include:

- o debts paid prior to the cutoff date;
- o debts in which the consumer filed bankruptcy prior to the cutoff date;
- o debts in which the consumer was deceased prior to cutoff date; and
- o fraudulent accounts.

Accounts returned to sellers for the fiscal years ended 2005, 2004 and 2003 have been determined to be immaterial. Our purchase agreements do not contain any provision for a limitation on the number of accounts that can be returned to the seller.

We generally use third-parties to determine bankrupt and deceased accounts, which allows us to focus our resources on portfolio collections. Under a typical portfolio purchase agreement, the seller refunds the portion of the purchase price attributable to the returned accounts or delivers replacement receivables to us. Occasionally, we will acquire a well seasoned, or older, portfolio at a reduced price from a seller that is unable to meet all of our purchasing criteria. When we acquire such portfolios, the purchase price is discounted beyond the typical discounts we receive on the portfolios we purchase that meet our purchasing criteria.

Receivable Servicing

Our objective is to maximize our return on investment on acquired consumer receivable portfolios. As a result, before acquiring a portfolio, we analyze the portfolio to determine how to best maximize collections in a cost efficient manner and decide whether to use our internal servicing and collection department or third-party collection agencies and attorneys.

Therefore, if we are successful in acquiring the portfolios, we can promptly process the receivables that were purchased and commence the collection process. Unlike collection agencies that typically have only a specified period of time to recover a receivable, as the portfolio owners we have significantly more flexibility and can establish payment programs.

Once a portfolio has been acquired, we or our third-party collection agencies or attorneys generally download all receivable information provided by the seller into our account management system and reconcile certain information with the information provided by the seller in the purchase contract. We or our third-party collection agencies or attorneys send notification letters to obligors of each acquired account explaining, among other matters, our new ownership and asking that the obligor contact us. In addition, we notify the three major credit reporting agencies of our new ownership of the receivables.

We presently outsource the majority of our receivable servicing to third-party collection agencies and attorneys. Our senior management typically determines the appropriate third-party collection agency and attorneys based on the type of receivables purchased. Once a group of receivables is sent to a third-party collection agency or attorney, our management actively monitors and reviews the third-party collection agencies and attorneys' performance on an ongoing basis. Our management receives detailed analyses, including collection activity and portfolio performance, from our internal servicing departments to assist it in evaluating the results of the efforts of the third-party collection agencies and attorneys. Based on portfolio performance guidelines, our management will move certain receivables from one third-party collection agency or attorney to another, or to our internal servicing department if it anticipates that this will result in an increase in collections.

In December 2002, we acquired a collection center that currently employs approximately 55 experienced persons with the capacity for over 100 employees. This facility expands our internal collection and servicing capabilities, gives us greater flexibility and control over the servicing of our consumer receivables portfolios and assists us in monitoring our third-party collection agencies and attorneys..

We have four main internal servicing departments:

- o collection/skiptrace;
- o legal;
- o customer service; and
- o accounting.

Collection/Skiptrace. The collection/skiptrace department is responsible for making contact with the obligors and collecting on our consumer receivable portfolios that are not being serviced by third-party collection agencies and attorneys. This department uses a friendly, customer service approach to collect on receivables. Through the use of our collection software and telephone system, each collector is responsible for:

- o contacting customers;
- o explaining the benefits of making payment on the obligations; and
- o working with the customers to develop acceptable means to satisfy their obligations.

We and our third-party collection agencies and attorneys have the flexibility to structure repayment plans that accommodate the needs of obligors by:

- o offering obligors a discount on the overall obligation; and
- o tailoring repayment plans that provide for the payment of these obligations as a component of the obligor's monthly budget.

We also use a series of collection letters, late payment reminders, and settlement offers that are sent out at specific intervals or at the request of a member of our collection department. When the collection department cannot contact the customer by either telephone or mail, the account is referred to the skiptrace department.

The skiptrace department is responsible for locating and contacting customers who could not be contacted by either the collection or legal departments. The skiptrace employees use a variety of public and private third-party databases to locate customers. Once a customer is located and contact is made by a skiptracer, the account is then referred back to the collection or legal department for follow-up. The skiptrace department is also responsible for finding current employers and locating assets of obligors when this information is deemed necessary.

Legal. If the collection department determines that the customer has the ability to satisfy his obligation but our normal collection activities have not resulted in any resolution of the customer's obligations, the account is referred to the legal department, which consists of non-lawyer administrative staff experienced in collection work. The legal department refers legal case proceedings to outside counsel. The legal department also refers accounts to the skiptrace department to obtain a current phone number, address, the location of assets of the obligor or the identity of the obligor's employer. In addition, the legal department communicates with the collection attorneys that we utilize throughout the country. Over the past eighteen months, we have employed a more aggressive legal strategy that will yield more collections over a longer period of time.

Customer Service. The customer service department is responsible for:

- o handling incoming calls from debtors and third-party collection agencies that are responsible for collecting on our consumer receivable portfolios;
- o coordinating customer inquiries and assisting the collection agencies in the collection process;
- o handling buy-back and information requests from companies who have purchased receivables from us;
- o working with the buyers during the transition period and post sale process; and
- o handling any issues that may arise once a receivable portfolio has been sold.

Accounting. In addition to the customary accounting function, the accounting department is responsible for:

- o making daily deposits of customer payments;
- o posting these payments to the customer's account;
- o mailing monthly statements to customers; and
- o in conjunction with the customer service department, providing senior management with weekly and monthly receivable activity and performance reports.

Accounting employees also assist collection department employees in handling customer disputes with regard to payment and balance information. The accounting department also assists the customer service department in the handling of buy-back requests from companies who have purchased receivables from us. In addition, the accounting department reviews the results of the collection of consumer receivable portfolios that are being serviced by third-party collection agencies and attorneys.

Collections Represented by Account Sales

Certain collections represent account sales to other debt buyers to help maximize revenue and cash flows. We feel that our business model of not having a large number of collectors, coupled with a legal strategy where we try to attach liens and judgments on obligors, allows us the flexibility to sell accounts at prices that are attractive to us and as important, sell the less desirable accounts within our collective portfolios. There are many factors that contribute to the decision of which receivable to sell and which to service, including:

- o the age of the receivables;
- o the status of the receivables -- whether paying or non-paying; and
- o the selling price.

Collections represented by account sales for the fiscal years ended September 30, 2005, 2004 and 2003 were \$64.7 million, \$40.3 million and \$21.5 million, respectively. Collections represented by account sales as a percentage of total collections for the fiscal years ended September 30, 2005, 2004 and 2003 were 38.3%, 35.3% and 26.8%, respectively.

Marketing

The Company has established relationships with brokers who market consumer receivable portfolios from banks, finance companies and other credit providers. In addition, the Company subscribes to national publications that list consumer receivable portfolios for sale. The Company also directly contacts banks, finance companies or other credit providers to solicit consumer receivables for sale.

Competition

Our business of purchasing distressed consumer receivables is highly competitive and fragmented, and we expect that competition from new and existing companies will increase. We compete with:

- o other purchasers of consumer receivables, including third-party collection companies; and
- o other financial services companies who purchase consumer receivables.

Some of our competitors are larger and more established and may have substantially greater financial, technological, personnel and other resources than we have, including greater access to the capital market system. We believe that no individual competitor or group of competitors has a dominant presence in the market.

We compete with our competitors for consumer receivable portfolios based on many factors, including:

- o purchase price;
- o representations, warranties and indemnities requested;
- o speed in making purchase decisions; and
- o reputation of the purchaser.

Our strategy is designed to capitalize on the market's lack of a dominant industry player. We believe that our management's experience and expertise in identifying, evaluating, pricing and acquiring consumer receivable portfolios and managing collections coupled with our strategic alliances with third-party collection agencies and attorneys and our sources of financing give us a competitive advantage. However, we cannot assure that we will be able to compete successfully against current or future competitors or that competition will not increase in the future.

Management Information Systems

We believe that a high degree of automation is necessary to enable us to grow and successfully compete with other finance companies. Accordingly, we continually upgrade our computer hardware and, when necessary, our software to support the servicing and recovery of consumer receivables acquired for liquidation. Our telecommunications and computer systems allow us to quickly and accurately process large amounts of data necessary to purchase and service consumer receivable portfolios. In addition, we rely on the information technology of our third-party collection agencies and attorneys and periodically review their systems to ensure that they can adequately service our consumer receivable portfolios.

Due to our desire to increase productivity through automation, we periodically review our systems for possible upgrades and enhancements.

Government Regulation

The relationship of a consumer and a creditor is extensively regulated by federal, state and municipal laws, rules, regulations and ordinances. These laws include, but are not limited to, the following federal statutes and regulations : the Federal Truth-In-Lending Act, the Fair Credit Billing Act, the Equal Opportunity Act and the Fair Credit Reporting Act, as well as comparable statutes in states where consumers reside and/or where creditors are located. Among other things, the laws and regulations applicable to various creditors impose disclosure requirements regarding the advertisement, application, establishment and operation of credit card accounts or other types of credit programs. Federal law requires a creditor to disclose to consumers, among other things, the interest rates, fees, grace periods and balance calculations methods associated with their accounts. In addition, consumers are entitled to have payments and credits applied to their accounts promptly, to receive prescribed notices and to require billing errors to be resolved promptly. In addition, some laws prohibit certain discriminatory practices in connection with the extension of credit. Further, state laws may limit the interest rate and the fees that a creditor may impose on consumers. Failure by the creditors to have complied with applicable laws could create claims and rights to offset by consumers that would reduce or eliminate their obligations, which could have a material adverse effect on our operations. Pursuant to agreements under which we purchase receivables, we are typically indemnified against losses resulting from the failure of the creditor to have complied with applicable laws relating to the receivables prior to our purchase of such receivables.

Certain laws, including the laws described above, may limit our ability to collect amounts owing with respect to the receivables regardless of any act or omission on our part. For example, under the Federal Fair Credit Billing Act, a credit card issuer may be subject to certain claims and defenses arising out of certain transactions in which a credit card is used if the consumer has made a good faith attempt to obtain satisfactory resolution of a problem relative to the transaction and, except in cases where there is a specified relationship between the person honoring the card and the credit card issuer, the amount of the initial transaction exceeds \$50 and the place where the initial transaction occurred was in the same state as the consumer's billing address or within 100 miles of that address. Accordingly, as a purchaser of defaulted receivables, we may purchase receivables subject to valid defenses on the part of the consumer. Other laws provide that, in certain instances, consumers cannot be held liable for, or their liability is limited to \$50 with respect to, charges to the credit card credit account that were a result of an unauthorized use of the credit card account. No assurances can be given that certain of the receivables were not established as a result of unauthorized use of a credit card account, and, accordingly, the amount of such receivables may not be collectible by us.

Several federal, state and municipal laws, rules, regulations and ordinances, including, but not limited to, the Federal Fair Debt Collection Practices Act and the Federal Trade Commission Act and comparable state statutes regulate consumer debt collection activity. Although, for a variety of reasons, we may not be specifically subject to the FDCPA and certain state statutes specifically addressing third-party debt collectors, it is our policy to comply with applicable laws in our collection activities. Additionally, our Third-party collection agencies and attorneys may be subject to these laws. To the extent that some or all of these laws apply to our collection activities or our third-party collection agencies and attorneys' collection activities, failure to comply with such laws could have a materially adverse effect on us.

Additional laws may be enacted that could impose additional restrictions on the servicing and collection of receivables. Such new laws may adversely affect the ability to collect the receivables.

Because the receivables were originated and serviced pursuant to a variety of federal and/or state laws by a variety of entities and involved consumers in all 50 states, the District of Columbia and Puerto Rico, there can be no assurance that all original servicing entities have at all times been in substantial compliance with applicable law. Additionally, there can be no assurance that we or our third-party collection agencies and attorneys have been or will continue to be at all times in substantial compliance with applicable law. The failure to comply with applicable law could materially adversely affect our ability to collect our receivables and could subject us to increased costs and fines and penalties.

We currently hold a number of licenses issued under applicable consumer credit laws. Certain of our current licenses and any licenses that we may be required to obtain in the future may be subject to periodic renewal provisions and/or other requirements. Our inability to renew licenses or to take any other required action with respect to such licenses could have a material adverse effect upon our results of operation and financial condition.

Employees

As of September 30, 2005, we had 131 full-time employees. We are not a party to any collective bargaining agreement.

Risk Factors

You should carefully consider these risk factors in evaluating the Company. In addition to the following risks, there may also be risks that we do not yet know of or that we currently think are immaterial that may also impair our business operations. If any of the following risks occur, our business, results of operation or financial condition could be adversely affected, the trading price of our common stock could decline and shareholders might lose all or part of their investment.

We may not be able to purchase consumer receivable portfolios at favorable prices or on sufficiently favorable terms or at all.

Our success depends upon the continued availability of consumer receivable portfolios that meet our purchasing criteria and our ability to identify and finance the purchases of such portfolios. The availability of consumer receivable portfolios at favorable prices and on terms acceptable to us depends on a number of factors outside of our control, including:

- o the continuation of the current growth trend in consumer debt;
- o the continued volume of consumer receivable portfolios available for sale; and
- o competitive factors affecting potential purchasers and sellers of consumer receivable portfolios.
- o the change in the bankruptcy laws, which makes it more difficult for an individual to file under Chapter 7 of the new bankruptcy law.

We have seen at certain times that the market for acquiring consumer receivable portfolios becomes more competitive, thereby diminishing from time to time our ability to acquire such receivables at prices we are willing to pay.

The growth in consumer debt may also be affected by:

- o a slowdown in the economy;
- o reductions in consumer spending;
- o changes in the underwriting criteria by originators; and
- o changes in laws and regulations governing consumer lending.

Any slowing of the consumer debt growth trend could result in a decrease in the availability of consumer receivable portfolios for purchase that could affect the purchase prices of such portfolios. Any increase in the prices we are required to pay for such portfolios in turn will reduce the profit, if any, we generate from such portfolios.

Our quarterly operating results may fluctuate and cause our stock price to decline.

Because of the nature of our business, our quarterly operating results may fluctuate, which may adversely affect the market price of our common stock. Our results may fluctuate as a result of any of the following:

- o the timing and amount of collections on our consumer receivable portfolios;
- o our inability to identify and acquire additional consumer receivable portfolios;
- o a decline in the estimated value of our consumer receivable portfolio recoveries;
- o increases in operating expenses associated with the growth of our operations; and
- o general and economic market conditions.

We may not be able to recover sufficient amounts on our consumer receivable portfolios to recover the costs associated with the purchase of those portfolios and to fund our operations.

We acquire and collect on consumer receivable portfolios that contain charged-off, semi-performing and performing receivables. In order to operate profitably over the long term, we must continually purchase and collect on a sufficient volume of receivables to generate revenue that exceeds our costs. For accounts that are charged-off or semi-performing, the originators or interim owners of the receivables generally have:

- o made numerous attempts to collect on these obligations, often using both their in-house collection staff and third-party collection agencies;
- o subsequently deemed these obligations as uncollectible; and
- o charged-off these obligations.

These receivable portfolios are purchased at significant discounts to the amount the consumers owe. These receivables are difficult to collect and actual recoveries may vary and be less than the amount expected. In addition, our collections may worsen in a weak economic cycle. We may not recover amounts in excess of our acquisition and servicing costs.

Our ability to recover on our portfolios and produce sufficient returns can be negatively impacted by the quality of the purchased receivables. In the normal course of our portfolio acquisitions, some receivables may be included in the portfolios that fail to conform to certain terms of the purchase agreements and we may seek to return these receivables to the seller for payment or replacement receivables. However, we cannot guarantee that any of such sellers will be able to meet their payment obligations to us. Accounts that we are unable to return to sellers may yield no return. If cash flows from operations are less than anticipated as a result of our inability to collect sufficient amounts on our receivables, our ability to satisfy our debt obligations, purchase new portfolios and our future growth and profitability may be materially adversely affected.

We are subject to intense competition for the purchase of consumer receivable portfolios.

We compete with other purchasers of consumer receivable portfolios, with third-party collection agencies and with financial services companies that manage their own consumer receivable portfolios. We compete on the basis of reputation, industry experience and performance. Some of our competitors have greater capital, personnel and other resources than we have. The possible entry of new competitors, including competitors that historically have focused on the acquisition of different asset types, and the expected increase in competition from current market participants may reduce our access to consumer receivable portfolios. Aggressive pricing by our competitors could raise the price of consumer receivable portfolios above levels that we are willing to pay, which could reduce the number of consumer receivable portfolios suitable for us to purchase or if purchased by us, reduce the profits, if any, generated by such portfolios. If we are unable to purchase receivable portfolios at favorable prices or at all, our finance income and earnings could be materially reduced.

We are dependent upon third parties to service a majority of our consumer receivable portfolios.

Although we utilize our in-house collection staff to collect some of our receivables, we outsource a majority of our receivable servicing. As a result, we are dependent upon the efforts of our third party-collection agencies and attorneys to service and collect our consumer receivables. However, any failure by our third party collection agencies and attorneys to adequately perform collection services for us or remit such collections to us could materially reduce our finance income and our profitability. In addition, our finance income and profitability could be materially adversely affected if we are not able to secure replacement third party collection agencies and attorneys and redirect payments from the debtors to our new third party collection agencies and attorneys promptly in the event our agreements with our third-party collection agencies and attorneys are terminated, our third-party collection agencies and attorneys fail to adequately perform their obligations or if our relationships with such third-party collection agencies and attorneys adversely change.

Our collections may decrease if bankruptcy filings increase.

During times of economic recession, the amount of defaulted consumer receivables generally increases, which contributes to an increase in the amount of personal bankruptcy filings. Under certain bankruptcy filings, a debtor's assets are sold to repay credit originators, but since the defaulted consumer receivables we purchase are generally unsecured we often would not be able to collect on those receivables. We cannot assure you that our collection experience would not decline with an increase in bankruptcy filings. If our actual collection experience with respect to a defaulted consumer receivables portfolio is significantly lower than we projected when we purchased the portfolio, our earnings could be negatively affected.

If we are unable to access external sources of financing, we may not be able to fund and grow our operations.

We depend on loans from our credit facility and other external sources to fund and expand our operations. Our ability to grow our business is dependent on our access to additional financing and capital resources. The failure to obtain financing and capital as needed would limit our ability to:

- o purchase consumer receivable portfolios; and

- o achieve our growth plans.

In addition, our financing source imposes certain restrictive covenants, including financial covenants. Failure to satisfy any of these covenants could:

o cause our indebtedness to become immediately payable;

o preclude us from further borrowings from these existing sources; and

o prevent us from securing alternative sources of financing necessary to purchase consumer receivable portfolios and to operate our business.

We use estimates for recognizing finance income on substantially all of our consumer receivable portfolio investments and our earnings would be reduced if actual results are less than estimated.

We recognize finance income on substantially all of our consumer receivable portfolios using the interest method. We only use this method if we can reasonably estimate the expected amount and timing of cash to be collected on a specific portfolio based on historic experience and other factors. Under the interest method, we recognize finance income on the effective yield method based on the actual cash collected during a period, future estimated cash flows and the portfolio's carrying value prior to the application of the current quarter's cash collections. The estimated future cash flows are reevaluated quarterly. If future cash collections on these portfolios were less than what was estimated, we would recognize less than anticipated finance income or possibly an expense that would reduce our earnings during such periods. Any reduction in our earnings could materially adversely affect our stock price.

We may rely on third parties to locate, identify and evaluate consumer receivable portfolios available for purchase.

We may rely on third parties, including brokers and third-party collection agencies and attorneys, to identify consumer receivable portfolios and, in some instances, to assist us in our evaluation and purchase of these portfolios. As a result, if such third parties fail to identify receivable portfolios or if our relationships with such third parties are not maintained, our ability to identify and purchase additional receivable portfolios could be materially adversely affected. In addition, if we, or such parties fail to correctly or adequately evaluate the value or collectibility of these consumer receivable portfolios, we may pay too much for such portfolios and our earnings could be negatively affected.

The loss of an asset type could impact our ability to acquire receivable portfolios.

In the event one of our asset classes is no longer available to us, our purchases may decline and our results might suffer.

We may not be successful at acquiring receivables of new asset types or in implementing a new pricing structure.

We may pursue the acquisition of receivable portfolios of asset types in which we have little current experience. We may not be successful in completing any acquisitions of receivables of these asset types and our limited experience in these asset types may impair our ability to collect on these receivables. This may cause us to pay too much for these receivables, and consequently, we may not generate a profit from these receivable portfolio acquisitions.

The loss of any of our executive officers may adversely affect our operations and our ability to successfully acquire receivable portfolios.

Arthur Stern, our Chairman and Executive Vice President, Gary Stern, our President and Chief Executive Officer, and Mitchell Cohen, our Chief Financial Officer are responsible for making substantially all management decisions, including determining which portfolios to purchase, the purchase price and other material terms of such portfolio acquisitions. These decisions are instrumental to the success of our business. The loss of the services of any of our executive officers could disrupt our operations and adversely affect our ability to successfully acquire receivable portfolios.

The Stern family effectively controls Asta, substantially reducing the influence of our other stockholders.

Members of the Stern family including Arthur Stern, Gary Stern and Barbara Marburger, daughter of Arthur Stern and sister of Gary Stern, trusts or custodial accounts for the benefit of minor children of Barbara Marburger and Gary Stern, Asta Group, Incorporated, and limited liability companies controlled by Judith R. Feder, niece of Arthur Stern and cousin of Gary Stern, in which Arthur Stern, Alice Stern (wife of Arthur Stern and mother of Gary Stern and Barbara Marburger), Gary Stern and trusts for the benefit of the issue of Arthur Stern and the issue of Gary Stern hold all economic interests, own in the aggregate approximately 27.9% of our outstanding shares of common stock. In addition, other members of the Stern Family, such as adult children of Gary Stern and Barbara Marburger, own additional shares. As a result, the Stern family is able to influence significantly the actions that require stockholder approval, including:

- o the election of a majority of our directors; and
- o the approval of mergers, sales of assets or other corporate transactions or matters submitted for stockholder approval.

As a result, our other stockholders may have little or no influence over matters submitted for stockholder approval. In addition, the Stern family's influence could preclude any unsolicited acquisition of us and consequently materially adversely affect the price of our common stock.

We have experienced rapid growth over the past several years, which has placed significant demands on our administrative, operational and financial resources and could result in an increase in our expenses.

We plan to continue our growth, which could place additional demands on our resources and cause our expenses to increase. Future internal growth will depend on a number of factors, including:

- o the effective and timely initiation and development of relationships with sellers of consumer receivable portfolios and strategic partners;
- o our ability to maintain the collection of consumer receivables efficiently; and
- o the recruitment, motivation and retention of qualified personnel.

Sustaining growth will also require the implementation of enhancements to our operational and financial systems and will require additional management, operational and financial resources. There can be no assurance that we will be able to manage our expanding operations effectively or that we will be able to maintain or accelerate our growth and any failure to do so could adversely affect our ability to generate finance income and control our expenses.

Government regulations may limit our ability to recover and enforce the collection of our receivables.

Federal, state and municipal laws, rules, regulations and ordinances may limit our ability to recover and enforce our rights with respect to the receivables acquired by us. These laws include, but are not limited to, the following federal statutes and regulations promulgated thereunder and comparable statutes in states where consumers reside and/or where creditors are located:

- o the Fair Debt Collection Practices Act;
- o the Federal Trade Commission Act;
- o the Truth-In-Lending Act;
- o the Fair Credit Billing Act;
- o the Equal Credit Opportunity Act; and
- o the Fair Credit Reporting Act.

We may be precluded from collecting receivables we purchase where the creditor or other previous owner or third-party collection agency and attorney failed to comply with applicable law in originating or servicing such acquired receivables. Laws relating to the collection of consumer debt also directly apply to our business. Our failure to comply with any laws applicable to us, including state licensing laws, could limit our ability to recover on receivables and could subject us to fines and penalties, which could reduce our earnings and result in a default under our loan arrangements. In addition, our third-party collection agencies and attorneys may be subject to these and other laws and their failure to comply with such laws could also materially adversely affect our finance income and earnings.

Additional laws may be enacted that could impose additional restrictions on the servicing and collection of receivables. Such new laws may adversely affect the ability to collect on our receivables, which could also adversely affect our finance income and earnings.

Because our receivables are generally originated and serviced pursuant to a variety of federal and/or state laws by a variety of entities and may involve consumers in all 50 states, the District of Columbia and Puerto Rico, there can be no assurance that all original servicing entities have at all times been in substantial compliance with applicable law. Additionally, there can be no assurance that we, or our Third-party collection agencies and attorneys have been or will continue to be at all times in substantial compliance with applicable law. The failure to comply with applicable law could materially adversely affect our ability to collect our receivables and could subject us to increased costs, fines and penalties.

We may incur substantial debt from time to time in connection with our purchase of consumer receivable portfolios which could affect our ability to obtain additional funds and may increase our vulnerability to economic or business downturns.

We may incur substantial indebtedness from time to time in connection with the purchase of consumer receivable portfolios and would be subject to the risks associated with incurring such indebtedness, including:

- o we would be required to dedicate a portion of our cash flows from operations to pay debt service costs and, as a result, we would have less funds available for operations, future acquisitions of consumer receivable portfolios, and other purposes;
- o it may be more difficult and expensive to obtain additional funds through financings, if available at all;
- o we would be more vulnerable to economic downturns and fluctuations in interest rates, less able to withstand competitive pressures and less flexible in reacting to changes in our industry and general economic conditions; and
- o if we defaulted under our existing credit facility or if our creditors demanded payment of a portion or all of our indebtedness, we may not have sufficient funds to make such payments.

Our new amended and restated loan and security agreement increased our line of credit to \$80 million from \$60 million and expires on May 11, 2006. We have pledged all of our portfolios of consumer receivables to secure our borrowings and are subject to covenants that may restrict our ability to operate our business. 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.

Any indebtedness that we incur under our existing line of credit will be collateralized by all of our portfolios of consumer receivables acquired for liquidation. If we default under the indebtedness secured by our assets, those assets would be available to the secured creditor to satisfy our obligations to the secured creditor. In addition, our credit facility imposes certain restrictive covenants, including financial covenants. Failure to satisfy any of these covenants could result in all or any of the following:

- o acceleration of the payment of our outstanding indebtedness;
- o cross defaults to and acceleration of the payment under other financing arrangements;
- o our inability to borrow additional amounts under our existing financing arrangements; and
- o our inability to secure financing on favorable terms or at all from alternative sources.

Any of these consequences could adversely affect our ability to acquire consumer receivable portfolios and operate our business.

Class action suits and other litigation in our industry could divert our management's attention from operating our business and increase our expenses.

Certain originators and third-party collection agencies and attorneys in the consumer credit industry have been subject to class actions and other litigation. Claims include failure to comply with applicable laws and regulations and improper or deceptive origination and servicing practices. If we become a party to such class action suits or other litigation, our results of operations and financial condition could be materially adversely affected.

We may seek to make acquisitions that prove unsuccessful or strain or divert our resources.

We may seek to grow Asta through acquisitions of related businesses. Such acquisitions present risks that could materially adversely affect our business and financial performance, including:

- o the diversion of our management's attention from our everyday business activities;
- o the assimilation of the operations and personnel of the acquired business;
- o the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired business; and
- o the need to expand management, administration and operational systems.

If we make such acquisitions we cannot predict whether:

- o we will be able to successfully integrate the operations of any new businesses into our business;
- o we will realize any anticipated benefits of completed acquisitions; or
- o there will be substantial unanticipated costs associated with acquisitions.

In addition, future acquisitions by us may result in:

- o potentially dilutive issuances of our equity securities;
- o the incurrence of additional debt; and
- o the recognition of significant charges for depreciation and amortization related to goodwill and other intangible assets.

Although we have no present plans or intentions, we continuously evaluate potential acquisitions of related businesses. However, we have not reached any agreement or arrangement with respect to any particular future acquisition and we may not be able to complete any acquisitions on favorable terms or at all.

Our investments in other businesses and entry into new business ventures may adversely affect our operations.

We have and may continue to make investments in companies or commence operations in businesses and industries that are not identical to those with which we have historically been successful. If these investments or arrangements are not successful, our earnings could be materially adversely affected by increased expenses and decreased finance income.

If our technology and phone systems are not operational, our operations could be disrupted and our ability to successfully acquire receivable portfolios could be adversely affected.

Our success depends in part on sophisticated telecommunications and computer systems. The temporary loss of our computer and telecommunications systems, through casualty, operating malfunction or service provider failure, could disrupt our operations. In addition, we must record and process significant amounts of data quickly and accurately to properly bid on prospective acquisitions of receivable portfolios and to access, maintain and expand the databases we use for our collection or monitoring activities. Any failure of our information systems and their backup systems would interrupt our operations. We may not have adequate backup arrangements for all of our operations and we may incur significant losses if an outage occurs. In addition, we rely on third-party collection agencies and attorneys who also may be adversely affected in the event of an outage in which the third-party collection agencies and attorneys does not have adequate backup arrangements. Any interruption in our operations or our third-party collection agencies and attorneys' operations could have an adverse effect on our results of operations and financial condition.

Our organizational documents and Delaware law may make it harder for us to be acquired without the consent and cooperation of our board of directors and management.

Several provisions of our organizational documents and Delaware law may deter or prevent a takeover attempt, including a takeover attempt in which the potential purchaser offers to pay a per share price greater than the current market price of our common stock. Under the terms of our certificate of incorporation, our board of directors has the authority, without further action by the stockholders, to issue shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. The ability to issue shares of preferred stock could tend to discourage takeover or acquisition proposals not supported by our current board of directors. In addition, we are subject to Section 203 of the Delaware General Corporation Law, which restricts business combinations with some stockholders once the stockholder acquires 15% or more of our common stock.

Future sales of our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock in the public market could cause a decrease in the market price of our common stock. We had 13,595,324 shares of common stock issued and outstanding as of the date hereof. Of these shares, 3,795,000 are held by our affiliates and are saleable under Rule 144 of the Securities Act of 1933, as amended. The remainder of our outstanding shares were freely tradeable. In addition, options to purchase approximately 1,580,605 shares of our common stock were outstanding as of September 30, 2005, all of which were vested due to the acceleration of all unvested options as approved by the Board of Directors on September 30, 2005. The exercise prices of such options were substantially lower than the current market price of our common stock. We may also issue additional shares in connection with our business and may grant additional stock options to our employees, officers, directors and consultants under our present or future stock option plans or warrants to third parties. As of September 30, 2005 there were 500,669 shares available for such purpose. If a significant portion of these shares were sold in the public market, the market value of our common stock could be adversely affected.

On September 15, 2005, the Company's Chairman, Arthur Stern and President and Chief Executive Officer, Gary Stern, adopted a prearranged stock trading plan in accordance with guidelines specified by Rule 10b5-1 under the Securities Exchange Act of 1934. Mr. Arthur Stern and Mr. Gary Stern and his affiliates will sell 160,970 shares and 250,000 shares, respectively. A total of 21,625 shares were sold pursuant to the plan as of September 30, 2005.

ITEM 2. PROPERTY.

Our executive and administrative offices are located in Englewood Cliffs, New Jersey, where we lease approximately 12,000 square feet of general office space for approximately \$18,000 per month, plus utilities. The lease expires on July 31, 2010.

In addition, our call center is located in Bethlehem, Pennsylvania, where we lease approximately 9,070 square feet of general office space for approximately \$9,000 per month. The lease expires on December 31, 2006.

We believe that our existing facilities are adequate for our current and anticipated needs.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

None

ITEM 4A. EXECUTIVE OFFICERS.

Arthur Stern is our Chairman of the Board of Directors and Executive Vice President. From 1963 until December 1995, Mr. Stern was President of Asta Group, Incorporated, a consumer finance company, and since 1996 has served as Vice President of Asta Group. In such capacities, he has obtained substantial experience in distressed consumer credit analysis and receivables collections.

Gary Stern is our President and Chief Executive Officer. Mr. Stern also currently serves as President of Asta Group and has served in the capacities of Vice President, Secretary, Treasurer and a director of Asta Group since 1980 and held other positions with Asta Group from 1973 through 1980. In such capacities, he has obtained substantial experience in distressed consumer credit analysis and receivables collections.

Mitchell Cohen was appointed our Chief Financial Officer on October 1, 2004. From November 2003 to September 2004, Mr. Cohen was the Chief Financial Officer of Ramp Corporation, a publicly held software company. From May 2002 to October 2003 Mr. Cohen was a financial consultant. From November 1998 to May 2002, Mr. Cohen was the Chief Financial Officer of Siebert Financial Corp, a publicly traded financial services company.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Since August 15, 2000, our common stock has been quoted on the Nasdaq National Market system under the symbol "ASFI." On December 8, 2005 there were approximately 23 holders of record of our common stock. High and low sales prices of our common stock since October 1, 2003 as reported by NASDAQ are set forth below (such quotations reflect inter-dealer prices without retail markup, markdown, or commission, and may not necessarily represent actual transactions):

	High	Low
	----	---
October 1, 2003 to December 31, 2003	17.32	12.53
January 1, 2004 to March 31, 2004	21.00	16.54
April 1, 2004 to June 30, 2004	19.65	15.45
July 1, 2004 to September 30, 2004	18.03	13.25
October 1, 2004 to December 31, 2004	28.28	15.82
January 1, 2005 to March 31, 2005	29.23	20.51
April 1, 2005 to June 30, 2005	29.65	19.06
July 1, 2005 to September 30, 2005	32.49	24.20

All stock prices have been retroactively restated to give effect to a 2:1 stock split in March 2004.

Dividends

During the year ended September 30, 2005, the Company declared quarterly cash dividends aggregating \$1,901,000 (\$0.035 per share, per quarter), of which \$476,000 was paid November 1, 2005. During the year ended September 30, 2004 the Company declared quarterly cash dividends aggregating \$1,606,000 (\$0.035 per share, per quarter) of which \$470,000 was paid November 1, 2004. During the year ended September 30, 2003, the Company declared a cash dividend of \$330,000 (\$0.025 per share), which was paid November 1, 2003. We expect to pay a regular cash dividend in future quarters. This will be at the discretion of the board of directors and will depend upon our financial condition, operating results, capital requirements and any other factors the board of directors deems relevant. In addition, our agreements with our lenders may, from time to time, may restrict our ability to pay dividends. All per share amounts have been retroactively restated to give effect to a 2:1 stock split in March 2004.

In December 2005, the Board of Directors announced the annual dividend will be increased from \$0.14 to \$0.16 per share effective with the next dividend payment due February 1, 2006.

Sales of Unregistered Securities

In September 2003, we issued 6,000 shares of our common stock to a former director. The shares of common stock were valued at \$13.40 per share.

The above transaction was a private transaction not involving a public offering and was exempt from the registration provisions of the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) thereof. The sale of the securities was without the use of an underwriter, and the shares of common stock bear a restrictive legend permitting transfer thereof only upon registration or an exemption under the Act.

Equity compensation Plan information: Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,580,605	\$9.1082	500,669
Equity compensation plans not approved by security holders	0	0	0
Total	1,580,605	\$9.1082	500,669

Item 6. Selected Financial Data

The following tables set forth a summary of our consolidated financial data as of and for the five fiscal years ended September 30, 2005. The selected financial data for the five fiscal years ended September 30, 2005, have been derived from our audited consolidated financial statements. The selected financial data presented below should be read in conjunction with our consolidated financial statements, related notes, other financial information included elsewhere, and Item 7. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report. All share and per share amounts have been retroactively restated to give effect to a 2:1 stock split in March 2004.

	Year Ended September 30,				
	2005	2004	2003	2002	2001
	-----	-----	-----	-----	-----
	(in thousands, except per share data)				
Operations Statement Data:					
Finance income.....	\$69,479	\$51,175	\$34,862	\$35,793	\$24,100
Servicing fee income.....	-	-	-	219	14
	-----	-----	-----	-----	-----
Total revenue.....	69,479	51,175	34,862	36,012	24,114
	-----	-----	-----	-----	-----
Costs and expenses:					
General and administrative.....	15,340	11,258	7,837	6,698	5,653
Interest expense.....	1,853	845	1,855	3,643	920
Third party servicing.....	-	1,316	5,564	7,433	2,757
Provision for credit losses.....	-	300	-	950	450
	-----	-----	-----	-----	-----
Total expenses.....	17,193	13,719	15,256	18,724	9,780
	-----	-----	-----	-----	-----
Income before provisions for income taxes.....	52,286	37,456	19,606	17,288	14,334
Provisions for income taxes.....	21,290	15,219	8,032	6,905	5,743
	-----	-----	-----	-----	-----
Net income	\$30,996	\$22,237	\$11,574	\$10,383	\$8,591
	=====	=====	=====	=====	=====
Basic net income per share.....	\$2.29	\$1.67	\$1.23	\$1.29	\$1.08
	=====	=====	=====	=====	=====
Diluted net income per share.....	\$2.15	\$1.57	\$1.13	\$1.19	\$1.03
	=====	=====	=====	=====	=====

	Year Ended September 30,				
	2005	2004	2003	2002	2001
	-----	-----	-----	-----	-----
	(in millions)				
Other Financial Data:					
Cash collections.....	\$168.9	\$114.0	\$80.5	\$78.6	\$47.5
Portfolio purchases, at cost.....	126.0	103.7	115.6	36.6	65.1
Portfolio purchases, at face.....	3,445.2	2,833.6	3,576.4	1,495.7	689.5
Cumulative aggregate managed portfolios.....	13,507.9	10,062.7	7,349.0	3,772.7	2,277.0
Return on average assets (1).....	18.3%	16.3%	15.0%	21.6%	22.6%
Return on average stockholders' equity (1).....	23.9%	21.5%	18.4%	36.9%	46.9%

(1) The return on average assets is computed by dividing net income by average total assets for the period. The return on average stockholders' equity is computed by dividing net income by the average stockholders' equity for the period. Both ratios have been computed using beginning and period-end balances.

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:

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

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 in 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 September 30,				
	2005	2004	2003	2002	2001
	----	----	----	----	----
	(in millions)				
Balance at beginning of period.....	\$146.1	\$105.6	\$36.1	\$43.8	\$4.4
Acquisitions of finance receivables, net of buybacks.....	126.0	103.7	115.6	36.6	65.1
Cash collections from debtors applied to principal (1).....	(59.6)	(37.6)	(27.4)	(44.3)	(25.7)
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	\$36.1	\$43.8

(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.

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		September 30, 2003	
	Cost Recovery Portfolios	Interest Method Portfolios	Cost Recovery Portfolios	Interest Method Portfolios	Cost Recovery Portfolios	Interest Method Portfolios
	(in millions)					
Original Purchase Price (at period end)	\$0.0	\$126.0	\$49.3	\$328.8	\$48.6	\$171.7
Cumulative Aggregate Managed Portfolios (at period end).....	2,168.4	11,339.5	2,168.4	7,894.3	2,147.9	5,201.1
Receivable Carrying Value (at period end)	0.1	172.6	1.3	144.8	2.8	102.8
Finance Income Earned (for the respective period).....	5.4	64.1	5.4	45.3	6.9	27.7
Total Cash Flows (for the respective period).....	6.6	162.3	7.6	104.5	9.0	71.2

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 First 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: 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.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and changes in corporate tax rates. A material change in these rates could adversely affect our operating results and cash flows. At September 30, 2005, our \$80 million credit facility, all of which is variable debt, had an outstanding balance of \$29.3 million. A 25 basis-point increase in interest rates would have increased our annual interest expense by \$97,500. We do not currently invest in derivative financial or commodity instruments.

INFLATION:

We believe that inflation has not had a material impact on our results of operations for the years ended September 30, 2005, 2004 and 2003.

ITEM 8. FINANCIAL STATEMENTS.

The Financial Statements of the Company, the Notes thereto and the Report of Independent Auditors thereon required by this item appear in this report on the pages indicated in the following index:

Index to Audited Financial Statements: -----	Page ----
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets - September 30, 2005 and 2004	F-3
Consolidated Statements of Operations - Years ended September 30, 2005, 2004 and 2003	F-4
Consolidated Statements of Shareholders' Equity - Years ended September 30, 2005, 2004 and 2003	F-5
Consolidated Statements of Cash Flows - Years ended September 30, 2005, 2004 and 2003	F-6
Notes to Consolidated Financial Statements	F-7

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's chief executive officer and chief financial officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-15(e) and 240.15d-15(e)) as of the end of the period ended September 30, 2005. Based on that evaluation, they have concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are effective in timely providing them with material information relating to the Company required to be disclosed in the reports the Company files or submits under the Exchange Act.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an assessment of the effectiveness of its internal control over financial reporting. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on management's assessment the Company believes that, as of September 30, 2005, the Company's internal control over financial reporting is effective based on those criteria.

The Company's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the U.S. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the U.S., and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

There are inherent limitations to the effectiveness of any control system. A control system, no matter how well conceived and operated, can provide only reasonable assurance that its objectives are met. No evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with the policies and procedures may deteriorate.

There have not been any changes in the Company's internal controls over financial reporting identified in connection with an evaluation thereof that occurred during the Company's fourth fiscal quarter that have materially affected, or are reasonable likely to materially affect the Company's internal control over financial reporting. There were no significant deficiencies or material weaknesses, and therefore no corrective actions were taken.

Eisner LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements have issued an audit report on management's assessment of the Company's internal control over financial reporting as of September 30, 2005. Eisner's attestation report on management's assessment of the Company's internal control over financial reporting is included below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Asta Funding, Inc. and subsidiaries

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Asta Funding, Inc. and subsidiaries maintained effective internal control over financial reporting as of September 30, 2005, based on, criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Asta Funding, Inc. and subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Asta Funding, Inc. and subsidiaries maintained effective internal control over financial reporting as of September 30, 2005, is fairly stated, in all material respects, based on, the COSO criteria. Also, in our opinion, Asta Funding, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Asta Funding, Inc. and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2005, and our report dated November 23, 2005 (with respect to Note O (1), December 9, 2005 and Note O (2), December 12, 2005) expressed an unqualified opinion on those consolidated financial statements.

Eisner LLP
New York, New York
November 23, 2005

ITEM 9B. OTHER INFORMATION

Reports on 8-K

The registrant filed a report on Form 8-K on August 1, 2005, in which it reported an Entry Into a Material Definitive Agreement, the extension of the lease of its corporate headquarters in Englewood Cliffs, NJ. The registrant filed a report on Form 8-K on August 10, 2005, in which it reported its earnings for the third quarter and nine months ending June 30, 2005. The registrant filed a report on Form 8-K on September 15, 2005, in which it announced the adoption of a prearranged stock trading plan for Chairman Arthur Stern, and President and CEO Gary Stern under Rule 10b5-1 of the securities and Exchange Act of 1934.

You can visit our web site at www.astafunding.com. Copies of our 10-Ks, 10-Qs, 8-Ks and other SEC reports are available there as soon as reasonably practical after filing electronically with the SEC.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Information contained under the caption "Directors, Executive Officers, Promoters and Control Persons" in our definitive Proxy Statement to be filed with the Commission on or before January 28, 2006, is incorporated by reference in response to this Item 10.

We have adopted a Code of Ethics for our Senior Financial Officers that is incorporated into this form 10-K in Exhibit 14.1.

ITEM 11. EXECUTIVE COMPENSATION.

Information contained under the caption "Executive Compensation" in our definitive Proxy Statement to be filed with the Commission on or before January 28, 2006 is incorporated by reference in response to this Item 11.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information contained under the caption "Security Ownership of Certain Beneficial Owners and Management" in our definitive Proxy Statement to be filed with the Commission on or before January 28, 2006 is incorporated herein by reference in response to this Item 12.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information contained under the caption "Certain Relationships and Related Transactions" in our definitive Proxy Statement to be filed with the Commission on or before January 28, 2006 is incorporated by reference in response to this Item 13.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information contained under the caption "Certain Relationships and Related Transactions" in our definitive Proxy Statement to be filed with the Commission on or before January 28, 2006 is incorporated by reference in response to this Item 14.

PART IV

ITEM 15. EXHIBITS AND REPORTS ON FORM 8-K.

(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
- 21.1 Subsidiaries of the Company

- 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 three months ended December 31, 2003.
- (14) Incorporated by reference from Asta Funding's Annual Report on form 10K for the year ended September 30, 2004.
- (15) Incorporated by reference from Asta Funding's Definitive Proxy Statement - Schedule 14A Information 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: December 13, 2005

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	December 13, 2005
/s/Mitchell Cohen ----- Mitchell Cohen	Chief Financial Officer	December 13, 2005
/s/Arthur Stern ----- Arthur Stern	Chairman of the Board and Executive Vice President	December 13, 2005
/s/Herman Badillo ----- Herman Badillo	Director	December 13, 2005
/s/Edward Celano ----- Edward Celano	Director	December 13, 2005
/s/Harvey Leibowitz ----- Harvey Leibowitz	Director	December 13, 2005
/s/David Slackman ----- David Slackman	Director	December 13, 2005
/s/Alan Rivera ----- Alan Rivera	Director	December 13, 2005
/s/Louis A. Piccolo ----- Louis A. Piccolo	Director	December 13, 2005

ASTA FUNDING, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004

ASTA FUNDING, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Asta Funding, Inc.

We have audited the accompanying consolidated balance sheets of Asta Funding, Inc. and subsidiaries as of September 30, 2005 and 2004, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of Asta Funding, Inc. as of September 30, 2005 and 2004, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended September 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Asta Funding, Inc.'s internal control over financial reporting as of September 30, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated November 23, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

Eisner LLP
New York, New York
November 23, 2005

With respect to Note O (1), December 9, 2005

With respect to Note O (2), December 12, 2005

ASTA FUNDING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30	
	2005	2004
ASSETS		
Cash and cash equivalents	\$ 4,059,000	\$ 3,344,000
Consumer receivables acquired for liquidation (at net realizable value)	172,727,000	146,165,000
Due from third party collection agencies and attorneys	1,425,000	837,000
Deposit on receivable purchase	-	7,288,000
Furniture and equipment (net of accumulated depreciation of \$1,426,000 in 2005 and \$1,036,000 in 2004)	989,000	596,000
Other assets	838,000	411,000
	-----	-----
	\$180,038,000	\$158,641,000
	=====	=====
LIABILITIES		
Advances under line of credit	\$ 29,285,000	\$39,355,000
Other liabilities	4,180,000	3,351,000
Income taxes payable	1,243,000	1,425,000
Deferred income taxes	153,000	44,000
	-----	-----
Total liabilities	34,861,000	44,175,000
	-----	-----
Commitments		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value; authorized 5,000,000; issued - none		
Common stock, \$.01 par value, authorized 30,000,000 shares, issued and outstanding 13,595,000 shares in 2005 and 13,432,000 in 2004	136,000	134,000
Additional paid-in capital	60,798,000	59,184,000
Retained earnings	84,243,000	55,148,000
	-----	-----
Total stockholders' equity	145,177,000	114,466,000
	-----	-----
	\$180,038,000	\$158,641,000
	=====	=====

See notes to consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED SEPTEMBER 30,		
	2005	2004	2003
Finance income	\$ 69,479,000	\$ 51,175,000	\$ 34,862,000
General and administrative expenses	15,340,000	11,258,000	7,837,000
Interest expense	1,853,000	845,000	1,855,000
Provisions for credit and other losses	-	300,000	-
Third-party servicing expenses		1,316,000	5,564,000
	17,193,000	13,719,000	15,256,000
Income before provision for income taxes	52,286,000	37,456,000	19,606,000
Provision for income taxes	21,290,000	15,219,000	8,032,000
NET INCOME	\$ 30,996,000	\$ 22,237,000	\$ 11,574,000
BASIC NET INCOME PER SHARE	\$2.29	\$1.67	\$1.23
DILUTED NET INCOME PER SHARE	\$2.15	\$1.57	\$1.13
WEIGHTED AVERAGE SHARES:			
BASIC	13,544,000	13,346,000	9,464,000
DILUTED	14,410,000	14,154,000	10,302,000

See notes to consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON SHARES	STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	-----	-----	-----	-----	-----
BALANCE, SEPTEMBER 30, 2002	8,150,000	\$ 82,000	\$10,206,000	\$ 23,273,000	\$ 33,561,000
Exercise of options	94,000		275,000		275,000
Proceeds from common stock offering	4,950,000	50,000	47,246,000		47,296,000
Dividends				(330,000)	(330,000)
Cancellation of common stock	(20,000)		(90,000)		(90,000)
Issuance of common stock to former Director	6,000		81,000		81,000
Net income				11,574,000	11,574,000
	-----	-----	-----	-----	-----
BALANCE, SEPTEMBER 30, 2003	13,180,000	132,000	57,718,000	34,517,000	92,367,000
Exercise of options	252,000	2,000	1,363,000		1,365,000
Tax benefit arising from exercise of non qualified stock options			103,000		103,000
Dividends				(1,606,000)	(1,606,000)
Net income				22,237,000	22,237,000
	-----	-----	-----	-----	-----
BALANCE, SEPTEMBER 30, 2004	13,432,000	134,000	59,184,000	55,148,000	114,466,000
Exercise of options	163,000	2,000	1,417,000		1,419,000
Tax benefit arising from exercise of non qualified stock options			197,000		197,000
Dividends				(1,901,000)	(1,901,000)
Net income				30,996,000	30,996,000
	-----	-----	-----	-----	-----
BALANCE, SEPTEMBER 30, 2005	13,595,000	\$ 136,000	\$ 60,798,000	\$ 84,243,000	\$145,177,000
	=====	=====	=====	=====	=====

See notes to consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED SEPTEMBER 30,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 30,996,000	\$22,237,000	\$ 11,574,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	485,000	356,000	196,000
Deferred income taxes	109,000	(41,000)	350,000
Provision for credit and other losses		300,000	
Cancellation of common shares			(90,000)
Issuance of common shares to former Director			81,000
Changes in:			
Due from third party collection agencies and attorneys	(588,000)	(777,000)	37,000
Other assets	622,000	(398,000)	534,000
Income taxes payable	(182,000)	623,000	(691,000)
Other liabilities	615,000	(530,000)	(100,000)
Restricted cash and cash equivalents		54,000	
Repossessed automobiles held for sale			67,000
Net cash provided by operating activities	32,057,000	21,824,000	11,958,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Deposit on receivable purchase	7,288,000	(7,288,000)	
Purchase of consumer receivables acquired for liquidation	(113,537,000)	(103,743,000)	(115,626,000)
Principal payments received from collection of consumer receivables acquired for liquidation	59,648,000	37,558,000	27,426,000
Principal payments received from collections represented by sales of consumer receivables acquired for liquidation	39,813,000	25,312,000	18,189,000
Acquisition of business - Option Card LLC	(13,521,000)		
Capital expenditures	(685,000)	(146,000)	(561,000)
Auto loan principal payments collected		5,000	24,000
Finance receivables principal payments collected			1,443,000
Net cash (used in) investing activities	(20,994,000)	(48,302,000)	(69,105,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Repayments) borrowings under line of credit, net	(10,070,000)	22,974,000	14,209,000
Dividends paid	(1,894,000)	(1,466,000)	
Proceeds from exercise of stock options	1,419,000	1,365,000	275,000
Tax benefit arising from exercise of non-qualified stock options	197,000	103,000	
Proceeds from common stock offering			47,296,000
Net cash (used in) provided by financing activities	(10,348,000)	22,976,000	61,780,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	715,000	(3,502,000)	4,633,000
Cash and cash equivalents at beginning of year	3,344,000	6,846,000	2,213,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,059,000	\$ 3,344,000	\$ 6,846,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for:			
Interest	\$ 1,927,000	\$766,600	\$ 2,760,000
Income taxes	\$ 21,244,000	\$14,534,000	\$ 8,391,000

Certain 2004 and 2003 amounts have been reclassified to be comparative with 2005

See notes to consolidated financial statements

ASTA FUNDING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2005 AND 2004

NOTE A - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

[1] THE COMPANY:

Asta Funding, Inc. and its wholly-owned subsidiaries (the "Company") is primarily in the business of purchasing and liquidating performing and nonperforming consumer loan portfolios. The Company attempts to collect the loans constituting these portfolios by utilizing third party collection agencies and through its own efforts.

[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.

[3] CASH AND CASH EQUIVALENTS:

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

The Company maintains cash balances in various financial institutions. Management periodically evaluates the creditworthiness of such institutions. Cash balances may, from time to time, exceed FDIC limits.

[4] INCOME RECOGNITION:

The Company recognizes income on performing and nonperforming consumer receivable portfolios, which are acquired for liquidation, using either the interest method or cost recovery method. Upon acquisition of a portfolio of receivables, the Company's management estimates the future anticipated cash flows and determines the allocation between principal and interest of collections based upon this estimate. The Company takes into consideration the relative credit quality of the underlying receivables constituting the portfolio, the strategy involved to maximize the collections thereof, the time required to implement the collection strategy as well as other factors to estimate the anticipated cash flows. The estimated future cash flows could change significantly in the near term. If management cannot reasonably estimate the future cash flows, the cost recovery method is used.

Under the interest method, income is recognized on the effective yield method based on the actual cash collected during a period and future estimated cash flows and timing of such collections and the portfolio's cost. The estimated future cash flows are reevaluated quarterly. Under the cost recovery method, no income is recognized until the cost of the portfolio has been fully recovered.

The company recognizes finance income net of collection fees paid to third-party collection agencies. With respect to amounts collected through in-house efforts, such finance income is recognized as the gross amount collected. The cost attributable to such in-house efforts are included in the Company's general and administrative expenses.

Income from finance receivables was recognized over the periods from the date of purchase to the estimated collection date.

[5] FURNITURE AND EQUIPMENT:

Furniture and equipment is stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (5 to 7 years).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005 AND 2004

NOTE A - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] CREDIT LOSSES:

Provisions for credit losses are charged to operations in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal in the portfolios of auto loans and finance receivables. The Company's charge-off policy is based on a portfolio by portfolio review of consumer receivables acquired for liquidation. Such receivables are charged-off when management deems them to be uncollectible.

[7] INCOME TAXES:

Deferred federal and state taxes arise from temporary differences resulting primarily from the provision for credit losses and depreciation timing differences reported for financial accounting and tax purposes in different periods.

[8] NET INCOME PER SHARE:

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

The following table presents the computation of basic and diluted per share data for the years ended September 30, 2005, 2004 and 2003:

	2005			2004			2003		
	NET INCOME	WEIGHTED AVERAGE SHARES	PER SHARE AMOUNT	NET INCOME	WEIGHTED AVERAGE SHARES	PER SHARE AMOUNT	NET INCOME	WEIGHTED AVERAGE SHARES	PER SHARE AMOUNT
Basic	\$ 30,996,000	13,544,000	\$2.29 =====	\$22,237,000	13,346,000	\$1.67 =====	\$11,574,000	9,464,000	\$1.23 =====
Effect of dilutive Stock		866,000			808,000			838,000	
Diluted	\$ 30,996,000 =====	14,410,000 =====	\$2.15 =====	\$22,237,000 =====	14,154,000 =====	\$1.57 =====	\$11,574,000 =====	10,302,000 =====	\$1.13 =====

[9] USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. With respect to income recognition under the interest method, the Company takes into consideration the relative credit quality of the underlying receivables constituting the portfolio acquired, the strategy involved to maximize the collections thereof, the time required to implement the collection strategy as well as other factors to estimate the anticipated cash flows. Actual results could differ from those estimates including management's estimates of future cash flows and the resultant allocation of collections between principal and interest resulting there from.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005 AND 2004

NOTE A -THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] STOCK-BASED COMPENSATION:

The Company accounts for stock-based employee compensation under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which was released in December 2002 as an amendment of SFAS No. 123. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all awards.

	YEAR ENDED SEPTEMBER 30,		
	2005	2004	2003
Net income as reported	\$30,996,000	\$ 22,237,000	\$ 11,574,000
Stock based compensation expense determined under fair value method, net of related tax effects	(3,746,000)	(2,184,000)	(1,060,000)
Pro forma net income	\$ 27,250,000	\$ 20,053,000	\$ 10,514,000
Earnings per share:			
Basic - as reported	\$2.29	\$1.67	\$1.23
Basic - pro forma	\$2.01	\$1.50	\$1.11
Diluted - as reported	\$2.15	\$1.57	\$1.13
Diluted - pro forma	\$1.89	\$1.42	\$1.02

The weighted average fair value of the options granted during 2005, 2004 and 2003 were \$18.44, \$15.18 and \$5.07 per share on the dates of grant, respectively, using the Black-Scholes option pricing model with the following assumptions: weighted average dividend yield of 0.8% for 2005 and 0.3% for 2004 and 0% 2003, weighted average volatility of 40% (2005) 41% (2004) and 56% (2003), expected life 10 years, weighted average risk free interest rate of 4.19% in 2005, 4.28% in 2004 and 4.05% in 2003.

Effective September 30, 2005, the Company accelerated the vesting of all unvested stock options previously awarded to employees, officers and directors under the Company's stock option plans. The stock based compensation expense for the year ended September 30, 2005 determined under the fair value method, net of related tax effects, shown above includes the effect of acceleration of the vesting of the options outstanding. The impact on the stock based compensation expense disclosure above for fiscal year 2005 was an additional \$1.4 million, or \$0.10 per fully diluted weighted average share.

Financial Accounting Standards Board ("FASB") Financial Interpretation No. 44 would require the Company to recognize compensation expense under certain circumstances, such as the change in the vesting schedule, that would allow an employee to vest in an option that would have otherwise been forfeited based on the award's original terms. The Company would be required to begin to recognize compensation expense over the new expected vesting periods based on estimates of the numbers of options that employees ultimately will retain that otherwise would have been forfeited, absent the modifications. The accelerated options, absent the acceleration, would substantially have vested over the next 12 to 24 months. Such estimates would be based on such factors such as historical and expected employee turnover rates and similar statistics. Of the 587,000 stock option that were affected by the acceleration of the vesting of all stock options as of September 30, 2005, 547,000 are attributable to officers and directors of the Company representing \$9.0 million of the \$9.7 million intrinsic value of the newly vested stock options. The Company is unable to estimate the number of options that employees will ultimately retain that otherwise would have been forfeited, absent the modification. Based on the current circumstances, market price above the grant price, concentration of options awarded to officers and directors and low historical turnover rates, no compensation expense resulting from the new measurement date has been recognized at September 30, 2005 or, prior to the employees' termination. The Company will recognize compensation expense in future periods, should a benefit be realized by the holders of the aforementioned options, which they would not otherwise have been entitled to.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004**

The primary purpose of the accelerated vesting is to eliminate the compensation expense the Company would otherwise recognize in its income statement with respect to these accelerated stock options based upon the adoption of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (Revised 2005), Share-Based Payment ("SFAS 123R"). SFAS 123R is effective as of the beginning of the first annual reporting period that begins after June 15, 2005, and will require that compensation expense associated with stock options be recognized in the statement of operations, rather than a disclosure in the notes to the Company's consolidated financial statements.

In order to prevent unintended personal benefits to employees, officers and directors, the Board imposed restrictions on any shares received through the exercise of accelerated options held by those individuals. These restrictions prevent the sale of any stock obtained through exercise of an accelerated option prior to the earlier of the original vesting date or the individual's termination of employment.

[11] Impact of Recently Issued Accounting Standards

(a) SOP 03-03

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.

(b) SFAS 153

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005 AND 2004

(c) SFAS 154

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.

[12] RECLASSIFICATIONS:

Certain items in prior years' financial statements have been reclassified to conform to current year's presentation.

NOTE B - CONSUMER RECEIVABLES ACQUIRED FOR LIQUIDATION

Accounts acquired for liquidation are stated at their net realizable value and consist mainly of defaulted consumer loans to individuals throughout the country. We account for the investment in receivable portfolios on the "accrual basis" or "cost recovery basis" of accounting in accordance with the provisions of the AICPA's Practice Bulletin 6, "Amortization of Discounts on Certain Acquired Loans". Static pools are established for each portfolio acquired. Once a static pool is established, the receivables are permanently assigned to the pool. The discount (i.e. the difference between the cost of each static pool and the related gross aggregate receivable balance) is not recorded because we expect to collect substantially less than the gross receivable balance. As a result, we record these receivable portfolios at cost at the time of acquisition.

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

	FOR THE YEAR ENDED SEPTEMBER 30, 2005		
	ACCRUAL BASIS PORTFOLIOS	CASH BASIS PORTFOLIOS	TOTAL
Balance, beginning of period.....	\$ 144,812,000	\$ 1,353,000	\$ 146,165,000
Acquisitions of receivable portfolios, net.....	126,023,000		126,023,000
Net cash collections from collection of consumer receivables acquired for liquidation.....	(99,438,000)	(4,771,000)	(104,209,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation.....	(62,817,000)	(1,914,000)	(64,731,000)
Finance income recognized.....	64,056,000	5,423,000	69,479,000
Balance, end of period.....	\$ 172,636,000	\$ 91,000	\$ 172,727,000
Revenue as a percentage of collections.....	39.5%	81.1%	41.1%

ASTA FUNDING, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004**

	FOR THE YEAR ENDED SEPTEMBER 30, 2004		
	ACCRUAL BASIS PORTFOLIOS	CASH BASIS PORTFOLIOS	TOTAL
Balance, beginning of period.....	\$ 102,809,000	\$ 2,783,000	\$ 105,592,000
Acquisitions of receivable portfolios, net.....	103,039,000	704,000	103,743,000
Net cash collections from collection of consumer receivables acquired for liquidation.....	(66,687,000)	(7,098,000)	(73,785,000)
Net cash collections represented by account sales of consumer receivables acquired for liquidation.....	(39,823,000)	(437,000)	(40,260,000)
Portfolio written down.....	(300,000)		(300,000)
Finance income recognized.....	45,774,000	5,401,000	51,175,000
Balance, end of period.....	\$ 144,812,000	\$ 1,353,000	\$ 146,165,000
Revenue as a percentage of collections	43.0%	71.7%	44.9%

We presently outsource the majority of our receivables to third-party collection agencies and attorneys. Third-party collection agencies and attorneys are compensated on a contingency basis, earning a fee based on the amount collected from a debtor. Third-party collection agencies and attorneys withhold their fees and direct collection costs from the proceeds and are remitted to the Company.

The following table summarizes collections on a gross basis as received by our third-party collection agencies and attorneys less commissions and direct costs for the years ended September 30, 2005, 2004 and 2003.

	2005 ----	2004 -----	2003 ----
Gross collections (1)	\$218,919,000	\$139,956,000	\$91,638,000
Commissions and fees (2)	49,979,000	25,911,000	11,161,000
Net collections	\$168,940,000 =====	\$114,045,000 =====	\$80,477,000 =====

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

(2) Commission and fees are the contractual commission earned by third-party collection agencies and attorneys, and direct costs associated with the collection effort - generally court costs.

Finance income recognized on collections represented by account sales was \$24.9 million, \$14.9 million and \$3.4 million for the fiscal years ended September 30, 2005, 2004 and 2003, respectively.

ASTA FUNDING, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004**

NOTE C - ACQUISITION

In March 2005, through a wholly owned subsidiary, the Company acquired Option Card, LLC, a Denver, Colorado based consumer debt buyer and debt management company. Benefits accruing to the Company include portfolios of distressed consumer receivable debt of approximately \$197 million that consist of paying accounts, accounts already within a legal network, and non-paying accounts, a facility in Denver which is leased on a month to month basis consisting of approximately 3,200 square feet, and a computer software system that may have features that could be incorporated into the Company's existing computer system. The purchase price, substantially all of which was applied to the cost of the portfolios, was approximately \$13.5 million in cash.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition.

Consumer receivables acquired for liquidation	\$12,486,000
Other current assets	626,000
Fixed assets	98,000
Other assets	230,000
Goodwill (included in other assets)	288,000

Total assets acquired	13,728,000
Current liabilities	207,000

Net assets acquired	\$13,521,000
	=====

NOTE D - ALLOWANCES FOR CREDIT LOSSES

We purchase consumer receivables acquired for liquidation at a significant discount to the amount actually owed by borrowers. In all instances of charged-off receivable purchases, we anticipate collecting well in excess of our purchase price. In the rare cases where the actual cash collections are tracking below our expectations and some time has passed since the portfolio purchase and we considered the lag in collections to be indicative of a trend, we will consider that portfolio to be impaired and a provision for credit loss will be established. During the year ended September 30, 2004, one such portfolio underperformed expectations and an amount of \$300,000 was provided for an allowance for credit losses.

ASTA FUNDING, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004****NOTE E - FURNITURE AND EQUIPMENT**

Furniture and equipment as of September 30, 2005 and 2004 consist of the following:

	2005	2004
	-----	-----
Furniture	\$ 307,000	\$ 307,000
Equipment	2,108,000	1,325,000
	-----	-----
	2,415,000	1,632,000
Less accumulated depreciation	1,426,000	1,036,000
	-----	-----
Balance, end of period	\$ 989,000	\$ 596,000
	=====	=====

Depreciation expense for the years ended September 30, 2005, 2004 and 2003 aggregated \$272,000, \$260,000 and \$196,000 respectively.

NOTE F - ADVANCES UNDER LINE OF CREDIT

In May 2005, the Company entered into an amended and restated loan and security agreement that increased the line of credit with a lending institution from \$60 million to \$80 million and extended it to May 11, 2006. The line of credit bears interest at the lesser of LIBOR plus an applicable margin, or the lesser of the prime rate plus or minus an applicable margin based on certain leverage ratios (The applicable rate was 6.25% at September 30, 2005). The credit line is collateralized by all portfolios of consumer receivables acquired for liquidation and contains customary financial and other covenants (relative to tangible net worth, interest coverage, and leverage ratio, as defined) that must be maintained in order to borrow funds. See Note O (2) - Subsequent Events, for further information regarding the line of credit.

NOTE G - OTHER LIABILITIES

Other liabilities as of September 30, 2005 and 2004 are as follows:

	2005	2004
	-----	-----
Accounts payable and accrued expenses	\$2,460,000	\$769,000
Dividend payable	476,000	470,000
Other	1,244,000	112,000
Deposit due on cancelled sale (1)		2,000,000
	-----	-----
Total other liabilities	\$4,180,000	\$3,351,000
	=====	=====

(1) Deposit due on cancelled sale represents an amount due to a third party in connection with a cancelled sale of consumer receivables acquired. This amount was returned to the party in October 2004.

ASTA FUNDING, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004**

NOTE H - INCOME TAXES

The significant component of the Company's deferred tax liability as of September 30, 2005 and 2004 is the depreciation temporary difference being reported for financial accounting and tax purposes in different periods.

The components of the provision for income taxes for the years ended September 30, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
	-----	-----	-----
Current:			
Federal	\$ 15,947,000	\$ 11,899,000	\$ 5,982,000
State	5,234,000	3,361,000	1,700,000
	-----	-----	-----
	21,181,000	15,260,000	7,682,000
	-----	-----	-----
Deferred:			
Federal	82,000	(31,000)	295,000
State	27,000	(10,000)	55,000
	-----	-----	-----
	109,000	(41,000)	350,000
	-----	-----	-----
Provision for income taxes	\$ 21,290,000	\$ 15,219,000	\$ 8,032,000
	=====	=====	=====

The difference between the statutory federal income tax rate on the Company's pre-tax income and the Company's effective income tax rate is summarized as follows:

	2005	2004	2003
	-----	-----	-----
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income tax, net of federal benefit	5.8	5.8	5.9
Other	(0.1)	(0.1)	0.1
	-----	-----	-----
Effective income tax rate	40.7%	40.7%	41.0%
	=====	=====	=====

NOTE I - COMMITMENTS AND CONTINGENCIES

The Company leases its facilities in Englewood Cliffs, New Jersey, Bethlehem, Pennsylvania and Denver, Colorado. The leases are operating leases, and the Company incurred related rent expense in the amounts of \$381,000, \$335,000 and \$271,000 during the years ended September 30, 2005, 2004 and 2003, respectively. The future minimum lease payments are as follows:

YEAR ENDING SEPTEMBER 30,	
2006	\$331,000
2007	245,000
2008	219,000
2009	219,000
2010	182,000

	\$1,196,000
	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 SEPTEMBER 30, 2005 AND 2004

NOTE J - STOCK OPTION PLANS

1995 Stock Option Plan:

The Company has a stock option plan under which 1,840,000 shares of common stock are reserved for issuance upon exercise of either incentive or nonincentive stock options, which may be granted from time to time by the Board of Directors to employees and others. The Board of Directors determines the option price (not to be less than fair market value for incentive options) at the date of grant. The options have a maximum term of 10 years and outstanding options expire from November 2005 through February 2014. As of September 30, 2005, 96,002 shares of common stock are reserved for the issuance and available for grant under the stock option plan.

2002 Stock Option Plan:

During May 2002, the Company approved a new stock option plan under which 1,000,000 shares of common stock are reserved for issuance upon the exercise of either incentive or nonincentive stock options, which may be granted from time to time by the Board of Directors to employees and others. The Board of Directors determines the option price (not to be less than fair market value for incentive options) at the date of grant. The options have a maximum term of 10 years and outstanding options expire from November 2013 through September 2014. As of September 30, 2005, 404,667 shares of common stock are reserved for the issuance and available for grant under the stock option plan.

The following table summarizes stock option transactions under the plans:

	YEAR ENDED SEPTEMBER 30,					
	2005		2004		2003	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	Shares	Weighted Average Exercise Price
Outstanding options at the beginning of year	1,364,171	\$ 6.27	1,225,000	\$ 3.24	1,109,000	\$ 2.87
Options granted	422,500	18.44	392,833	15.18	260,000	5.07
Options cancelled	(43,002)	12.21	(1,998)	7.50	(49,002)	5.19
Options exercised	(163,064)	8.70	(251,664)	5.43	(94,998)	2.91
Outstanding options at the end of year	1,580,605	\$ 9.11	1,364,171	\$ 6.27	1,225,000	\$ 3.24
Exercisable options at the end of year	1,580,605	\$9.11	934,290	\$ 3.83	938,001	\$ 2.66

ASTA FUNDING, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004**

NOTE J - STOCK OPTION PLANS (CONTINUED)

The following table summarizes information about the plans' outstanding options as of September 30, 2005:

RANGE OF EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.0000 - \$ 2.2360	200,000	3.7	\$ 0.8125	200,000	\$ 0.8125
\$2.2361 - \$ 4.4720	520,000	4.0	2.5644	520,000	2.5644
\$4.4721 - \$ 6.7080	143,334	7.0	4.8284	143,334	4.8284
\$6.7081 - \$ 8.9440	7,000	6.9	7.2307	7,000	7.2307
\$13.4161 - \$15.6520	245,002	8.1	14.8700	245,002	14.8700
\$15.6521 - \$17.8880	31,944	8.9	16.5347	31,944	16.5347
\$17.8881 - \$20.1240	413,325	9.1	18.2405	413,325	18.2405
\$20.1241 - \$22.3600	20,000	9.4	22.3600	20,000	22.3600
	-----	---	---	-----	-----
	1,580,605	6.4	\$ 9.1082	1,580,605	\$ 9.1082
	=====	===	=====	=====	=====

NOTE K - STOCKHOLDERS' EQUITY

In July 2002, the Company issued 56,000 shares of common stock with a market value of \$4.50 per share for consulting services rendered during the course of the year. In June 2003, 20,000 of these common shares were cancelled.

In September 2003, the Company issued 6,000 shares of common stock with a market value of \$13.40 per share to a former director.

During the year ended September 30, 2005, the Company declared quarterly cash dividends aggregating \$1,901,000 (\$0.035 per share, per quarter), of which \$476,000 was paid November 1, 2005. During the year ended September 30, 2004 the Company declared quarterly cash dividends aggregating \$1,606,000 (\$0.035 per share, per quarter) of which \$470,000 was paid November 1, 2004. During the year ended September 30, 2003, the Company declared a cash dividend of \$330,000 (\$0.025 per share), which was paid November 1, 2003. We expect to pay a regular cash dividend in future quarters. This will be at the discretion of the board of directors and will depend upon our financial condition, operating results, capital requirements and any other factors the board of directors deems relevant. In addition, our agreements with our lenders may, from time to time, restrict our ability to pay dividends. All per share amounts have been retroactively restated to give effect to a 2:1 stock split in March 2004.

ASTA FUNDING, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004**

NOTE L - RETIREMENT PLAN

The Company maintains a 401(k) Retirement Plan covering all of its eligible employees. Matching contributions made by the employees to the plan are made at the discretion of the board of directors each plan year. Contributions for the years ended September 30, 2005, 2004 and 2003 were \$70,000, \$70,000 and \$44,000, respectively.

NOTE M - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Values of Financial Instruments" ("SFAS 107"), requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate that value. Because there are a limited number of market participants for certain of the Company's assets and liabilities, fair value estimates are based upon judgments regarding credit risk, investor expectation of economic conditions, normal cost of administration and other risk characteristics, including interest rate and prepayment risk. These estimates are subjective in nature and involve uncertainties and matters of judgment, which significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. The tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in the estimates.

The following summarizes the information as of September 30, 2005 and 2004 about the fair value of the financial instruments recorded on the Company's financial statements in accordance with SFAS 107:

	2005		2004	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Cash, and cash equivalents	\$4,059,000	\$4,059,000	\$ 3,300,000	\$ 3,300,000
Consumer receivables acquired for liquidation	172,727,000	193,454,000	146,200,000	163,900,000
Advances under lines of credit, notes payable and Due to affiliates	29,285,000	29,285,000	39,400,000	39,400,000

The methodology and assumptions utilized to estimate the fair value of the Company's financial instruments are as follows:

Cash and cash equivalents: The carrying amount approximates fair value.

Consumer receivables acquired for liquidation:

The Company has estimated the fair value based on the present value of expected future cash flows.

Advances under lines of credit, notes payable and due to affiliates:

Since these are variable rate and short-term, the carrying amounts approximate fair value.

ASTA FUNDING, INC. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2005 AND 2004**

NOTE N - SUMMARIZED QUARTERLY DATA (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FULL YEAR
2005					
Total revenue	\$13,830,000	\$16,662,000	\$ 19,028,000	\$ 19,959,000	\$ 69,479,000
Income before provision for income taxes	10,379,000	12,241,000	14,363,000	15,303,000	52,286,000
Net income	6,175,000	7,281,000	8,536,000	9,004,000	30,996,000
Basic net income per share	\$0.46	\$0.54	\$0.63	\$0.66	\$2.29
Diluted net income per share	\$0.43	\$0.51	\$0.59	\$0.62	\$2.15
2004					
Total revenue	\$11,455,000	\$ 12,864,000	\$ 12,050,000	\$ 14,806,000	\$ 51,175,000
Income before provision for income taxes	7,879,000	9,144,000	9,409,000	11,024,000	37,456,000
Net income	4,688,000	5,433,000	5,607,000	6,509,000	22,237,000
Basic net income per share	\$0.36	\$0.41	\$0.42	\$0.48	\$1.67
Diluted net income per share	\$0.34*	\$0.38	\$0.40*	\$0.46	\$1.57
2003					
Total revenue	\$ 6,751,000	\$ 7,720,000	\$ 9,208,000	\$ 11,183,000	\$ 34,862,000
Income before provision for income taxes	3,865,000	4,055,000	4,412,000	7,274,000	19,606,000
Net income	2,312,000	2,429,000	2,540,000	4,293,000	11,574,000
Basic net income per share	\$0.29	\$0.30	\$0.31	\$0.33	\$1.23
Diluted net income per share	\$0.27	\$0.28	\$0.28	\$0.31	\$1.13

* Diluted earnings per share has been modified to reflect a revised number of diluted shares used in the computation.

NOTE O - SUBSEQUENT EVENTS

(1) In December 2005 the Company announced the increase of the annual dividend from \$0.14 to \$0.16 per share, or 14.3%, effective with the next dividend payment due on February 1, 2006. The increased quarterly payment will be \$0.04 per share.

(2) Also, 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 expiration date remains May 11, 2006.

Exhibit 31.1

CERTIFICATION

I, Gary Stern, certify that:

1. I have reviewed this annual report on Form 10-K of Asta Funding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 13, 2005

/s/ Gary Stern

Gary Stern
President and Chief Executive Officer

A signed original of this written statement required by Section 302 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff per request.

CERTIFICATION

I, Mitchell Cohen, certify that:

1. I have reviewed this annual report on Form 10-K of Asta Funding, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

December 13, 2005

/s/ Mitchell Cohen

Mitchell Cohen
Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff per request.

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Asta Funding, Inc. (the "Company") on Form 10-K for the year ending September 30, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Gary Stern, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

Dated: December 13, 2005

/s/ Gary Stern

Gary Stern

President and Chief Executive Officer

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the 10-K as a separate disclosure statement.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff per request.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Asta Funding, Inc. (the "Company") on Form 10-K for the year ending September 30, 2005 as filed with the Securities and Exchange Commission (the "Report"), I, Mitchell Cohen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

Dated: December 13, 2005

/s/ Mitchell Cohen

*Mitchell Cohen
Chief Financial Officer*

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the 10-K as a separate disclosure statement.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff per request.